



# APPEA Federal Budget 2022/2023 Submission

**Energy security  
and decarbonisation—  
Securing Australia's  
competitive advantage**



appea



# About APPEA

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing Australia's oil and gas exploration and production industry. The oil and gas industry plays a fundamental role in our nation's economy, providing essential energy to power businesses and homes in Australia and across the world. Our industry invests billions of dollars to generate reliable, secure and cleaner energy, creating jobs and economic growth for the communities in which we operate.

As the effective voice of Australia's oil and gas exploration and production industry, APPEA represents our members through leading research, policy and advocacy to ensure a regulatory and policy framework that is economically stable, environmentally sustainable and socially responsible.

APPEA has around 200 members comprised of oil and gas explorers and producers active in Australia and companies providing goods and services to those explorers and producers. APPEA member companies produce around 95 per cent of Australia's oil and gas.

APPEA is forward-looking and outcomes-focused, aiming to raise awareness of the economic, environmental, and social benefits of the oil and gas industry across the country.

## Acknowledgement of traditional owners

APPEA acknowledges the Traditional Custodians of Country throughout Australia and their knowledge in caring for land, sea, and community. We pay our respect to their Elders; past, present, and emerging.

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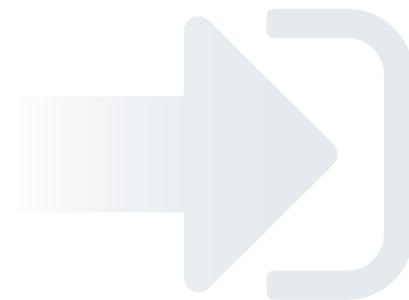
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# Summary of recommendations



**This document sets out the policy and regulatory initiatives that the Australian Government can implement as part of building a more secure and resilient Australia through energy security, reduced emissions and increased investment in a manner that creates jobs, government revenues and economic growth.**



## Investment environment

Initiatives that attract investment for sustained job creation and economic security

- Introduce broad based investment allowances that apply to large-scale, capital-intensive projects
- Make all salary and wages immediately deductible
- Remove barriers to project restructuring
- Close out the PRRT gas transfer pricing review



## Technology and emissions reduction

Initiatives that support a decarbonised economy and net zero 2050

- Introduce investment allowances specific to new energy activities and projects
- Amend the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGGS Act) to allow for reservoir testing to occur for the examination of CCUS use
- Support carbon capture and storage (greenhouse gas storage) opportunities through acreage releases



## Energy security and supply

Initiatives that deliver increased energy supply and security

- Unlock increased supply by ensuring taxation laws reflect modern commercial practices
- Incentivise exploration for natural gas and emissions reduction opportunities
- Support exploration for natural gas and emissions reduction opportunities through acreage releases

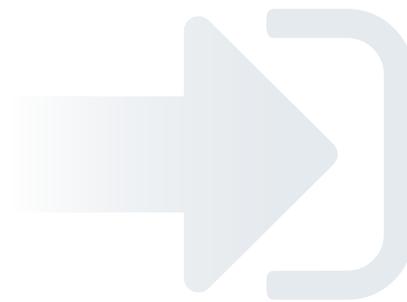


## Environment

Initiatives that protect and preserve Australia's environment while maximising benefits to the Australian economy

- Improve decommissioning outcomes by making the loss-carry back mechanism permanent and accessible by all corporate tax entities
- Remove inefficiencies from the *Environmental Protection and Biodiversity Act 1999* (EPBC Act)
- Transition to bilateral agreements between the Commonwealth and states/territories

# The industry's contribution to the Australian economy



Australia's oil and gas industry plays a fundamental role in our nation's economy, and under the right conditions will continue to for many years. We provide security in energy supply to power homes and businesses in Australia and across the world, invest billions of dollars to generate cleaner energy, and create long-term and secure employment opportunities and economic prosperity for the communities we operate within. Simply put, our industry's contribution is far greater than the billions of dollars in taxation contributions we pay directly to governments.

Since APPEA started collecting data in 1987–88 as part of our financial survey, payments made directly to both state and federal governments which includes taxes, rents and royalties have surpassed \$150 billion. Over the last decade alone, approximately \$66.4 billion in payments has been made directly to state and federal governments.

Between 2008 and 2017 when the industry was making a significant investment into new projects and incurring record expenditure, \$63.4 billion was paid to state and federal governments despite the industry recording overall operating losses in some of those years. For the 2019–20 financial year the oil and gas industry paid \$5.35 billion<sup>1</sup> in taxes, rents, and royalties directly to governments, despite the well-documented collapse in demand, record low oil prices, the performance of the Australian dollar against its US counterpart, and the resulting overall financial loss returned by the industry.

While it is evident that our contribution is significant, taxation payments made directly to government should not be the

only marker of success for the industry's contribution to the economy. Doing so overlooks the \$450 billion invested in oil and gas projects and associated infrastructure, the \$63 billion of exports for 2021–22<sup>2</sup> (up from \$31 billion in the previous year), and the security of energy supply for all Australians.

