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09 February 2024

Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Dear Committee Members

INQUIRY INTO TREASURY LAWS AMENDMENT (TAX ACCOUNTABILITY AND FAIRNESS) BILL 2023 – PRRT AMENDMENTS

Woodside Energy Group Ltd (Woodside) welcomes the opportunity to contribute to the Senate Economics Legislation Committee's (the Committee) Inquiry into the *Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023* (the Inquiry), specifically within the context of the proposed amending legislation to the Petroleum Resource Rent Tax (the PRRT Amendments).

Woodside believes the PRRT continues to operate as intended and we are aligned to the findings of the Callaghan Review, where it was highlighted the PRRT remains the preferred method for achieving "a fair return to the community for the extraction of petroleum resources without discouraging investment."[1]

We acknowledge the proposed PRRT Amendments will provide certainty to industry to consider future investment decisions and conclude the long-running Callaghan Review. Woodside does not support any further changes to these Amendments. Our submission is summarised below.

The Australian context

- Woodside was founded in Australia in 1954.
- Our headquarters are in Perth, Western Australia (WA) and the primary base of our shareholding is Australia.
- Our base business directly employs more than 3,000 people in Australia.
- We have been providing energy to local industry and homes for almost 40 years.
- Our growth projects can support energy and job security toward the end of this decade and beyond. For example, the Scarborough Energy Project, 55% complete as at 31 December 2023, (Scarborough) will result in: [2,3]
    - the generation of an additional 180 Terajoules/day in domestic gas – approximately 18% of anticipated WA demand;
    - the creation of more than 3,200 construction phase jobs in WA – almost 600 jobs when operating;
    - a contribution of more than A$30 million to the Construction Training Fund supporting thousands of apprentices;
    - the awarding of more than A$3.6 billion in contracts to local WA businesses;
    - a commitment to spend more than A$90 million with Karratha businesses; and
    - an estimated A$19 billion in direct Australian taxes over the project lifecycle.

[1] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf
[2] 2023-wa-gas-statement-of-opportunities-wa-gsoo.pdf (aemo.com.au)
[3] https://acilallen.com.au/uploads/media/Scarborough-Development-Summary-Brochure-1562111066_1-1612992814.pdf

- Our communities and governments benefit beyond direct taxes – through local spending, community programs and increased other taxes, such as payroll and Pay as you go (PAYG) withholding. Recent highlights include:[4]
    - spending approximately A$5 billion on goods and services with Australian suppliers in 2022;
    - spending almost A$25 million with approximately 160 different Australian organisers of community programs in 2022; and
    - paying wages to our local employees that generated A$4.1 billion in PAYG since 2011 – which goes back into towns, communities and cities all over Australia.

Woodside's tax position

- Our projects have a record of direct economic and tax contributions supporting the prosperity of our communities, governments and shareholders. This record runs through the commodity price cycle and over generations.
- We are the largest payer of PRRT and among the country's top tax contributors.[5]
- Since the PRRT has applied, we have paid more than A$20 billion across our merged portfolio.[6]
- In addition, the Woodside operated North West Shelf (NWS) project has paid A$40 billion in Federal Royalties and Excise since starting production (100% venture).[7]
- In respect of the first half of 2023, Woodside:
    - paid a record A$3.7 billion in Australian taxes and royalties (an increase of 472% over the comparable period, where gross profits only increased by 4%);[8] and
    - reported an all-in effective tax rate on our Australian profits of 53%.[9]

Proposed PRRT Amendments and potential impacts

- The Government's tax take from Liquefied Natural Gas (LNG) projects:
    - approaches 150% of the share to the investor;[10]
    - is structured so the Government derives a return even where project investors have not; and
    - carries no project risk.
- Under the amending legislation, Woodside can be expected to pay increased PRRT over the forward estimates.
- The next wave of investment in LNG projects, being backfill to existing infrastructure, have lower capital costs. These projects are likely to pay PRRT within the time prescribed by the amending legislation.

