



Media Release

Senator Mathias Cormann

Liberal Senator for Western Australia

15 July 2008

AUSTRALIA'S LOW SOVEREIGN RISK REPUTATION DAMAGED BY RUDD GOVERNMENT \$2.5 BILLION TAX GRAB ON NORTH WEST SHELF

A Senate inquiry has been told that foreign oil and gas investors now view Australia alongside Papua New Guinea, Venezuela and Trinidad in terms of sovereign risk following the Rudd government's \$2.5 billion tax hit on the North West Shelf Venture.

The Senate Economics Committee has heard that the decision to remove the exemption for excise on condensate for the North West Shelf Venture had sent an alarming message to foreign investors.

The Australian Petroleum Production and Exploration Association (APPEA) had told the inquiry that companies would now be more likely to seek up-front fiscal agreements with the Australian government similar to those they negotiate with third world countries to reduce sovereign risk.

APPEA also confirmed the tax grab had implications for gas prices in the future and for future investment in expansion of existing projects and investment in new gas projects.

"APPEA has in fact recommended that our Committee note that gas producers may now require higher prices on gas sales to underpin or support project economics," Senator Cormann said.

APPEA CEO Belinda Robinson told the inquiry:

"Australia has traditionally had an excellent reputation around sovereign risk, this is a place that industry likes to do business. As I say, we don't have many competitive advantages, we are one of the highest-cost destinations in the world, we are the highest cost destination for LNG investment supplying into the Asia-Pacific region and for a variety of other geologically challenging reasons there's not much that we are competitive on but sovereign risk and the ability to rely on the fiscal terms that are agreed up front of a project development has been one of them.

"And so the anecdotal reports that we are getting back from our investors and our member companies is this is something that you might expect in Venezuela or Trinidad or not even, but they never expected to put Australia in that category.

"And certainly there has been raised a number of concerns about the pre-disposition, or the message that this sends about the predisposition of governments to change the rules as you go along, I guess, undermining the whole idea that once you sign off on these projects you sign off on the basis of the life-cycle, the whole lifespan of that project."

WA Liberal Senator Mathias Cormann said the evidence confirmed the government had not considered the long term damage the tax hit would do to one of Australia's most promising export industries.

"The fiscal arrangements for the North West Shelf project have been honoured by Labor and Coalition governments for 31 years and have underpinned the growth and success of the project.

“The Rudd government has now reneged on those commitments to help pay for its irresponsible \$15 billion increase in spending.

“The evidence now confirms that the move has caused significant damage to Australia’s reputation for low sovereign risk – one of the major points of investment attraction for the Australian gas industry.

Senator Cormann said the NWSV had backed APPEA’s concerns about sovereign risk and raised a range of issues about the implementation of the tax change.

“I find it amazing that two months after the budget was handed down, the NWSV – Australia’s largest resource project – is still waiting for a meeting with Treasury to sort out how they intend to implement this change.

“APPEA has highlighted the fact that the Commonwealth had given little thought to the practical implementation process and had been confused as to the differing tax regimes affecting oil and gas projects off-shore and onshore.

“This is no way to run a serious policy process affecting an industry which has been one of our great export success stories, contributing to our prosperity and with a major role to play in helping to address the challenges of energy security and climate change,” Senator Cormann said.

Media Contact: Senator Cormann (08) 9325 4227 or 0411 874 546

Further excerpts from evidence given to the Senate Economics Committee hearing in Perth, Tuesday July 15, 2008.

Belinda Robinson (CEO, APPEA)

“We’ve always prided ourselves as a nation which is investor friendly and although we are the highest cost destination for LNG investment supplying the Asia-Pacific region we have a reputation for a low level of sovereign risk which counterbalances a range of other technical and geological challenges that disadvantage us relative to our competitors. So while not necessarily the most attractive in global terms, the relative stability of our fiscal framework has been an important defining feature of our desirability as a place to invest. So the decision to change the fiscal goal posts is not something that the world expects from Australia and has undoubtedly and we’re well aware has raised some investors eyebrows around the world.

“And while the decision on the surface would appear to be largely confined to a small number of taxpayers, the change will have an impact through signalling a willingness on the parts of government to dramatically shift the fiscal terms after a project is up and running, and contrary to the agreed terms that formed the basis of the project going forward on a life-cycle basis.

“I don’t think we want to overstate it. On the other hand we can’t ignore the message that it has sent to the industry and particularly our overseas investors that, as I said in my opening statement, that Australia has traditionally had an excellent reputation around sovereign risk, this is a place that industry likes to do business. As I say we don’t have many competitive advantages, we are one of the highest-cost destinations in the world, we are the highest cost destination for LNG investment supplying into the Asia-Pacific region and for a variety of other geologically challenging reasons there’s not much that we are competitive on but sovereign risk and the ability to rely on the fiscal terms that are agreed up front of a project development has been one of them. And so the anecdotal reports that we are getting back from our investors and our member companies is this is something that you might expect in Venezuela or Trinidad or not even, but they never expected to put Australia in that category. And certainly there has been raised a number of concerns about the predisposition, or the message that this sends about the predisposition of governments to change the rules as you go along, undermining the whole idea that once you sign off on these projects you sign off on the basis of the life cycle, the whole life-span of that project, you don’t try and just muck around with your tax regime as and when your prices and your input costs start to vary.

(On the issue of seeking fiscal agreements up-front with Australia such as those sought with developing nations like Papua New Guinea)

Senator Cormann: With the sovereign risk climate in Australia changing as a result of measures like this it would be something that projects or companies would consider as one of the options?

Robinson: “Yes. I think that’s true, certainly that’s what our companies are saying to us. That they would, that they’d be considering requiring, that their boards would require it, because these are big decisions for their boards they have to take decisions for their investors of \$20-40billion, and they’re marginal at best. So they want to make sure that whatever fiscal terms they’ve agreed in the first place are locked in for the future of that project.”

Senator Hurley (ALP): So let me get this clear, you’re stating that because of this decision that Australia is put on a fiscal par in stability terms with countries such as Papua New Guinea, Venezuela and Trinidad, you mentioned, so virtually third world, unstable economies.

Robinson: “Again, I think in the end that’s a decision for companies to take but what we’re hearing from our companies is that they will require, a number of companies will require those fiscal

agreements to be negotiated. I don't want to overstate that point, it's certainly not something that is widespread in terms of the decision making we've seen up until now but this is something that is just not Australian, this is not the way they've done business before. And so it's more this uncertainty about, well is this is a sign of things to come and therefore how do we go about reducing that level of uncertainty, creating a more I guess robust and confident environment. And to do that they're saying they will take to their boards, that their boards are requiring them to enter into these fiscal agreements. “

Media Contact: Senator Cormann (08) 9325 4227 or 0411 874 546