

Petroleum producers and lobbyists get North SWest Shelf tax surprise

THE WESTERN FRONT: Nigel Wilson | *May 19, 2008*

TO describe as ballistic Don Voelte's reaction to the federal Government's decision to impose an excise on condensate production from the North West Shelf joint venture is an understatement.

The Nebraskan is notorious for having a short fuse about government actions that affect his company.

Last Tuesday night was no exception, after Treasurer Wayne Swan announced the exemption had been removed and that the federal Government stood to gain to the tune of \$2.5 billion over the next four years.

While the Woodside chief executive may have kept his expressions of anger among his colleagues, the question is, should he have been so surprised that the Government was indulging in sovereign risk by changing the taxation rules for Australia's biggest resources project?

The fact that the industry's peak council, the Australian Petroleum Production and Exploration Association, whose role is to liaise with government on matters affecting the industry, was late to pick the change in Government approach might suggest it should take a good look at itself as well.

The major oil companies collectively spend seven-figure sums each year keeping alongside the federal Government and the bureaucracy.

This column denies it had any inkling of what Mr Swan was considering as he framed his first budget, but APPEA and the oil industry's paid Canberra lobbyists might have remembered something that has been evident for some years -- very publicly so.

Joel Fitzgibbon is now Labor's defence minister, but for a time he was the federal parliamentary Labor Party's resources shadow minister. As part of the processes of federal parliament there is a procedure called Estimates Committees.

Estimates of government expenditure are referred to Senate committees as part of the annual budget cycle.

This opportunity to examine the operations of government plays a key role in the parliamentary scrutiny of the executive.

It allows parliamentarians to quiz public servants on aspects of public administration and to push particular barrows.

Mr Fitzgibbon, followed by other senior Labor figures over a number of years, identified in Estimates Committee hearings the fact that condensate from the North West Shelf escaped excise.

Several senior public servants from the resources administration -- these days called the Department of Resources and Energy -- have squirmed under questioning that implied Woodside and its NW Shelf partners were getting a free ride.

This was particularly so after 2002 when condensate production from the shelf soared.

Surely, in the lengthy process that led to framing Mr Swan's first budget, one or other in the serried ranks of oil and gas industry funded government experts could have remembered the questioning?

They may have included in their budget advice to APPEA and Woodside there was a risk that Mr Swan might follow up on the Estimates Committee questioning. But apparently not.

Mr Voelte says Woodside is "considering its position" following the budget announcement.

Don't expect a flight of capital from Australia as a result.

The fact is, taxation arrangements covering the North West Shelf have changed many times since the original taxation agreement of 1977. Most famously, the shelf was subjected to the Hawke government's petroleum resource rent tax, which became law in 1987. This also was introduced to ensure that the Australian community that owns the resource that Woodside and its partners are exploiting for vast commercial gain received adequate returns.

Mr Voelte complains that the exemption on condensate production was removed without consultation, which is a point, but one that says as much about Woodside taking its eye off the ball as it does about the federal Government's obligations to notify changes in revenue collection.

The truth is, since 2002 Woodside and its partners have enjoyed the excise exemption, compared with the original shelf taxation arrangements, not only because condensate production from the area has risen but also because it is a premium product compared with LNG, and its price has usually been more than benchmark crude oil prices in our region, which of course have soared.

One thing Mr Voelte might remember when he notes existing taxation arrangements have underpinned more than \$25 billion in investment in the shelf, is that it was domestic taxpayers, particularly in Western Australia, who took the price, transport and market risk for the shelf's domestic gas, which allowed the huge project to justify the capital expenditure in LNG processing in the first place.

Those arrangements nearly sent WA broke.