PRRT Amendments and Gas Transfer Pricing (GTP) changes

- The Government's announced changes to PRRT also foreshadowed a remaking of the Petroleum Resource Rent Tax Assessment Regulation 2015 for GTP arrangements (the GTP Regulation).
- We are significantly concerned the current drafting of the GTP Regulation contrives the exclusion of legitimately arm's length tolls and results in inconsistent outcomes for different owners in the same resource, even when subject to the same toll – retrospectively affecting Scarborough.
- This is a material departure from Treasury's own Recommendations to the Government last year and goes well beyond previous policy positions put forward.[11]

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[4] Includes data relevant to the assets acquired through the merger with BHP's petroleum business from 1 June 2022.
[5] Based on the Australian Taxation Office's 2021-2022 report of entity tax information (data.gov.au/).
[6] Includes data relevant to the assets acquired through the merger with BHP's petroleum business both before and from 1 June 2022.
[7] Based on amounts collected by the Australian Government in Federal Budget papers from 1984 to 2023 and other records. The main form of taxation on the NWS project has always been Federal Royalties and Federal Excise but this project is also subject to PRRT.
[8] Refer to Woodside's Half-year 2023 report – Segmental Information. Both Australian tax payments and Australian profits in the first half 2023 include the results of our merged portfolio with BHP's petroleum business.
[9] Determined from total tax expense, royalties, excise, levies and other taxes, divided by profit from our Australian operations before such taxes, royalties, excise, levies and other taxes.
[10] As calculated on a net present value basis.
[11] See Recommendation 8 in treasury.gov.au/sites/default/files/2023-05/p2023-388153.pdf

- The economics of backfill projects (Scarborough and Browse) are sensitive to changes in the GTP Regulation and could be put at risk if proposed changes are enacted.[12]
- Through our ongoing commitment to maintain open and constructive relationships with our stakeholders, we have relayed such messages to Treasury and Government – particularly given the potential severity of any further changes.

Conclusion

- The design and features of the PRRT are just as important today as they were when this tax was introduced, which was at a time of heightened concerns about energy security and supply shortages.
- Further changes to the PRRT Amendments or to the GTP Regulation (as currently drafted) could exacerbate supply shortages (anticipated by the Australian Energy Market Operator (AEMO))[13] and be at odds with the Government's own commitment to deliver a more reliable energy system.
- We respectfully note Minister Chris Bowen's recent statement that, "*gas is critical to supporting a lower-cost, more renewable grid as aging coal exits, and to support Australian manufacturing*".[14] Woodside's growth projects will play an important role in this energy security towards the end of this decade and beyond.
- We have every hope the Committee will facilitate constructive dialogue with the aim of bringing an end to a seven-year period of significant fiscal uncertainty.

We trust this submission will be of assistance. We will continue to engage constructively with the Government to support a positive investment climate. Woodside is uniquely invested in ensuring the ongoing stability, fairness and competitiveness of Australia's tax regime – including PRRT.

Please do not hesitate to contact me via the details provided above should you have any queries regarding this submission.

Your sincerely

Graham Tiver
Executive Vice President and Chief Financial Officer

[12] Individual investment decisions are subject to Woodside's investment targets. Not guidance.
[13] 2023-wa-gas-statement-of-opportunities-wa-gsoo.pdf (aemo.com.au)
[14] https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-gas-market-code-secures-supply-domestic-market

Submission to the Inquiry into the Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023

Woodside Energy Group Ltd

09 February 2024

Public

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1. Introduction to Woodside

Woodside was founded in Australia in 1954 with a spirit of innovation and determination.

With 70 years of experience in the industry, we are recognised as a leading independent producer and acknowledged for our world-class capabilities as an integrated upstream supplier of energy.

Our headquarters are in Perth, Western Australia (WA) and the primary base of our shareholding is Australia. Our base business directly employs more than 3,000 people in Australia. We are supported by a significant contractor workforce from across the country. Our largest operational footprint is in the Pilbara where we contribute to Karratha and surrounding communities.

We are also committed to increasing First Nations participation through employment and contracting and procurement opportunities, especially for those local to our area of operations. Our 2022 highlights included:

- funding the participation of 2,127 Indigenous people in social investment programs; and
- having our investments recognised by 74% of program organisers as improving their delivery capacity and capability for Indigenous people.

