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Proposed tax changes risk competitiveness

The peak body representing Australia's oil and gas industry says tax changes under consideration will impair Australia's competitiveness, risk the deferment of tens of billions of dollars worth of investment, and thereby reduce potential revenues to government and benefits to the community.

In its submission to the Australian Government's Business Tax Working Group, the Australian Petroleum Production & Exploration Association (APPEA) has outlined that the industry does not oppose genuine tax reform, but it does not support the framework of the current process.

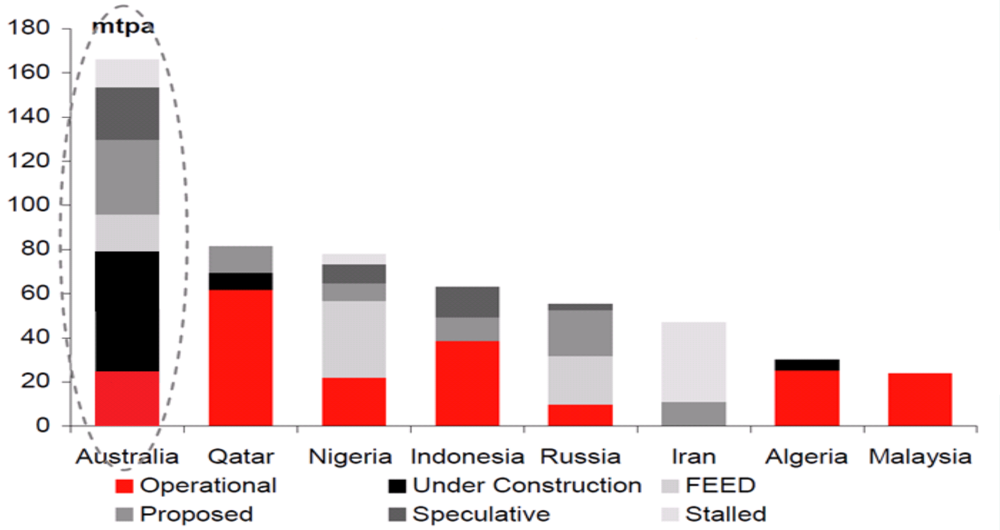
APPEA CEO David Byers said: "The premise of the current approach is that a reduction in the company tax rate is of benefit to the business community. However, contrived modifications to tax deductions that are introduced purely to fund a reduction in the tax rate cannot be viewed as genuine tax reform."

APPEA's submission warns that policy complacency will threaten both Australia's attractiveness as a place to do business and tens of billions of dollars worth of industry investment still to be approved.

It says establishing a process that defers capital allowance deductions for exploration expenditure and non-exploration expenditure for the purposes of funding a decrease in the company tax rate disproportionately impacts the oil and gas industry and represents an illusory and unsustainable approach to tax reform. The oil and gas industry is global. Oil and gas funding withdrawn from Australia due to a redistribution of the tax burden, will not be spent in other parts of the Australian economy. It will however be redirected to our overseas competitors.

While the industry has committed to the development of a number of large projects over the past decade, the new generation of investments will be heavily dependent on the terms of the company tax system as it is a key influence on the economics of projects.

Existing, Committed and Proposed LNG Production



Source: Company Data, Macquarie Research

Mtpa = million tonnes per annum

Regarding the specific measures outlined in the BTWG discussion paper:

- APPEA does not support any change to the treatment of exploration expenditure. The options fail to recognise the true nature of such costs, the uncertainties associated with exploration, the broader energy policy consequences of the proposed changes and the outcomes of a succession of past reviews that have confirmed the existing treatments.
- APPEA opposes any changes to the existing capital depreciation provisions as they apply to oil and gas assets. Indeed, the current provisions do not reflect the competitiveness challenges that already confront investments in long term oil and gas projects. Significant sums of company tax are already payable well before an investor is able to achieve a marginal return on invested funds, and the depreciation provisions in Australia do not favourably compare with those that exist in other gas producing countries.

Australia's oil and gas sector is currently constructing around $175 billion worth of projects.

APPEA's submission to the Business Tax Working Group can be found here on www.appea.com.au

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