It ignores the 80,000 jobs the industry supports directly and indirectly. It also disregards supply chain growth through the reliance on local communities to service works, industrial activity to service construction, infrastructure construction and maintenance, and the education and upskilling of workers. In a report by National Energy Resources Australia (NERA) titled *Growing Australia's Oil & Gas Supply Chain*<sup>3</sup>, it was identified that Australia's oil and gas industry purchased \$55 billion of goods and services to support upstream activities in 2016–17, with 70 per cent of the value added in Australia. At \$38 billion, this is approximately 1.2 times the size of the building and construction sector and generates almost 3 per cent of Australia's Gross Domestic Product (GDP).

It is also worth noting that in a period of significant instability in global markets, including in Asia where liquified natural gas (LNG) spot prices have reached unprecedented high levels, competition in the east coast gas market and action by producers, has ensured that domestic spot prices have not increased in any substantial way. All Australians have benefited from this. To complement east coast gas competitiveness, the Australian oil and gas industry recently concluded a voluntary code of conduct to support ongoing transparent and effective negotiations with gas customers. The code will provide an additional framework for negotiations for future supply.

1 APPEA Financial Survey 2019-20: <https://www.appea.com.au/wp-content/uploads/2021/12/Historical-Summary-2019-20.pdf>

2 Resources and Energy Quarterly—December 2021: <https://www.industry.gov.au/data-and-publications/resources-and-energy-quarterly-december-2021>

3 National Energy Resources Australia, *Growing Australia's Oil & Gas Supply Chain*, 11 March 2020: <https://www.nera.org.au/News/Supply-Chain-Report>

# A shifting landscape challenging Australia's competitive advantage



Let's be clear: the Australian oil and gas industry is a key part of a cleaner energy future, and we are committed to helping Australia achieve this. We support the science of climate change and are committed to practical actions to reduce greenhouse gas emissions in line with the Paris Agreement.

However, what is often overlooked is the role that Australia's oil and gas industry can play in achieving this and how Australia can use its competitive advantage to achieve a net zero 2050.

Natural gas supplies more than 25 per cent of Australia's energy. It is providing half of Australians' household energy but is only responsible for 13 per cent of household emissions. It is also playing a vital role in providing lower emissions and cleaner-burning fuel in the industrialisation of Asian economies. The Australian Government estimates Australia's LNG has the potential to lower emissions in LNG-importing countries by 166 Mt per year<sup>4</sup> by offering an alternative to higher-emissions fuels.

The importance of natural gas in a lower emissions economy was highlighted by the recent decisions by the European Union to include natural gas on its list of industries eligible for green investments. This is recognition that natural gas will be a key pillar in a cleaner energy future. It further highlights Australia's position of strength in the global challenge.

Globally, the International Energy Agency believes about 40 per cent of the world's hydrogen needs could come from natural gas by 2050. Australia, with our vast natural gas resources, existing infrastructure and technical expertise, proximity to Asian markets and well-established commercial relationships with key trading partners, has a competitive advantage.

But we must not take for granted the competitive advantage Australia has. Poor policies coupled with rising geopolitical and geostrategic forces will prove challenging for the Australian economy. COVID-19 has proved just how vulnerable the global economy remains to systemic risk and threats like energy security and decarbonisation. How we seek as a

country to transition to a lower emissions economy will have consequential impacts on regional and global relationships.

The 2022–23 Federal Budget provides the Australian Government with the opportunity to build a more secure and resilient future. This future, one that creates thousands of jobs and guarantees essential services such as low emissions energy, can be achieved by securing Australia's competitive advantage and supporting the ongoing evolution of the industry. Our natural competitive advantage with respect to energy supply and emissions reduction lies within our natural geology and geographic proximity to our major trading partners and ability to utilise an extensive network of existing infrastructure.

Through our natural geology, we can provide secure and stable energy to all Australians and to our major trading partners through natural gas and hydrogen. There are considerable reserves both offshore and onshore that remain undeveloped. The recent announcement by Woodside on reaching a final investment decision on Scarborough, and the Northern Territory's Beetaloo Basin—Australia's largest onshore natural gas resource—demonstrate the nation's ability to meet the challenges of a lower emissions energy economy. Similarly, formations where oil and gas resources have been extracted provide opportunities for carbon capture and storage (CCS) to be utilised safely and for the long-term.

CCS is already well established as a safe, large-scale permanent greenhouse gas emissions abatement solution and is seen in several scenarios, including those of the Intergovernmental Panel on Climate Change (IPCC), as essential to achieving global climate goals. In those scenarios, acceleration of CCS deployment to reach capacity of more than two billion tonnes per annum by 2040 is essential.

Australia has a natural competitive advantage to implement CCS with known high quality, stable geological storage basins, existing infrastructure, world-class technical expertise and regulatory regimes (environment protection, carbon accounting and reporting, financial services).

<sup>4</sup> Australia's Long-Term Emissions Reduction Plan: <https://www.industry.gov.au/sites/default/files/October%202021/document/australias-long-term-emissions-reduction-plan.pdf>

Australia needs low-cost abatement to maintain its position as a leading energy exporter and ensure international competitiveness in a lower-carbon future. With scale and experience, the cost of CCS will decrease, creating the potential to deliver competitive, large-scale abatement for existing industries and new industries such as hydrogen and ammonia.