Woodside led the development of the Liquefied Natural Gas (LNG) industry in Australia. This was through the North West Shelf (NWS) and Pluto LNG projects – with first cargoes in 1989 and 2012, respectively. We have been providing energy to local industry and homes for almost 40 years. In 2022 we merged with BHP's petroleum business, a company with a likeminded pioneering spirit, which discovered the Barracouta gas field in Bass Strait in 1965.

With our worldwide portfolio of producing assets and future growth projects and opportunities we are a top 10 global independent energy company. Key producing assets are the integrated LNG projects, domestic gas and oil projects in Western Australia and Victoria, oil fields in the U.S. Gulf of Mexico (U.S. GoM) as well as oil and gas assets in Senegal and Trinidad & Tobago (T&T).

Major growth projects are set out in the table below:[15]

Project, Location	First Production	Est. Cost (100%)
Scarborough Energy Project (Scarborough), Australia	Targeted 2026	A$18.5 billion
Trion Oil Project, Mexican Gulf of Mexico	Targeted 2028	US$7.2 billion
Sangomar Oil Field Development, offshore Senegal	Targeted mid-2024	US$4.9-5.2 billion
Mad Dog Phase 2, U.S. GoM	Achieved 2023	US$9 billion

Exploration and discovered resource opportunities are held in Australia and overseas. Our portfolio of new energy opportunities is also maturing. We are targeting US$5 billion of investment in new energy products and lower carbon services by 2030.[16,17]

We recognise the importance of delivering mutually beneficial and sustainable social outcomes where we operate. Our projects have a record of direct economic and tax contributions supporting the prosperity of our communities, governments and shareholders. This record runs through the commodity price cycle and over generations. We pay our way.

[15] Refer to relevant announcements published here https://www.woodside.com/media-centre/announcements
[16] Individual investment decisions are subject to Woodside's investment targets. Not guidance. Potentially includes both organic and inorganic investment.
[17] Woodside uses the term new energy to describe energy technologies, such as hydrogen or ammonia, that are emerging in scale, but which are expected to grow during the energy transition due to having lower greenhouse gas emissions at the point of use than conventional fossil fuels. The term lower-carbon services is used by Woodside to describe technologies, such as carbon, capture, utilisation and storage or offsets that could be used by customers to reduce their net greenhouse gas emissions.

2. Woodside's Tax Contributions

We are the largest payer of PRRT and among the country's top tax contributors – paying more than A$18 billion since 2011.[18,19] This is against pre-tax profits of approximately A$43 billion over the same period. Woodside's transparent reporting of its taxes (which includes a publicly available tax policy and breakdown of tax payments) has been recognised as being within the leading group of our industry peers.[20]

As an energy producer in Australia, we are subject to a complex mix of taxes. This includes company tax (30% on overall company taxable profits), PRRT (40% on taxable profits of oil and gas projects in Australia), Federal Royalties and Federal Excise. Federal Royalties are levied at 10-12.5% on the wellhead value of petroleum products from the NWS project. Federal Excise applies to up to 30% per barrel of crude oil and condensate.

The amount of tax we pay each year is dependent on various factors, including changes to production, operating fields and commodity prices, which affect revenues as well as operating costs and capital investment which affect expenditures. It is for this and other reasons why simplistic comparisons of tax paid in media headlines, as is often flagged by those opposed to the industry, is highly problematic and can be misleading.

For example, since the PRRT has applied we have paid more than A$20 billion across our merged portfolio.[21] In addition, the Woodside operated NWS project has paid A$40 billion in Federal Royalties and Excise since starting production (100% venture).[22]

In the first half of 2023, Woodside:

- paid a record A$3.7 billion in Australian taxes and royalties (an increase of 472% over the comparable period, where gross profits only increased by 4%),[23] which included PRRT of A$366 million and Federal Royalties and Excise of A$400 million; and
- reported an all-in effective tax rate on our Australian profits of 53%[24] – the highest effective tax rate in our global portfolio.

This demonstrates when Woodside performs well, the State and Federal governments, and more importantly Australian communities, enjoy significant benefits too.

Woodside still contributes when profits are affected by downturns, such as during the COVID-19 pandemic years. Our tax and royalty payments in 2020 were A$707 million against a pre-tax loss of approximately A$7.7 billion.

