DIGEST OF BILL

Purpose

The Bill will provide for the waiving of Commonwealth excise where a State has entered into, and adopted, relevant Resource Rent Royalty (RRR) and revenue-sharing agreements.

Background

The Bill largely results from discussions between the Western Australian and Commonwealth governments concerning the Barrow Island oil field which is situated within Western Australia's jurisdiction. Oil produced from the area is subject to both Commonwealth and State taxes. The Commonwealth imposes a crude oil levy while the State charges an ad valorem royalty. In 1983, the Western Australian government announced plans to increase revenue from the area by changing its method of charging. The government was also concerned that the new charges should not affect production levels. To achieve these two aims, the Western Australian government commenced consultations with the Commonwealth to ensure co-ordinated action. Delays ensued while the Commonwealth determined its own position on a Resource Rent Tax (RRT). The details of the RRT were announced on 27 June 1984 and, following negotiations with the Western Australian government and the industry, the form of the RRR which is to apply to the Barrow Island oil field was finalised. In his Second Reading Speech, the Minister stated that 'The RRR will be based on the Commonwealth's Rent Resource Tax...'.[1]
The Commonwealth's RRT has had a relatively long development. A RRT has been part of Australian Labor Party policy since 1977 and aims to tax areas of high economic rent i.e. areas where the profit levels are well above those necessary to attract economically efficient levels of investment. The former Minister for Resources and Energy, Senator Walsh, has stated that a RRT would be 'the most efficient mechanism for deriving an appropriate share of revenue for the community from the large profits that can be associated with the development of particularly rich mineral deposits'.[2]

Following the election of the Labor Government in March 1983, pressure mounted for the introduction of a RRT. The Government decided to concentrate on the petroleum sector, and at first sought to develop a RRT that would replace all existing excises and royalties. In December 1983 a Discussion Paper, 'Resource Rent Tax in the Petroleum Sector', was released and a number of alternative methods of levying a RRT were presented. A wide range of submissions were received and, following consultations with the industry and the States, a modified RRT was devised. The Government decided to restrict the RRT to offshore petroleum projects that had not yet reached the development stage (i.e. 'greenfield' projects), and not to apply a RRT to existing projects because such action would mean 'very high rates of RRT and considerable disturbance to existing working arrangements. [The decision] also reflects a view that, in a practical sense, the opportunities for achieving the economic efficiency advantages of the RRT are greater in the case of undeveloped and undiscovered resources'.[3]

A further paper, 'Outline of a "Greenfields" Resource Rent Tax in the Petroleum Sector' was released in April 1984 and contained an outline of the proposed RRT. Following further deliberation on the proposals and industries' reaction to the Paper, the actual RRT - which applies to offshore 'greenfields' petroleum projects from 1 July 1984 - was announced on 27 June 1984. The Minister stated 'the... RRT announced on 27 June is considerably more lenient than the... RRT proposed in the April 'greenfields' paper'.[4]

As noted above, the RRT to be introduced by this Bill and associated State legislation will be based on the Commonwealth's RRT. Changes to the RRT have been made in recognition of the facts that the Barrow Island oil field is an existing, rather than a 'greenfield', project and is in
State jurisdiction. The proposed RRR will replace existing Commonwealth excise and State royalties and its revenue is to be shared between the Commonwealth and the States on a 75:25 basis. The introduction of the RRR was announced in a joint statement by the Minister for Resources and Energy, Senator Gareth Evans, and the Premier of Western Australia, Mr. Burke, on 25 June 1985.

Outline

The Relevant Resource Rent Agreement and Relevant Revenue-Sharing Agreement to be entered into by a State and the Commonwealth are described in Schedules 1 and 2 of the Bill respectively.

Main Provisions

Clause 4 will prohibit the Commonwealth from discriminating between, or giving preference to, States or parts of States within the meaning of paragraph 51(ii) or section 99 of the Constitution.

Clause 5 will allow the Minister to enter into a relevant revenue-sharing agreement with a State that has adopted such an agreement by an Act of Parliament.

Clause 6 will provide for an exemption from excise for oil produced from an area subject to a revenue-sharing agreement where the area is also covered by a relevant resource rent tax agreement that has been adopted by State legislation.

For a list of the main features of the Schedule 1 and 2 agreements refer to the Explanatory Memorandum.

For further information, if required, contact the Economics and Commerce Group.
References


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