Just as LNG exports are playing a key role in reducing global emissions, CCS in Australia can play a vital role in securing the future of Australia's oil and gas industry in a cleaner energy future.

Geographically, Australia's competitive advantage lies directly to our north. China, India, and Japan currently account for 2.95 billion or 40 per cent of the world's population, with Asia accounting for around 60 per cent of the global population. Over the next 15 years the number of global megacities<sup>5</sup> increase from 34 to 48 with 11 of these in Asia. This region will be heavily reliant on Australia to achieve energy security and emissions reductions. How Australia traverses these relationships with our major trading partners will have a direct impact on our own secure and resilient future.

Japan, a major importer of our natural gas, continues its strong focus on energy security and emissions reductions. The Japanese Government has expressed a desire to progress with new energy trading relationships and Australia is well positioned to build on our competitive advantage as evidenced by the recently signed \$150 million trade agreement for clean hydrogen.

China is forging ahead with its quest for self-reliance to improve the lives of its citizens, as outlined in its most recent five-year plan. How China tackles energy security and decarbonisation will be central to this. It is inevitable that China will face an immediate challenge between self-reliance and the realities of delivering a more secure and stable future with Australia well placed to play a vital role.

However, while they are important, it cannot be assumed that existing relationships will make Australia's economy secure and resilient. Policy decisions like introducing a levy on an entire industry to cover the costs of the government decommissioning

and remediating the Laminaria and Corallina oilfields and associated infrastructure will be telling.

The levy poses fiscal and investment challenges by setting a dangerous legislative precedent and sovereign risk concern in that financial culpability is unlikely to receive the necessary focus if it is shouldered by the broader industry despite the failures of regulation, regulators, and a few industry participants. This includes where those that derived no commercial or financial benefit from the resource will be held to account to meet the costs if anything goes wrong, even in circumstances where the sale and transfer of the asset(s) were approved by the government without broader industry consultation or involvement.

The imposition of the levy comes at a time where Australia's trade relationships are coming into stronger focus. For countries such as Japan, which is Australia's second largest supplier of foreign investment after the United States, the levy introduces prospective sovereign risk and undermines Australia's reputation as a safe and stable investment destination.

Similarly, recent public calls to terminate the Fuel Tax Credits (FTC) regime creates unnecessary uncertainty. It is important to remember that a road user pays a fuel tax to reduce the degradation of roads used by the public. Where private roads are constructed, those responsible for building those roads are also responsible for the upkeep and maintenance required without access to public funds. Any suggestion that FTCs are a subsidy is misleading, as they are a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business off road or in heavy on-road vehicles that do not use public roads. The consequence of any move to reduce FTCs have no basis in sensible tax policy and would only hurt regional Australia by destroying jobs and livelihoods.

It is evident that Australia has the potential to increase its global standing as an energy provider. Securing Australia's competitive advantage to deliver a secure and resilient future will only be achieved through the application of a cohesive set of internationally competitive policies and regulation. It is this pathway that will deliver thousands of employment opportunities, long-term energy supply security and a pathway to net zero by 2050.

5 Defined as a city with 10 million or more inhabitants.



# Positioning Australia to secure its economic prosperity



**The focus on building a more secure and resilient future in the 2022–23 Federal Budget signifies a post COVID transition from economic stabilisation to securing Australia’s economic prosperity. The record fiscal spending by federal and state governments was required at a time where COVID-19 wreaked havoc on the community and the economy. Now, we must look to secure the future of all Australians.**

With the focus on energy security, energy transition and emissions reductions, Australia’s oil and gas industry has a key role to play. The industry is well placed to utilise existing infrastructure to develop further resources to provide domestic energy security to Australian homes and businesses, convert some of this existing infrastructure to develop hydrogen projects whilst also playing our part in the transition to a low emissions economy. There is no pathway to energy security and a decarbonised economy without natural gas.

This can be achieved by implementing the recommendations below as part of the 2022–23 Federal Budget.



## Investment environment

**As Australia competes for scarce global capital, it is critical that policies and regulations are attractive. Capital-intensive projects like infrastructure and resources require long-term business commitments with the Australian community recouping dividends in the form of government revenue, jobs and security. The following recommendations can improve the attractiveness of Australia as an investment destination without compromising government revenues needed to repair budget deficits:**

- **Introduce broad based investment allowances that apply to large-scale capital-intensive projects.**
- **Make all salary and wages immediately deductible.**
- **Remove barriers to project restructuring.**
- **Close out the PRRT gas transfer pricing review.**



## Introduce investment allowances that apply to large-scale capital-intensive projects

The introduction of an investment allowance will provide an environment that incentivises investment and encourages domestic spending. It can stimulate growth in capital availability, wages, employment opportunities and GDP in the same way as a company tax cut, while also raising national income.

Investment allowances provide positive signals to the business community. Some options that should be considered as part of the 2022–23 Federal Budget are outlined below:

### **a Shorten the effective lives of assets**

Shorten the effective life of infrastructure, construction, and development assets by five years (for example, from 15 years to 10 years), improving the net present values and internal rates of return on capital intensive projects.