Our communities and governments benefit beyond direct taxes – through local spending, community programs and increased other taxes, such as payroll and Pay as you go (PAYG) withholding. Recent highlights include:[25]

- spending approximately A$5 billion on goods and services with Australian suppliers in 2022;
- spending almost A$25 million with approximately 160 different Australian organisers of community programs in 2022; and
- paying wages to our local employees that generated A$4.1 billion in PAYG since 2011 – which goes back into towns, communities and cities all over Australia.

[18] Based on the Australian Taxation Office's 2021-2022 report of entity tax information (data.gov.au/).
[19] Includes data relevant to the assets acquired through the merger with BHP's petroleum business from 1 June 2022.
[20] This is based on Woodside's current approach to reporting available here and as assessed by several global ESG rating indices.
[21] Includes data relevant to the assets acquired through the merger with BHP's petroleum business both before and from 1 June 2022.
[22] Based on amounts collected by the Australian Government in Federal Budget papers from 1984 to 2023 and other records. The main form of taxation on the NWS project has always been Federal Royalties and Federal Excise but this project is also subject to PRRT.
[23] Refer Woodside's Half-year 2023 report – Segmental Information. Both Australian tax payments and Australian profits in the first half 2023 include the results of our merged portfolio with BHP's petroleum business.
[24] Determined from total tax expense, royalties, excise, levies and other taxes, divided by profit from our Australian operations before such taxes, royalties, excise, levies and other taxes.
[25] Includes data relevant to the assets acquired through the merger with BHP's petroleum business from 1 June 2022.

3. PRRT Design

The PRRT is a profits-based tax applicable to offshore oil and gas projects. The tax is imposed under the *Petroleum Resource Rent Tax Act 1987* (Cth) and assessed under the *Petroleum Resource Rent Tax Assessment Act 1997* (Cth).

The design and features of the PRRT are just as important today as they were when this tax was introduced, which was at a time of heightened concerns about energy security and supply shortages.[26] At the time of its introduction, the Government recognised that other upfront taxes, such as production excise and royalties were inefficient.[27] These both discouraged investment in new offshore projects and would potentially lead to the premature closing down of projects already in production.[28]

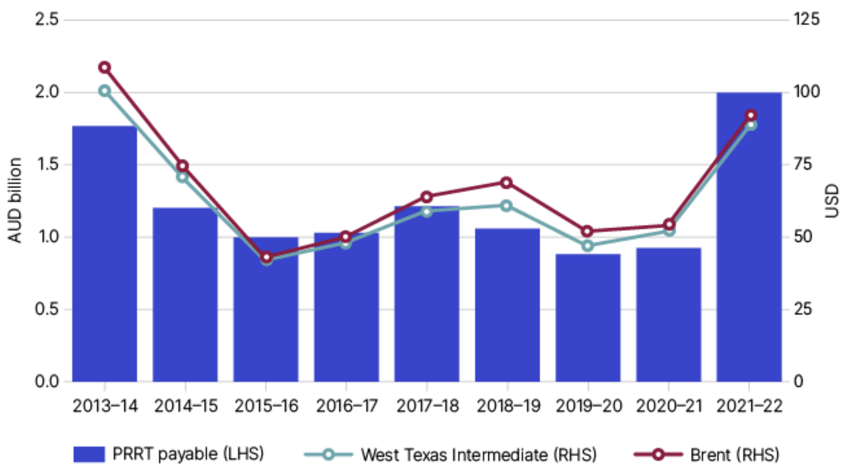
The tax has been reviewed many times since its introduction.[29] The report of the most recent independent review – the Callaghan Report – was released in April 2017. Importantly, the Callaghan Report concluded that the tax achieves "a fair return to the community for the extraction of petroleum resources without discouraging investment".[30] It was also stressed:

> *"In considering the extent and timing of any changes to the PRRT, however, allowance has to be made for the very large recent investment in the Australian petroleum sector on the basis of long-standing taxation arrangements. The overall stability of the PRRT has contributed to this large investment. Given the range of uncertainties involved in large, long-term petroleum investments, stability in fiscal settings is an important factor influencing a country's investment attractiveness."*[31]

The PRRT applies (over and above company tax) to the excess of project revenues over costs. These costs include a rate of return on development capital and exploration expenditures. The tax rate is 40%.

