

Aussie NWS condensate excise may herald tax breaks

Rick Wilkinson

OGJ Correspondent

MELBOURNE, May 16 -- The Australian government may use the \$2.5 billion (Aus.) gained over the next 4 years from the imposition of excise taxes on North West Shelf condensate production to pay for a new round of assistance to get other struggling multibillion dollar gas project proposals off the ground (OGJ Online, May 14, 2008).

Commenting on the step in this week's Federal Budget to remove the NWS project's exemption from paying crude oil excise on condensate produced with the gas, Resources Minister Martin Ferguson said the exemption was granted 25 years ago in a bipartisan agreement to help establish the NWS project. However, today, at a time of record oil prices and rising LNG prices, the exemption can no longer be justified.

"Clearly this project is now mature, profitable, and no longer reliant on investment incentives for its ongoing health," he said.

"Meanwhile, new gas [proposals] such as Gorgon, Browse, and Sunrise are struggling to get off the ground, and it is therefore time to reassess and even up the playing field for investment."

The minister did not mention ExxonMobil Corp.-BHP Billiton's Scarborough field, but it is another proposal he puts in this 'struggling' category.

The government has announced plans for a wide-ranging review of resources taxation that will include a look at why the multibillion dollar gas ventures off northern and western Australia are finding it difficult to achieve development status. Gorgon, for instance, has been in the proposal stages for at least 15 years and Sunrise for 8 years.

The intimation is that Ferguson is keen to establish a policy framework for getting the next generation of LNG projects up and running and a policy encouraging development of projects such as gas-to-liquids.

Meanwhile the reaction from the NWS JV, led by Woodside Petroleum, is less than favorable

Woodside's Chief Executive Officer Don Voelte said the condensate exemption was not a loophole that was being closed, nor a free ride that was ending. He stressed that it was a negotiated fiscal arrangement that formed the basis of what has become Australia's largest resource development.

He said the original tax arrangements had underpinned more than \$25 billion in investment in the NW Shelf project, providing billions of dollars in revenues to the Western Australian and federal governments over the past 2½ decades.

The treatment for condensate, he said, was part of a larger fiscal package to facilitate the development of the NWS in which participants agreed to pay both royalty and excise from first production, despite incurring large capital costs that would take years to recover.

These arrangements resulted in the government's gaining revenues from first production, many years before the project had recovered costs. This is in contrast to the current petroleum resource rent tax (PRRT) regime where tax is paid only after a project has recovered capital costs, Voelte said.

It is a quirk of history that since the NW project was granted its exemption, the tax regime for other offshore developments such as Bass Strait has changed to the payment of a PRRT on production rather than a crude oil excise.

However, while it is true that the NWS partners were better off relative to PRRT, it is unclear whether they will remain in front under the excise regime now that the condensate exemption has been removed.

Despite the NWS group's complaint over the budget decision, perhaps the most valid criticism is that the government's decision was made without any consultation with the companies concerned or the industry in general through the Australian Petroleum Production & Exploration Association.

Such lack of consultation sends 'danger' signals to industry, they say, even if in this case the ultimate outcome may later prove beneficial.