



Our Ref: FIN.LT.4927.DOTT.ED

28 July 2017

The Manager, Large Corporates Unit
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: prrt@treasury.gov.au

Petroleum Resource Rent Tax (PRRT) Consultation Paper: 30 June 2017

Eni welcomes this opportunity to provide its contribution on the PRRT consultation paper *Options to address the design issues identified in the PRRT Review* dated 30 June 2017 ('the Paper') circulated by Treasury for stakeholder comment.

PRRT has been an integral part of the Australian taxation landscape for oil & gas companies since its introduction in the mid-1980s. Eni recognises the importance of PRRT to national revenues and believes that in order for this contribution to be maintained, the existing balance between PRRT revenue generation, and the promotion of continued investment in order to sustain such revenues for the long term, should also be maintained.

The comments below should be read in conjunction with our submission to the Callaghan Review Taskforce ('CRT').

General comments on the PRRT regime

As mentioned in our submission to the CRT, Eni believes that the PRRT regime is operating as intended: it has encouraged investment in the exploration and production of petroleum resources while providing an equitable return to the Australian Treasury (amounting to more than \$1 billion per year in additional revenues since introduction¹).

However, some of the options raised in the Paper could have adverse implications for existing PRRT projects and potentially jeopardise the development of future PRRT projects.

No retrospective changes to existing PRRT projects

While Eni believes the current PRRT regime is operating as intended, if there are changes to the current PRRT regime, Eni supports Recommendation 1 of the CRT Report which seeks to ensure that past PRRT projects are protected from any PRRT amendments.

¹ Australian Taxation Office statistics – 2002-03 = \$1.2 billion; 2003-04 = \$1.5 billion; 2004-05 = \$2.0 billion; 2005-06 = \$1.8 billion; 2006-07 = \$1.9 billion and 2007-08 = \$ 1.6 billion.



However, due to the integrated nature of PRRT projects and complexities in defining what constitutes a “new project”, any changes to the current PRRT regime should be carefully considered so there are no adverse impacts on the operation and compliance of projects under the current PRRT regime (i.e. if two licences which form part of the same project have different PRRT treatments). This may also create additional barriers to improved integration and infrastructure sharing in the industry, a lack of which is a common criticism.

Observations on the Paper’s consultation issues

The Paper seeks input on a number of stated questions. Eni’s comments below are made on the key topics which are raised by these questions rather than as a response to each point individually. This is in keeping with our belief that the questions raised in the Paper cannot and should not be viewed in isolation but rather in the context of the PRRT regime as a whole.

a) PRRT Uplift rates

Eni contends there should be no changes to the current uplift rates, which were designed taking into account the high risk involved with the different phases of petroleum exploration and development.

A change to the uplift is contrary to one of the key principles of the PRRT regime: that it is economically efficient (i.e. PRRT is only payable where the initial investment has been recovered and the project is generating returns above a reasonable risk-adjusted margin).

A reduction to the uplift rates, such that they no longer reflect a risk-adjusted return, places a burden on project economics and weakens Australia’s position in the global competition for investment.

b) Ordering of deductions

Eni believes there should be no changes to the current methodology. Such a change, particularly when considered in isolation, becomes in effect an arbitrary adjustment to the timing and the amount of PRRT paid.

The full impacts are unpredictable and dependent on the circumstances of each project and taxpayer; clearly there is a risk of substantial negative impacts on project viability, and potentially a disincentive to exploration in cases where companies have existing PRRT assets under production, as the exploration deductions will take priority over those deriving from direct project expenditures.

c) Transferability

Transferability is a strong incentive to exploration activity. Eni places great importance on organic growth, and global allocation of exploration budgets are highly selective based on prospectivity and value generation. Transferability of PRRT deductions is invariably a key component of our economic evaluation and investment decision making processes, and currently represents a fiscal advantage in making these high-risk investments in Australia.



In the competitive global environment for the exploration dollar, loss of this advantage will see Australia lose ground and prolong the current malaise in Australian exploration.

Gas Transfer Pricing (GTP)

The rationale behind the current GTP methodology was developed following a significant process of consultation and review. This is a highly complex matter which has a direct impact on project economics, and any review requires further time and analysis, ideally following a process at least comparable to that from which it was conceived.

Eni is currently actively considering investment in the Evans Shoal field as a backfill candidate for Darwin LNG, the economics of which are very sensitive to GTP assumptions. Any change in this area risks both the economic viability of the project, and the perception of Australia's fiscal stability as an investment destination.

Changes recommended by the review to improve the integrity, efficiency and administration of the PRRT

Eni fully supports the concept of continuous improvement and, in particular, endorses the following changes recommended in the CRT report.

i) PRRT taxpayers to lodge annual returns after they start holding an interest in an exploration permit, retention lease or production lease

Whilst this will modestly increase the compliance burden on licence holders, if combined with providing additional time to lodge the PRRT returns and the option of a substituted accounting period (see below), it will encourage timely and accurate PRRT record keeping.

ii) Provide taxpayers with the ability to adopt a substituted accounting period

Eni welcomes this recommendation, which would result in alignment between PRRT and income tax reporting periods, reducing administration and ensuring PRRT returns derive from accounting records relating to a complete financial year.

Summary

The Paper raises a number of significant matters which go to the heart of the PRRT regime and thus require detailed consultation and analysis. Eni welcomes the opportunity to comment, however clearly the consultation period has not allowed sufficient time to appropriately address some key aspects such as GTP.

Eni also cautions against the implementation of changes in isolation: uplift rates for example should not be considered as a standalone opportunity for reform as such elements are balanced with other aspects of the regime. PRRT was developed as a package and continues to operate as intended.



Any changes which increase the PRRT tax burden on the oil and gas industry in Australia will significantly reduce the number of future approvals and development of new projects. In a competitive global market, higher rates of taxation will not generate long term revenue growth – investors will vote with their feet and the ultimate result will be lower investment, lower revenues, and fewer jobs.

* * * * *

I am grateful for the opportunity to provide Eni's views on this matter, and would be happy to further discuss with you any of the points raised above.

Yours sincerely



Ernie Delfos
Managing Director