### **b Bring forward the time depreciation commences**

Consistent with other jurisdictions, the introduction of a notional work in progress (WIP) category for capital assets written down over 20 years would support this approach. That is, allowing a deduction on capital expenditure before an asset is installed and ready for use (the current test).

Alternatively, an approach used in Canada could be adopted to allow the pooling of expenditure rather than allocating to individual assets. Depreciation deductions would commence from the date expenditure is incurred. This could be on an 'opt-in' basis and would deliver significant administrative savings to taxpayers.

### **c Ensure government grants are not assessable up front**

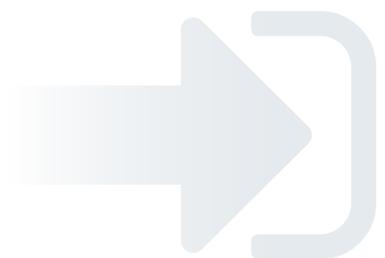
Any grants awarded to grantees from the government should not be assessable up front in the hands of the grantee. Such receipt of income should not be taxable so to maximise the effect of the grant, or at the very least, be taxable over time.

### **d Broaden tax depreciation eligibility for expenditure relating to tolling infrastructure**

The industry is changing, and many existing infrastructure projects are considering tolling arrangements. Consideration should be given to allow a depreciation deduction on expenditure relating to depreciable assets which are held by the infrastructure owner and not 'held' by the spender (i.e. other resource owner or 'ORO'). Modern commercial arrangements may require investors to spend money to upgrade assets not owned by them prior to the commencement of a tolling arrangement which may not be eligible as a depreciation deduction. Consideration should be given to simplifying the rules to enable a depreciation deduction for the party expending the capital, even if they do not own the asset.

### **e Expand the scope and application of the temporary full expensing measure and make it permanent**

Consideration should be given to making the temporary full expensing measure a permanent fixture in the Income Tax Assessment Acts. Consideration should also be given to broadening eligibility requirements or by introducing targeted expensing measures for particular asset classes (e.g. assets involved in or connected with energy generation).



## Ensure clarity that salary and wages costs are immediately tax deductible



Legislating the immediate tax deductibility for *all* salary and wage costs will significantly simplify company compliance obligations and improve Australia's ability to attract investment capital.

Salary and wages costs represent a sizeable proportion of costs for capital intensive industries like Australia's oil and gas, infrastructure, mining, utilities distribution and transmission, agriculture, and construction industries. These industries will play a significant role in Australia's economic recovery out of the COVID-19 pandemic.

For many businesses, salary and wages costs are immediately deductible as they are incurred as part of conducting business activities. However, for capital intensive industries, the Australian Taxation Office (ATO) have a view which requires that salary and wages costs are capitalised into the cost of an asset

Capitalising salary and wage costs increases the effective cost of employment without any increase in employment numbers. It also adds to the overall cost of a project, creates an unnecessary compliance burden and misalignment of payments whilst acting as a disincentive to investment and development. It may also result in a change of location for certain roles that would otherwise be undertaken in Australia.

## Remove barriers to business project restructuring



To support increased gas supply, the development of discovered (but previously not developed) gas resources and the restructuring of projects to include new energies, it is recommended the government implement reforms to make transactions involving swaps of permits and existing infrastructure in Australia tax neutral. This proposal could also allow the pooling or potential combination of a singular uneconomic resource by allowing for restructuring into an economic resource project that improves economic viability.

Any cash component of a transaction (such as where differences in the values of permits or infrastructure exchanged are not the same) should still be subject to tax as per current law where it not reinvested in similar assets or new infrastructure within the same tax year.

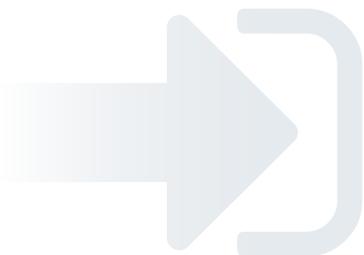
It is also important to note that given Australia's vast size, remote terrain, and distance from markets (both domestic and export), many permit areas which contain discovered resources cannot individually underpin the infrastructure required to undertake high-cost exploration and/or development activities. Government should consider ways to facilitate commercially negotiated access to multi-user infrastructure to better connect otherwise stranded resources to markets. In turn, the industry needs to identify options where existing infrastructure can be jointly utilised to reduce costs and open new opportunities. Commercial negotiation between the parties involved will generally be the best way to achieve access to infrastructure.

## Close out the PRRT Gas Transfer Pricing Review



Announced as part of the Callaghan Review into the design of the PRRT, the completion of the review into the gas transfer pricing rules has been ongoing since April 2019. Extensive consultation and multiple submissions have highlighted the that the design of the PRRT gas transfer pricing regime was purpose-built for Australia's oil and gas industry and appropriately reflects the integrated nature of projects in Australia.

Fiscal certainty is critical for future investment, confidence and jobs, and closing out the review without any amendments to the PRRT legislation will improve investment certainty.



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## Technology and emissions reduction

APPEA supports a national climate change policy that delivers greenhouse gas emissions reductions consistent with net zero emissions across the Australian economy by 2050. Natural gas as a fuel source will have a vital role to play whilst associated upstream infrastructure, technology and expertise has the potential to place Australia as a world leader in carbon capture, utilisation and storage (CCUS) and make hydrogen exports a reality. We have a head start and a natural competitive advantage to implement CCS with high quality, stable geological storage basins, infrastructure that is already in place, the best technical expertise, and the right regulatory regimes.