As indicated in the Callaghan Report, by design, changes in the oil price can have a significant impact on PRRT payments to Government. Illustrated below is a comparison of oil prices and the PRRT payments by the industry, to Government, over the last 9 years to 2021 – 2022.

PRRT payable by Industry to Government versus oil price over 9 years[32]



[26] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf
[27] Ibid.
[28] Ibid.
[29] Ibid.
[30] Ibid.
[31] Ibid.
[32] https://www.ato.gov.au/businesses-and-organisations/corporate-tax-measures-and-assurance/large-business/in-detail/tax-transparency/corporate-tax-transparency-report-2021-22/petroleum-resource-rent-tax

Simplistic comparisons have been made between oil and LNG projects. However, such comparisons are not aligned to observations in the Callaghan Report.[33] Oil projects have relatively lower capital intensity and lead times (as less infrastructure is required).[34] As a result, the required level of return to commence paying PRRT can be achieved shortly after production commences.[35] However, oil projects are generally of a shorter life.[36]

By contrast, LNG projects are characterised by long lead times, high capital intensity and then long production periods.[37] For example, Pluto was constructed over five years, cost around A$14.9 billion, generated more than 15,000 Australian jobs during this time and delivered more than A$7.6 billion in local content. This project is expected to remain in production for around 20 years.[38] Production first commenced in 2012, however, it is only in the last financial year, more than 10 years later, gross profits have been sufficient to cover Pluto's construction cost.[39]

Our experience suggests large scale LNG projects in Australia can take decades to achieve returns because of capital intensity and commodity price cycles. Wood Mackenzie and the Callaghan Report provide further analysis on integrated LNG project returns in Australia, with key findings as follows:

- Australia is a high-cost destination for LNG project investment (Figure 1.9 of the Callaghan Report, reproduced below);[40]

Figure 1.9 — Global LNG project cost curve ($ per mmbtu)

- higher costs will impact overall profitability and rates of return achievable by a project, which will in turn influence tax collections;[41]
- on both a CAPEX and OPEX per barrel of oil equivalent (boe) basis, Australia falls in the bottom half of comparable oil and gas producing countries;[42] and
- high costs and cheaper competition threaten Australia's ability to compete for the next wave of oil and gas investment, particularly in the key LNG market segment.[43]

[33] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf (p.29).
[34] Ibid.
[35] Ibid.
[36] Ibid.
[37] Ibid.
[38] Future investment decisions are subject to Woodside's investment targets. Not guidance.
[39] In nominal undiscounted terms. Refer segmented financial information in Woodside Annual Reports 2012 through 2021.
[40] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf (p.29).
[41] Ibid (p.30).
[42] https://appea.com.au/wp-content/uploads/2020/06/Australia-Oil-and-Gas-Industry-Outlook-Report.pdf
[43] Ibid.

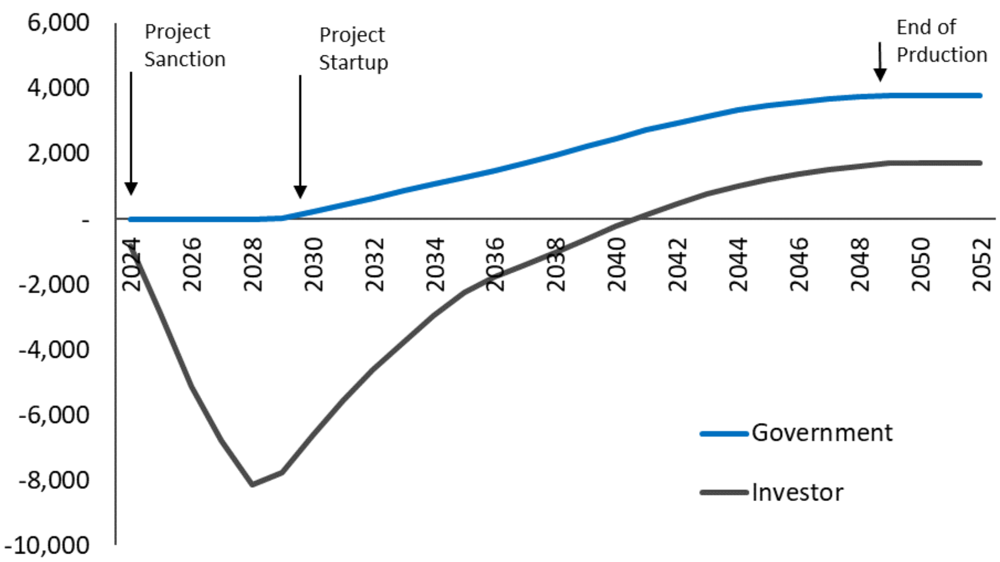
Shown in the diagram below, for typical LNG Projects, is:

