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## **Petroleum Resource Rent Tax: Review of Gas Transfer Pricing Arrangements**

Shell Australia welcomes the opportunity to make a public submission in response to Treasury's review of the Gas Transfer Price (**GTP**) provisions contained within the *Petroleum Resource Rent Tax: Assessment Act 1987* and *Petroleum Resource Rent Tax: Assessment Regulation 2015*.

Since the mid-2000s, Australia has seen enormous growth in its LNG industry, with billions of dollars invested in significant infrastructure which will continue delivering returns to the Australian community for decades to come. Australia also has vast remaining untapped natural gas reserves. This of course provides great opportunities for Australia to continue to attract further long-term investment to develop these resources by providing a stable investment environment, including the Petroleum Resource Rent Tax (PRRT).

### **Shell in Australia**

Shell has been investing in Australia since 1901 and Australia forms a core part of Shell's global natural gas business. Our operations today are focused on the exploration, development and production of natural gas, as well as new energies.

In the last five years alone, Shell has invested more than \$50 billion in Australian projects – attracting one in every four dollars that Shell invests globally – making Shell one of the largest foreign investors in Australia. This level of investment reflects a combination of factors including the quality of Australian gas resources, the proximity of Australia to key LNG customers in Asia, and, importantly, a historically stable fiscal and regulatory framework.

Our major investments in key Australian LNG projects include:

- Prelude Floating LNG (67.5% equity);
- Gorgon LNG (25% equity);
- North West Shelf (NWS)(16.67% equity);
- QCLNG (73.75% equity)

Shell also holds an interest in a number of retention leases and exploration permits in Western Australia, Queensland and Commonwealth jurisdictions.

Shell owns a 50% share in Arrow Energy Limited, and in 2019, Shell acquired 100% of Sonnen, a leader in smart energy storage systems and innovative energy services for households.

The Australian gas projects in which Shell holds interests produce large volumes of LNG for export to international customers. However, we also supply the domestic gas requirements of customers in Western Australia through our interests in the NWS and Gorgon, and the east coast through our interests in QCLNG and Arrow projects.

### **Response to Treasury consultation paper**

Shell Australia has contributed to and supports the observations made in the submission of the Australian Petroleum Production & Exploration Association, which address in detail the specific matters contained in the Treasury consultation paper.

The GTP provisions were introduced in the mid-2000s to clarify how the PRRT should apply to integrated gas to liquid LNG projects. A key driver of the need for reform was that there is no observable market for sales gas at the taxing point of an integrated project. As a result, a transfer price cannot be arrived at without significant compromise to transfer pricing principles. This difficulty in identifying and adjusting a comparable price still exists in 2019, just as it did before the introduction of the GTP provisions.

To address this, the residual pricing methodology (**RPM**) was developed and enacted to ensure that a robust, consistent and transparent model was in place to determine the value of sales gas at the taxing point of an integrated project. Agreement of the RPM was underpinned by extensive consultation and negotiation between industry and the Treasury and robust analysis.

Shell Australia is confident that the GTP provisions are working as intended and being administered appropriately. They remain appropriate for both existing and future LNG projects, including tolling and shared infrastructure arrangements.

Notwithstanding this, there may be opportunities within the existing RPM framework to address specific practical challenges. For example, to ensure that sensitive commercial information is not required to be shared amongst third party competitors in tolling and shared infrastructure arrangements. Shell would be happy to engage in further consultation with Treasury in relation to this.

We also recognise the importance of transparency and its role in building trust and confidence in the tax system. The Australian Taxation Office has stated publicly that it has observed a high level of willing participation with correctly registering, lodging and paying on time. Again, Shell is happy to contribute to further discussion on measures that could be taken to ensure that there is clear transparency over taxpayers' compliance with the PRRT legislation and GTP provisions.

It is important that Australia preserves a stable and competitive fiscal environment capable of continuing to attract long-term investment in the resources sector. Any changes made to the GTP provisions must be carefully considered and not retrospectively impact past investment decisions. This is critical to achieving the underlying objective of this review, being to ensure the community receives a fair return for its oil and gas resources, while not discouraging investment in the industry.

Shell looks forward to continuing an open and constructive dialogue in relation to the GTP provisions, and would be pleased to provide clarification or further details of any of the matters discussed in this submission at any time.

Yours sincerely



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