The following recommendations should be implemented to provide Australia with the opportunity to be a world leader in technology and emissions reduction:

- Introduce investment allowances specific to new energy activities and projects.
- Amend the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGGS Act) to allow for reservoir testing to occur for the examination of CCUS use.
- Support carbon capture and storage (greenhouse gas storage) opportunities through acreage releases.

## Introduce investment allowances specific to new energy activities and projects



Broad-based investment allowances would assist continued business investment across many industries and asset classes in Australia. Where the government is seeking to advance emissions reduction technologies, investment allowances can position the economy in a manner that potentially tracks further investment spending. Following on from the broad-based investment allowances discussed previously, some additional investment allowances targeting new technologies and emissions reduction investment are outlined below to ensure Australian projects can compete on a global scale:

### a Introduce new (and shorten existing) effective lives of new energy assets

Tax write-off periods for new energy technology projects of national significance (i.e. low emissions technologies such as hydrogen and carbon capture, utilisation and storage) should be shortened to ensure they are globally competitive.

### b Immediate deduction for feasibility assessments for new energy projects, including pilot facilities

Front-end engineering design costs (otherwise known as FEED costs) for new energy projects should be treated as immediately deductible for tax purposes (instead of being capitalised and depreciated over time). Such treatment should extend to the cost and operation of a pilot facility of a new energy project. This will encourage frontline testing of new technologies and fast track Australia's role in the energy transition.

### c Introduce a targeted uplift in the Research and Development Tax Incentive (R&DTI) for new energy activities, and expand the scope of this to apply to 'demonstration' activities

The effective R&DTI benefit for companies undertaking new energy activities could be increased, and in such cases the scope of what constitutes R&D under the R&DTI could be expanded to include 'demonstration' activities (for example, trialling of new pilot facilities).

### d Expand the proposed patent box regime to new energy patents

The government should extend to new energy sectors its proposed patent box regime, which presently is stated to apply to only the Australian medical and biotechnology sectors.

## Amend the OGPSS Act to allow for reservoir testing to occur for the examination of CCUS use



In its current form the OGPSS Act does not allow for reservoir testing as part of the permit approval process. To encourage further opportunities to advance CCUS technologies, the OGPSSA should be amended to allow for reservoir testing to occur as part of permit approval and renewals. This will provide Australia's offshore oil and gas industry with the ability to examine reservoirs for carbon capture and plan to evolve projects.

## Support carbon capture and storage opportunities through acreage releases



The recent announcement by the Minister for Resources and Water of five new areas in Commonwealth waters marked out for exploring greenhouse gas storage opportunities represents a significant step forward to a decarbonised future through CCUS. To encourage a more secure and resilient decarbonised future, APPEA encourages the government to commit to a program of work that includes consistent onshore and offshore acreage releases that target CCUS opportunities.

With more experience, more gains in technology and larger areas of waters to work with, the cost of CCUS will fall and that means we can deliver not just competitive, large-scale abatement for industries in operation now, but we can create new industries based on hydrogen and ammonia.

When combined with natural gas, CCS can lead to a large-scale hydrogen industry, resulting in more jobs and more export dollars for Australia – a more prosperous economy. Creating a new hydrogen industry will help cut Australia's emissions, will help lower the cost of energy and can help create new manufacturing opportunities.

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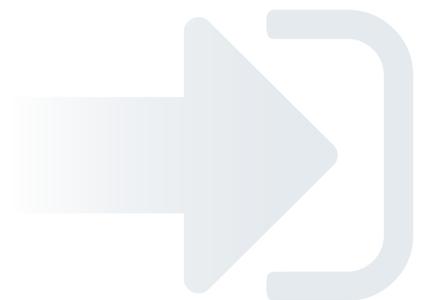


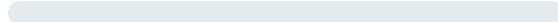
## Energy security and supply

Further project development and more gas flowing into both domestic and export markets will be key to ensuring the benefits from the further development of the gas market are fully released.

Some impacts on current and future investment, such as exchange rates or global oil prices, are largely beyond the ability of industry to influence. However, other key challenges must be addressed. Australia's perception as a welcoming destination for investment has declined, including for petroleum investment. It is vitally important the Federal Budget provide a framework for this ongoing investment and does not add to new challenges.

- **Unlock increased supply by ensuring taxation laws reflect modern commercial practices.**
- **Incentivise exploration for natural gas and emissions reduction opportunities.**
- **Support exploration for natural gas and emissions reduction opportunities through acreage releases.**





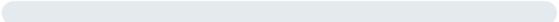
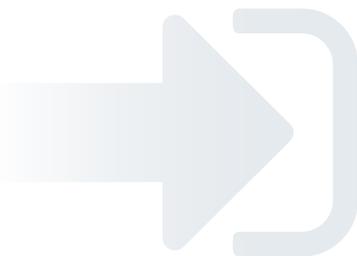
## Unlock increased supply by ensuring taxation laws reflect modern commercial practices

Whilst the principles of the Petroleum Resource Rent Tax (PRRT) remain the right fit for oil and gas operations in Australia, an amendment is required to the *Petroleum Resource Rent Tax Assessment Act 1987* (PRRT Act) to link a petroleum project to a production licence where a production licence may revert to a retention lease. This can be achieved by:

- The specific inclusion of reversion scenarios into the operation of sections 4 and 5 of the PRRT Act, or
- The amendment of section 20 of the PRRT Act to link interests through the project combination.