- the time between "Project Sanction" and "Production Startup"; and
- the descending grey line during that time – which essentially represents investors' capital expenditure on building the project.

These characteristics result in relatively longer timeframes before investors reach break-even on their capital cost (where the grey line crosses the horizontal axis).

However, the Government's tax take from the project (blue line) commences from production start-up and continues to increase even before investors reach break-even. Once triggered, the scale and longevity of a typical LNG project leads to significant PRRT payments.

Cumulative Net Present Value (NPV) received over Time (US$M)



Illustrated above is the combined effect of the company tax and PRRT on the Government's cumulative share of the value generated by a typical LNG project (blue line).

It is through this intended combination of company tax and PRRT by which the Government's tax take from the LNG project approaches 150% of the share to the investor.[44] The Government derives a return even where project investors have not met their cost of capital (i.e. a project is marginal). Importantly, this Government share also carries no project risk. It is the project investors (such as Woodside) who take on the risks of building cost overruns, financing risks, reservoir underperformance, operational challenges and adverse commodity price changes.

This level of government share exceeds those of foreign governments for our overseas projects (e.g. Senegal and Mexico). These foreign governments also take on some project risk.

The practicalities imposed on the uncompetitive positioning of governments' tax regimes, relative to their resources, was pointed to in the Callaghan Report:

> *"Countries with large, easily accessible resources and low risks and costs for development are more likely to be able to attract private investors notwithstanding relatively high taxing arrangements (for example, Qatar).*

[44] As calculated on a NPV basis.

> *In contrast, countries with a mature industry, relatively small remaining fields, high extraction costs and increased decommissioning requirements may choose to focus on attracting investment to ensure maximum extraction of resources rather than revenue maximisation (for example, the United Kingdom).”*[45]

Woodside’s previous investments in Australia have proceeded against the backdrop of what has been a stable fiscal regime. Australia has seen more than US$310 billion invested in Australia’s LNG projects over the 2010s, many of which have already delivered benefits through employment, energy security and government revenue.[46] The benefits of this stability were noted in the Callaghan Report:

> *“The PRRT has generated over $33 billion in revenue since payments were first made in 1989-90… The overall stability of the PRRT has contributed to the very large investment in the Australian petroleum industry.”*[47]

Wood Mackenzie estimates A$100 billion of government tax take remains from Australian LNG projects over the next two decades.[48]

Given our company history, profile and local shareholders, Woodside is uniquely invested in ensuring the ongoing stability, fairness and competitiveness of Australia’s tax regime – including PRRT. Future investment will need to remain a priority against other competing opportunities for constrained capital and limited expertise, including from our foreign joint venture participants. More generally we note, Australia’s marginal effective tax rate on investment now stands at three percentage points higher than the G20 average.[49]

Our growth projects will support energy and job security toward the end of this decade and beyond. For example, Scarborough, 55% complete as at 31 December 2023, will result in:

- the generation of an additional 180 Terajoules/day in domestic gas – approximately 18% of anticipated WA demand;[50,51]
- the creation of more than 3,200 construction phase jobs in WA – almost 600 jobs when operating;
- a contribution of more than A$30 million to the Construction Training Fund supporting thousands of apprentices;
- the awarding of more than A$3.6 billion in contracts to local WA businesses;
- a commitment to spend more than A$90 million with Karratha businesses; and
- an estimated A$19 billion in direct Australian taxes over the project lifecycle.

In addition to this, Browse can be vital in closing the supply gap in WA’s domestic gas needs which is anticipated to grow from 2030.[52] By keeping gas in WA, these projects can enable cost competitive industries here, including the State’s critical minerals sector – so vital to the world’s energy transition.

