



Woodside Submission Consultation Paper: The New Research and Development Tax Incentive

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1 Introduction

Woodside welcomes the opportunity to comment on The Australian Government's consultation paper "*The New Research and Development Tax Incentive*" issued in September 2009.

Woodside acknowledges the role played by the R&D tax concession to date and trusts that the following comments assist the government in its deliberations on proposed changes to R&D arrangements.

The oil and gas exploration and production industry is by its nature highly innovative and dependent on new technology. Over time we have had to go further afield and into more difficult to access reservoirs to meet world energy demand. Additionally, meeting such demand in a sustainable manner has required a smarter approach to technology, systems and people.

As an Australian oil and gas company, Woodside is focused on unlocking the significant potential of our natural resources off the north-west coast of Australia. These resources are in remote offshore cyclonic environments and in sea beds with very low temperatures. This presents significant challenges for all areas of our business.

Woodside's experience in developing and operating Australian oil and gas projects has lead to an appreciation of the role of cutting edge technology in commercialising Australia's natural resources.

However, the use of new and advanced technologies presents significant risk and requires investment in training and risk mitigation strategies. This is particularly acute where the technologies we look to rely on are not only new to our region but new to our industry. Woodside therefore takes seriously the development of its R&D capabilities, which includes support to Australian universities and other independent research institutions.

2 About Woodside

Woodside is Australia's leading independent oil and gas exploration, development and production company. We seek to maintain this position through the responsible delivery of outstanding economic performance, environmental excellence and social contribution.

Based in Perth, Western Australia, Woodside has major operational assets in Australia and the United States and exploration interests around the world.

Woodside operates Australia's largest resources project, the North West Shelf Venture (NWSV) Karratha Gas Plant (KGP) in Western Australia which produces more than 40% of Australia's oil and gas. The NWSV KGP also supplies around 65% of Western Australia's pipeline gas production and more than 80% of Australia's liquefied natural gas (LNG) exports.

In 2010, Woodside will complete construction of the A\$12 billion Pluto LNG Project near Karratha. The proposed Sunrise and Browse LNG Developments provide significant opportunities for further investment and growth.

Woodside's goal is to be a global leader in LNG production with global demand for LNG continuing to grow. We aim to commercialise some of Australia's largest undeveloped gas resources through the application of leading technologies.

3 Key Issues

In the design of the R&D tax incentive, Woodside is supportive of provisions which are simple, clear and concise. Woodside encourages the Government to reduce the complexity of R&D provisions, improving administration and compliance for industry and providing taxpayers with certainty in relation to their taxation obligations.

3.1 Question 1: R & D to be conducted in Australia

Woodside agrees with the broad policy position that R&D should be conducted in Australia. However, Woodside supports retention of the current limited exception allowing for a portion of R&D to be conducted overseas. This is because oil and gas is a highly specialised industry and there have been cases of limited access to resources and facilities in Australia.

3.2 Principle 4: Administration

Woodside supports the introduction of rules dealing with administration of the R&D tax incentive. As a corporate taxpayer, Woodside believes there is much to be gained from improvements to the guidance and certainty of the regime.

Woodside would welcome the introduction of time limits for amendment of assessments on R&D matters, consistent with those applied in other areas of taxation law.

3.3 Principle 5: Additionality and Spillovers

Woodside understands that *Principle 5* sets out broad policy objectives rather than detailing specific eligibility criteria. However, Woodside is concerned that there is a lack of clarity about how these policy objectives will be incorporated into legislation.

Woodside is particularly concerned that the Consultation Paper is unclear about the spillover benefit of projects. With respect to large scale gas projects, the benefit to the Australian community is enormous in taxation revenues, employment and other flow on effects. However, it is difficult to draw a direct line between the particular R&D activity and the community benefit.

As a means of supporting the development potential of Australia's natural gas industry, Woodside encourages the Government to pursue policy objectives that do not limit the availability of concessions over and above that which is currently available.

3.4 Principle 6: Innovation and high levels of technical risk

Woodside understands that *Principle 6* proposes that the definition of eligible R&D activity be amended to require both innovation and high levels of technical risk.

In Woodside's view, this is an unnecessary narrowing of the requirements for eligibility and risks creating an additional degree of uncertainty for claimants.

3.5 Principle 7: Limitations applied to supporting activities

Woodside welcomes the retention of the ability to claim R&D supporting activities, however, the extent of the proposed limitation methodologies are of some concern.

Woodside is supportive of limiting these provisions to address issues raised in the Venturous Australia Report about aggressive use of the R&D concession. However Woodside would recommend exclusion for production activities rather than capping spend or applying a lower rate of assistance.

Woodside is concerned at suggestions that a "sole purpose" test be applied to supporting activities. In our view, this is an unnecessary limitation which will exclude what are otherwise, eligible activities.

Woodside is not supportive of recommendations requiring costs to be specifically allocated to core and supporting activities as we believe this would impose a significant compliance burden on taxpayers for a limited return to the revenue.

4 Conclusion

Woodside supports a R&D tax incentive regime which provides clarity and certainty for taxpayers.

While recognising the need for revenue neutrality, Woodside believes it is important to ensure that the scope of the incentive properly encourages the development in Australia of internationally competitive and innovative industries.

Woodside is available to discuss the comments in this submission further, if required.

5 Contact

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