In commercial practice a petroleum project can go from having a retention lease to a production licence back to a retention lease, yet the legislation does not contemplate this. The inability to access deductible expenses has the potential to render additional further investment subeconomic, leading to a premature closing down of a project or the stranding of assets.

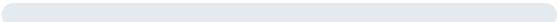
The proposed legislative amendment can unlock more investment and supply, particularly to the east coast gas markets. It requires a simple and efficient legislative amendment.



## Incentivise exploration for gas and emissions reduction opportunities

The Junior Minerals Exploration Incentive (JMEI) supports the investment environment for junior explorers. It allows junior explorers to attract scarce and mobile capital, the international competition for which is greater than it has perhaps ever been. However, expenditure on petroleum (oil and gas) activities is excluded from being converted to exploration credits which diminishes the ability of junior petroleum explorers to attract further investment capital necessary for growth.

APPEA proposes that the eligibility to access the JMEI be broadened by removing paragraph 418–80(2)(b) of the *Income Tax Assessment Act 1997*, and that the government commit an additional \$100 million to the existing application period.



## Support exploration for natural gas and emissions reduction through acreage releases

The Australian Government should continue to support Australia's success in terms of identifying and unlocking new petroleum resources which has been underpinned by continuing to support a successful acreage release framework. APPEA also welcomes the government's continued commitment to providing high-quality, pre-competitive geoscience information.

Australia's pre-competitive offshore geoscience work, undertaken at a national level by Geoscience Australia, is highly regarded and provides an essential information base for explorers and governments. A review of Geoscience Australia undertaken by the Department of Finance and Administration in 2011 confirmed that there are strong 'public good' reasons for ongoing public investment in geoscience research. Such investment delivers positive returns to the community.

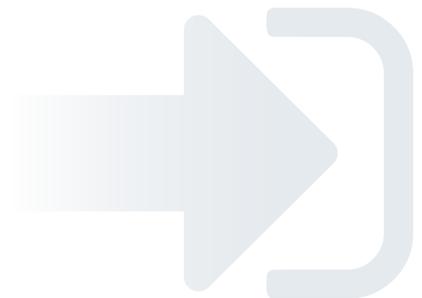
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## Environment

Protecting the environment is a key priority of the Australian oil and gas industry. The industry supports Australia's regulatory regime that protects and preserves our environment while maximising benefits to the Australian community and industry. The industry works to the highest standards and has a long history of world-class responsible environment management. The following recommendations will ensure this can continue:

- Improve decommissioning outcomes by making the loss-carry back mechanism permanent and accessible by all corporate tax entities.
- Remove inefficiencies from the *Environmental Protection and Biodiversity Act 1999* (EPBC Act).
- Transition to bilateral agreements between the Commonwealth and states/territories.



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## Improve decommissioning outcomes by making the loss-carry back mechanism permanent and accessible by all corporate tax entities

The project economics of an oil and gas project see significant expenditure incurred to establish the relevant project infrastructure at the start of the project resulting in losses being carried forward. These losses are soon utilised when the project is producing and profitable with taxes in various forms being paid to governments.

Considerable costs are also incurred at the decommissioning phased of a project where project infrastructure is required to be removed or left in situ to support high standards of environmental outcomes. However, at this time the revenue streams are coming to an end and the result is that expenditure is not able to be offset against income. This often relates to projects being transferred towards the end of their life.

To support better environmental outcomes and avoid a future Northern Endeavour scenario, consideration should be given to making the temporary loss-carry back mechanism for corporate income tax purposes a permanent fixture in the Income Tax Assessment Acts and ensure that all corporate tax entities can access the regime. This is similar to what is currently occurring in New Zealand and is consistent with legislative frameworks in Canada and Malaysia.

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## Remove duplication from the *Environmental Protection and Biodiversity Act 1999*

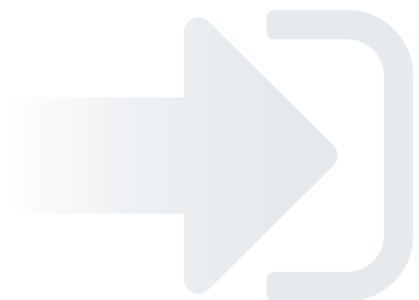
The EPBC Act would benefit from regulatory streamlining while maintaining and enhancing environmental outcomes. Overlapping regulations are presenting an unnecessary cost and time hindrance to project approvals and could be significantly streamlined. Likewise, the rigidity of current approvals processes is burdensome and does not take the diversity of projects into adequate consideration, applying an impractical 'one-size-fits-all' approach.