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[45] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf
[46] https://energyproducers.au/wp-content/uploads/2023/06/23.04.12-APPEA-LNG-Taxation_Report_FINAL-FOR-PUBLICATION-3.pdf
[47] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf
[48] https://energyproducers.au/wp-content/uploads/2023/06/23.04.12-APPEA-LNG-Taxation_Report_FINAL-FOR-PUBLICATION-3.pdf
[49] https://minerals.org.au/wp-content/uploads/2022/12/Corporate-tax-to-reform-help-address-Australias-weak-investment-performance_Bazel-Mintz-2022.pdf
[50] 2023-wa-gas-statement-of-opportunities-wa-gsoo.pdf (aemo.com.au)
[51] https://acilallen.com.au/uploads/media/Scarborough-Development-Summary-Brochure-1562111066_1-1612992814.pdf
[52] https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/wa_gsoo/2022/2022-wa-gas-statement-of-opportunities.pdf

4. PRRT Amendments – Consultation

Following the Callaghan Report, on 5 April 2019, Treasury released a consultation paper on their secondary review into the Gas Transfer Pricing (GTP) methodology.

The GTP methodology is used to determine the price of gas in integrated LNG projects. This price is a key input in determining project revenues for PRRT purposes (the other being volume of gas sold).

Our participation in consultation, which dated back to November 2016 when the Callaghan Review was announced, was therefore substantial, detailed and publicly available where possible. It included the presentation of technical submissions, project briefings, and results of economic modelling. We also attended meetings between Treasury and Australian Energy Producers.[53]

Woodside has applied PRRT across different types of projects since the legislation was enacted more than thirty years ago. Over the past decade, we have volunteered our positions for scrutiny by the Australian Taxation Office under the voluntary Annual Compliance Arrangement.

We considered it important to participate because changes to the GTP methodology had the potential to:

- impact individual PRRT payers differently, as each company has a different PRRT profile even if invested in the same project;
- discourage investment in our growth projects which planned to toll gas through existing infrastructure – here we emphasised:
    - consultation was occurring at the time commercialisation opportunities for Browse were being investigated and straddled the time at which Scarborough was sanctioned (November 2021); and
    - certain changes being considered would have put at risk the Browse development and undermined the basis on which Scarborough (an A$18.5 billion project which is estimated to deliver A$19 billion in direct Australian taxes over the project lifecycle) was sanctioned;
- retrospectively affect the investments already made by Woodside and its joint venture participants, which includes:
    - substantial capital contributed into projects based on tax arrangements in place for over 30 years;
    - concerns emerging around future developments from these existing projects being taxed more heavily – disincentivising progress; and
    - as indicated in the Callaghan Report, changes will result in fiscal uncertainty and introduce a new element of risk to all investments in the country (including those into renewable energy).

Our approach was to ensure advice to Government on tax policy encompassed a thorough and balanced comprehension of the application of the PRRT and the risk of unintended consequences.

As the Committee would be aware, consultation with Treasury was the subject of confidentiality agreements.

[53] Previously known as the Australian Petroleum Production and Exploration Association or "APPEA".

5. PRRT Amendments – Proposals and Perspectives

Treasury released its final report on 7 May 2023.[54] It was indicated that a cap on the PRRT deduction for LNG project costs could be introduced as an alternative to changing the GTP methodology. This recommendation was accepted by the Government. Amending legislation was introduced into the House of Representatives on 16 November 2023.

Under this cap, in any single tax year, the PRRT deduction for LNG project costs will be limited to 90% of LNG project revenues. As with other project costs, unused deductions will be carried forward and uplifted by a rate of return – in this case the Government long-term bond rate.

The cap will be effective from 1 July 2023 and apply to projects producing LNG but only from 7 years after first production. Years of production prior to 1 July 2023 will be counted.

The cap will not apply to certain classes of PRRT-deductible expenditure: closing-down expenditure, starting base expenditure and resource tax expenditure as these classes have their own special rules already.

In effect, a minimum PRRT payment linked to revenues is now applied to LNG projects once seven years from first production has elapsed.

As expected, under a minimum payment concept, projects currently paying PRRT (or paying another form of resource taxation such as the NWS project) are unlikely to be affected. This has somewhat balanced the concerns around retrospective changes for large-scale investments.

