Chevron

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Department of the Treasury
Langton Crescent
Parkes ACT 2600

Via email: prebudgetsubs@treasury.gov.au

Dear Sir/Madam

2020-21 Pre-Budget Submission

Thank you for the opportunity to make a submission ahead of the 2020-2021 federal budget.

Chevron Australia ('Chevron') has been the largest foreign investor in Australia over the past decade as the developer and operator of the Gorgon and Wheatstone gas projects in Western Australia. The construction and start-up of these projects has already made a $60 billion contribution to the domestic economy. Operating these projects over the next 50 years will deliver further benefits, through domestic gas supply, LNG export revenues; high-skilled employment and local contracting.

Chevron remains upbeat about future investment in Australia. Chevron recently acquired the petrol distribution and retailing business, Puma Energy, and is looking to grow its market share in Australia. We will be investing further in offshore Western Australia to supply gas for export and domestic markets. Despite short-term pandemic impacts, Chevron remains confident about the future of the petroleum industry, and particularly in growing demand for LNG in the Asia-Pacific market. Overcoming poverty, protecting the planet and promoting prosperity are all dependent on affordable and ever-cleaner energy.

Australia is one of several countries with the gas reserves to meet growing demand in China, India and many other Asian customers. Australia's proximity to markets and reliability of supply are attractive to buyers. Australia's challenge is cost. Development costs in Australia are significantly higher than in competitors such as the United States, Qatar and Russia. For Australian petroleum investment to remain competitive, policy reform is required.

Chevron endorses the pre-budget submission of the Australian Petroleum Production & Exploration Association ('APPEA'). In particular, Chevron supports a number of specific measures that would encourage further investment in the oil and gas sector.

Legislating the immediate tax deductibility for all salary and wage costs

As outlined in APPEA's submission, Chevron supports legislating the immediate tax deductibility for all salary and wage costs for two reasons. First it lowers overall employment costs, feeding through to lower project costs. Second the current law is highly uncertain and the risk of unintentional non compliance is real. Further, the compliance approach outlined in the ATO's draft ruling on this matter is impractical, time-consuming and overly complex.

The deductibility of amounts paid in Australia in respect of salary and wage costs should not be a contentious tax issue. A simple clarification of the law in this manner will free up internal resources as well as those of the regulator, improving the efficiency and integrity of the tax system as well as reducing payback periods for investment.

Increasing investment attractiveness through investment allowances

APPEA sets out four options for investment allowances that can be considered independently or as part of a broader investment attractiveness package. Chevron in particular supports option two, being a broad-based investment allowance, which would allow companies to deduct an additional percentage (say 20%) on top of any available depreciation. This option is particularly attractive for incentivising near-term significant capital spend such as improvements to existing infrastructure and the tie back of new fields to existing infrastructure.

We note that any cost to the community for this type of incentive only arises when a company has made investments and spent capital which of itself in the oil and gas industry provides significant benefit to the wider economy and the creation of jobs.

Rollover relief for asset swaps.

One avenue for lowering Australia's development costs is greater industry collaboration. The petroleum industry traditionally collaborates by forming joint ventures to develop new upstream or downstream projects. Joint ventures allow the industry to aggregate neighbouring projects, to pool capital, to access technical expertise and to share risk. The formation of joint ventures often entails the swapping of assets (predominantly petroleum titles) so that joint venture partners have a proportionate share in each of the project's assets.

However joint venture arrangements can introduce inflexibility as they require unanimous decision making. This increases the potential for delay or deadlock in projects where not all parties can agree on a direction. At times, it is appropriate for a joint venture partner to exit to allow the remaining joint venture partners to progress a project.

It is in the national interest that projects are owned by those parties most likely to succeed. Tax policy should therefore not discourage joint venture entry or exit.

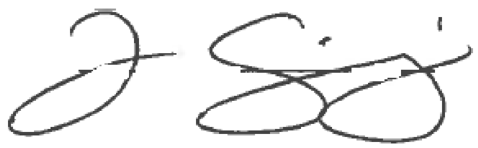
Chevron proposes that the Government legislate so that transactions involving permit swaps, to the extent value is merely exchanged, and which do not involve production assets, are tax neutral, as is the law in the US and UK.

This reform could be achieved by amending section 40-363 of the ITAA to broaden the definition of an "*interest realignment arrangement".*

A tax rollover in these situations should not pose significant revenue concerns as there are no deductions being claimed to reduce the other tax profits of the purchaser and there is no forgone tax revenue as the transaction would likely not have otherwise proceeded. The tax liability is deferred, not removed.

Thank you for your consideration.

Yours sincerely;



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