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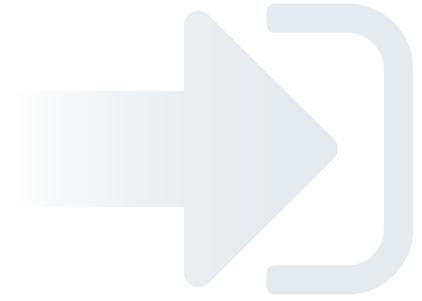


## Transition to environmental bilateral agreements between the Commonwealth and states/territories

The phase-in of National Environmental Standards that promote ecologically sustainable development and protect environmental can be supported by the implementation of a streamlined 'single touch' environmental approval and the provision of funding to the states and territories to discharge Commonwealth functions under bilateral agreement with the appropriate oversight from an Assurance Commissioner.

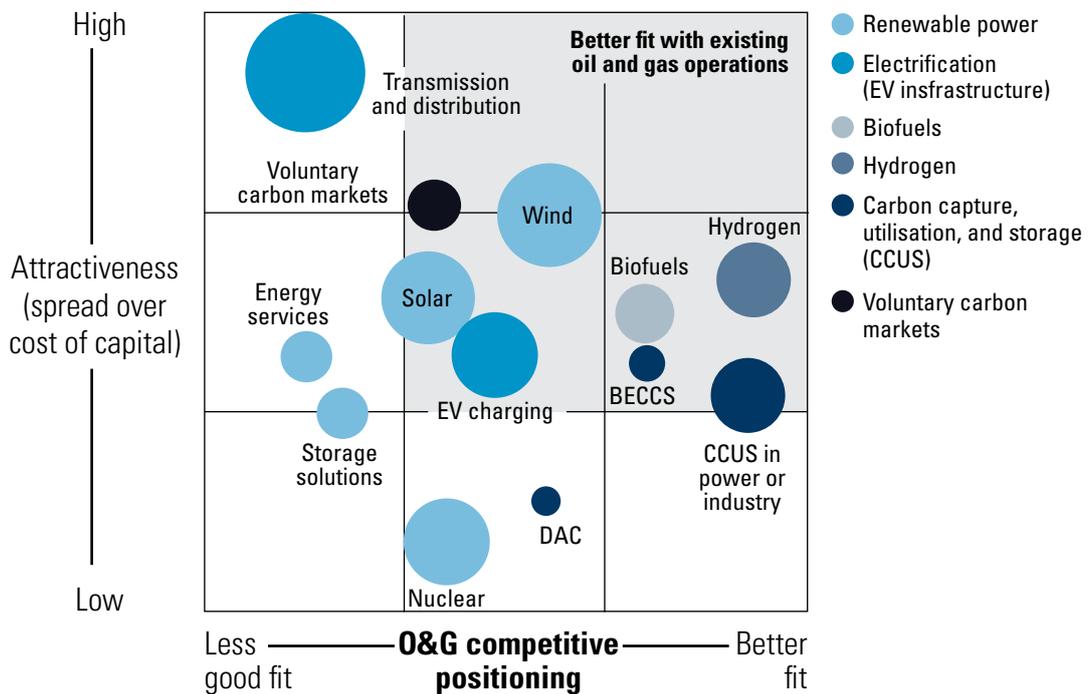


# A new era of opportunity



The Australian oil and gas industry is committed to helping build a more secure and resilient future for all Australians. It has an abundance of capabilities to deliver jobs and essential supplies as part of transitioning to a decarbonised energy system as evidence by the diagram below:

Relative size of value pools, illustrative



## Sources of advantage for oil and gas companies

- |                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Renewable power                             <ul style="list-style-type: none"> <li>Familiarity with operating environments</li> <li>Capital project delivery</li> <li>Supply-chain scale and relationships</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Electrification (EV infrastructure)                             <ul style="list-style-type: none"> <li>Balance sheets and alliances for innovation</li> <li>Access to B2B customers</li> <li>Adaptable refueling networks</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Biofuels                             <ul style="list-style-type: none"> <li>Adaptable process assets</li> <li>Liquid fuel and chemical engineering expertise</li> <li>Access to B2B customers</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Hydrogen                             <ul style="list-style-type: none"> <li>Access to CH4 and CCUS to scale blue H<sub>2</sub></li> <li>Refueling and logistics networks</li> <li>Operational familiarity and safety processes</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Carbon capture, utilisation, and storage (CCUS)                             <ul style="list-style-type: none"> <li>Physical assets (depleted fields)</li> <li>Deep subsurface knowledge</li> <li>Proximity to industrial clusters with end users</li> <li>For BECCS, all the advantages for biofuels</li> <li>For DAC, adaptable process assets and access to low-cost power</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Voluntary carbon markets                             <ul style="list-style-type: none"> <li>Large-scale marketing and commodities trading</li> <li>Synergies with CCUS investment</li> </ul> </li> </ul> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: McKinsey & Company 2021

Recent decisions by the industry demonstrate this. The decision by Woodside to progress with the Scarborough and Pluto Train 2 development as well as the H2Perth development will deliver thousands of jobs during construction and hundreds of ongoing operational jobs, boosting Western Australia's economy. Similarly, newfound investment into carbon capture and storage by Santos and Beach Energy as part of the investment in the Moomba CCS project demonstrates an industry on the cusp of a new era of investment that will secure Australia's competitive advantage for decades to come, delivering jobs, energy security and a lower emissions economy.