Woodside has interests in the Pluto LNG and Wheatstone LNG projects. These projects have been in production for more than, or near to, seven years. Under the amending legislation, therefore, Woodside can be expected to pay increased PRRT over the forward estimates. The amount of PRRT paid in any given year will still depend on several variable factors including:

- oil prices;
- operating costs; and
- production rates.

The next wave of investment in LNG projects, being backfill to existing infrastructure, have lower capital costs. These projects are likely to pay PRRT within the time prescribed by the amending legislation.

The Government's announced changes to PRRT also foreshadowed a remaking of the Petroleum Resource Rent Tax Assessment Regulation 2015 for GTP arrangements (the GTP Regulation).

We are significantly concerned the current drafting of the GTP Regulation contrives the exclusion of legitimately arm's length tolls and results in inconsistent outcomes for different owners in the same resource even when subject to the same toll – retrospectively affecting Scarborough.

This is a material departure from Treasury's own Recommendations to the Government last year[55] and goes well beyond previous policy positions put forward.

The economics of backfill projects (Scarborough and Browse) are sensitive to changes in the GTP Regulation and could be put at risk if proposed changes are enacted.[56] This would not just impact government revenue, but also investment, the supply of domestic gas and local jobs, which we understand is not the Government's intent.

[54] treasury.gov.au/sites/default/files/2023-05/p2023-388153.pdf
[55] See Recommendation 8 in treasury.gov.au/sites/default/files/2023-05/p2023-388153.pdf
[56] Individual investment decisions are subject to Woodside's investment targets. Not guidance.

It is important for the upcoming update to the GTP Regulation to:

- adhere to the Treasury Recommendation on tolls paid by parties to have their sales gas processed into LNG;
- accept arm's length tolls between unrelated parties provide a strong presumption that the same toll between related parties (in the same resource) is also arm's length; and
- therefore, allow the inclusion of this toll in the Residual Profits Method calculation for the related party paying the toll – in line with the Treasury Recommendation made in 2023.

If the GTP Regulation is remade as drafted, it will be a retrospective change to the basis on which Woodside took a positive final investment decision for Scarborough. This does not reflect well on Australia as a trusted and reliable destination for investment. We have shared this feedback with Treasury.

Further changes to the PRRT Amendments or to the GTP Regulation (as currently drafted) could exacerbate supply shortages (anticipated by the Australian Energy Market Operator)[57] and be at odds with the Government's own commitment to deliver a more reliable energy system. Here we respectfully note Minister Chris Bowen's statement that, "*gas is critical to supporting a lower-cost, more renewable grid as aging coal exits, and to support Australian manufacturing*".[58]

[57] 2023-wa-gas-statement-of-opportunities-wa-gsoo.pdf (aemo.com.au)
[58] https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-gas-market-code-secures-supply-domestic-market

6. Conclusion

Woodside believes the PRRT continues to operate as intended. We are aligned to the findings of the Callaghan Review, the PRRT achieves “a fair return to the community for the extraction of petroleum resources without discouraging investment”.[59]

The Government’s tax take from LNG projects:

- approaches 150% of the share to the investor;[60]
- is structured so the Government derives a return even where project investors have not; and
- carries no project risk.

The growth in our tax payments has shown when Woodside performs well, the State and Federal governments enjoy significant benefits too.

Under the PRRT Amendments, Woodside can be expected to pay increased PRRT over the forward estimates. Further changes will risk unintended consequences, such as:

- impacting individual PRRT payers differently, even if they are invested in the same project;
- discouraging investment in growth projects – foregoing not only PRRT but other tax and economic contributions; and
- adverse and retrospective effects on large-scale investments already made – leading to asset write-downs or fiscal uncertainty in other sectors, including renewable energy.

We have every hope the Committee will facilitate constructive dialogue with the aim of bringing an end to a seven-year period of significant fiscal uncertainty.

Woodside is uniquely invested in ensuring the ongoing stability, fairness and competitiveness of Australia’s tax regime – including PRRT. We will continue to engage constructively on the proposed amendments to protect energy security, local jobs and investment which is required to support the energy transition both here and abroad.

[59] https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf
[60] As calculated on a NPV basis.