

Michael Callaghan

PRRT Review
The Treasury
Langton Crescent
PARKES ACT 2600

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2 February 2017

Dear Mr Callaghan

REVIEW OF PETROLEUM RESOURCE RENT TAX (PRRT)

Mitsui E&P Australia Pty Ltd (MEPAU) welcomes the opportunity to provide some specific comments on the review of PRRT announced by the Treasurer on 30 November 2016.

BACKGROUND

MEPAU, as a wholly owned subsidiary of Mitsui & Co. Ltd (Mitsui), has been a significant investor in Australia's oil and gas sector since its initial investment in the Enfield oil project in 2004. MEPAU is currently Australia's seventh largest oil producer with interests in four producing oil and gas projects, as well as holding interests in a number of oil and gas exploration projects.

In total MEPAU has invested approximately \$5 billion on the acquisition and development of its interests in Australian oil and gas projects. Since first becoming liable to pay PRRT in 2010, MEPAU has made total PRRT payments of \$700 million, largely in connection with its Enfield and Vincent oil projects.

Over the past year MEPAU has made investment decisions to acquire further energy assets. In March 2016 MEPAU acquired a 35% non-operator stake in the Kipper Gas Field in the Gippsland Basin at a cost of \$520 million and more recently in June 2016 MEPAU, in conjunction with its joint venture partner Woodside, committed to developing its 40% interest in the Greater Enfield oil project off Exmouth WA at a cost of USD 800 million (MEPAU share) to be incurred over a three year period.

PRRT PROFILE

MEPAU believes the current profit-based PRRT regime has helped to facilitate investment decisions for oil and gas projects which may otherwise not be developed if tax was levied by way of an output based royalty, particularly in a time of lower commodity prices.

The current regime works as intended by providing stimulus for continued exploration and development. By way of example, undeducted expenses can be preserved for future utilisation and the uplift rates are commensurate with the level of risk taken by the taxpayer. The cost of

exploration carries significant inherent risk in terms of financial return and thus wider deductibility is made available. Such provisions demonstrate Government's willingness to partner with industry and share the risk in activities that can at times prove unsuccessful.

Ongoing exploration is vital to being able to continually develop the nation's resources. MEPAU has invested over \$600 million in exploration related activities which contributed to the endorsement of the recently committed Greater Enfield project.

POSITION

MEPAU believes the current PRRT regime has enabled it to invest in Australia and thus MEPAU does not believe any changes to the current PRRT provisions are necessary. Its decision to invest in the Kipper and Greater Enfield projects were based on studies undertaken at the time having regard to the existing PRRT regime. If any changes are made to the PRRT legislation as a result of the review then this will constitute a retrospective application of law to these investments. Any changes that adversely impact the PRRT position of MEPAU's long life projects could have an impact on the economic viability of these projects, as well as meeting a benchmark return on investment for capital deployed.

MEPAU is of the view that if any changes are made to the PRRT regime, it should be on a prospective basis, such that existing interests in projects are grandfathered and that it does not affect the investment decisions previously made.

Regard should also be had to the greater economic contributions beyond petroleum taxes such as income tax, employment opportunities and related taxes to Federal and state governments thereby taking a holistic view of the economic and community contributions of the petroleum industry.

As a final point, MEPAU notes the importance of maintaining the stability and international competitiveness of Australia's resource taxation regime as this is a relevant factor in determining the allocation of capital to resource projects in various jurisdictions within a global organisation such as Mitsui. From an international investor perspective this encompasses confidence in the stability and transparency of the fiscal regime, as well as competitiveness on a global stage.

If you have any questions regarding the above, please contact Bryan Skipworth on 08 6364 4777.

Yours faithfully



Hiroyuki Matsuyama

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