It does not stop here.

In a report prepared by EY,<sup>6</sup> it was identified that given the right investment settings, there is an opportunity for the Australian economy to derive substantial benefits. The report identified that a strong and confident Australian oil and gas industry investing in the next wave of competitive large-scale, long-term projects; complementing the uptake of renewables; powering manufacturing; and reducing emissions both here and overseas provides the platform for success now and long into the future.

If the right investment settings are implemented and a new phase of long-term investment is triggered—what EY call a 'high growth scenario'—national economic output could be boosted by more than \$350 billion and support the creation of 220,000 jobs over the next two decades.

6 EY (2020), *Australia's Oil and Gas Industry: Kickstarting Recovery from COVID-19*. <https://www.appea.com.au/wp-content/uploads/2020/11/EY-Report-Australias-oil-and-gas-industry-Kickstarting-recovery-from-COVID-19.pdf>.



**Queensland:** At a state level, a further report by EY into the prospects for Queensland's gas industry provides that the industry could add more value than the 2032 Olympic Games to the state's economy.

### THE CONTRIBUTION

**ADDED**  
 **\$106 billion**  
 ... or 3% per annum to the Queensland economy

**EMPLOYING MORE THAN**  
 **36,000**  
 workers

**PAYING**  
 **\$13 billion**  
 in taxes

### THE OPPORTUNITY\*

**AN EXTRA**  
 **\$30 billion**  
 of investment over the next 20 years

**ADDING**  
 **\$129.3 billion**  
 to the Gross State Product of Queensland

**GENERATING**  
**\$1.4 billion**  
 in tax revenue a year

\* Under a 'high growth scenario', where in addition to investment for projects that are currently under development or have very high levels of investor commitment, Queensland is able to secure investment in projects that have higher levels of uncertainty associated with their development.

**The bright future does not stop with Queensland...**



**In Western Australia**, EY found in its high-growth scenario that economic activity could be as much as \$35 billion higher in 2027 than 2020 levels, equivalent to around 12 per cent of the current state economy, roughly equivalent to the gains from hosting the AFL Grand Final in Perth every day of the year for the next 20 years. The number of new industry workers generated could peak at around 9,700 by 2027, and around 8,300 full-time equivalent staff by 2040.

### THE CONTRIBUTION

**ADDED**  
 \$220 billion  
 ... or 7% per annum to the WA economy

**EMPLOYING MORE THAN**  
 57,000  
 workers over the last 10 years

**PAYING**  
 \$13 billion  
 in taxes

### THE OPPORTUNITY

**AN EXTRA**  
 \$90 billion  
 of investment over the next 20 years

**ADDING**  
 \$440 billion  
 to the Gross State Product of WA

**GENERATING**  
 \$115 billion  
 in tax revenue a year



**In the Northern Territory**, the industry is well positioned for growth. The contributions over the past decade will multiply considerably with the development of the highly prospective, Beetaloo Basin. The announcement of the US\$3.6 billion Barossa development in early 2021 also kick-started a US\$600 million investment in the Darwin LNG life extension and pipeline tie-in projects, this will extend the life of the Darwin facility for around 20 years.

**ADDED**  
 \$28.8 billion  
 ... or 7% p.a. to the NT economy

**EMPLOYED MORE THAN**  
 14,000  
 full time workers

**PAYING**  
 \$2.3 billion  
 to government

# Concluding thoughts from the Chief Executive



**As Australia emerges from the COVID-19 pandemic, the nation and its government have a once in a generation opportunity to make fiscal policy decisions that will provide foundations for the future growth of our economy.**

The oil and gas industry in Australia is key to supporting that outcome through the pathways it provides to decarbonising Australia's energy supply while ensuring energy security and affordability, complementing the uptake of renewable energy, reducing emissions at home and abroad and investing billions of dollars in new technologies and the communities in which the industry operates. And in doing so the industry will continue to deliver tens of thousands of jobs and provide taxation revenue that helps to build the nation's roads, schools and hospitals.

But the competition for the investment dollars necessary for this to occur is intense. Gone are the days where Australia could take for granted the investment of domestic and foreign capital into its resources sector. The pressure on investors to find alternative investments, or less risky investments is significant and while Australia is seen as a reasonably stable investment destination, it is a high cost one and so change is needed.

For change to come, government must recognise the need for change and have the courage to make change with a clear vision of ensuring a globally competitive oil and gas industry with the right tax policies, investment incentives and efficient environmental regulation.

We must reduce regulatory duplication and overlap, support sensible investment allowances, promote the creation of new job opportunities and underpin the investment in and adoption of new technology. To do otherwise would be irresponsible and risk depriving future generations of Australians the wonderful opportunity that our resources sector presents.

Now is exactly the time for government to cut through the noise that surrounds the sector and recognise that in many cases there is quite simply no substitute for what the oil and gas industry delivers.

The oil and gas industry is part of the solution for Australia's economic recovery. But the scope and capacity for this to hold in the future depends on the decisions that governments take now.

The measures contained in this submission are commended to government for immediate action: they are practical, achievable and will deliver genuine outcomes for all Australians.

Andrew McConville  
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