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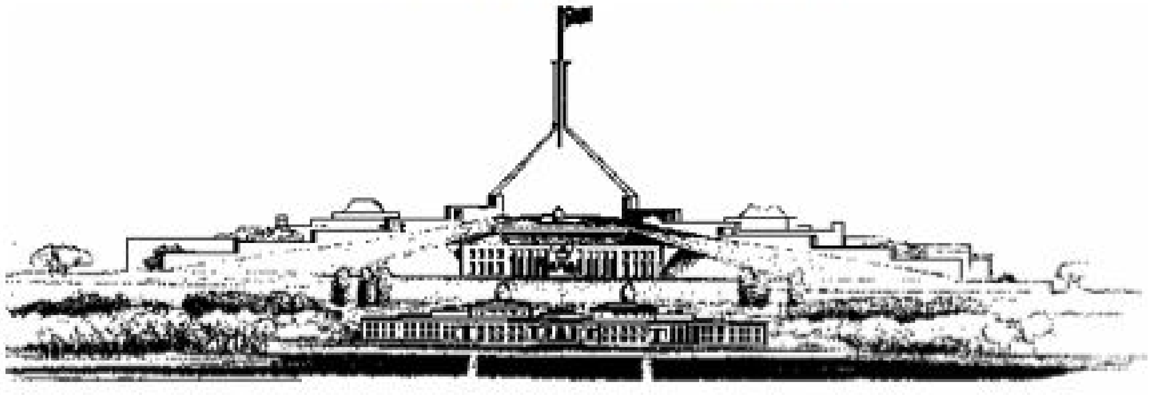

THE SENATE

EXCISE LEGISLATION AMENDMENT (CONDENSATE) BILL 2008

EXCISE TARIFF AMENDMENT (CONDENSATE) BILL 2008

Second Reading

SPEECH

Thursday, 25 September 2008

BY AUTHORITY OF THE SENATE

SPEECH

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Questioner		**Responder**	
Speaker	Eggleston, Sen Alan	**Question No.**	

Senator EGGLESTON (Western Australia) (11.39 am)—It is quite clear there is a very large gulf of disagreement between the opposition and government on this issue, and my money for the moral right is on the side of the opposition. The proposed imposition of a $2.5 billion excise on condensate produced by the North West Shelf joint venture, if I may say so, is yet another example of the high-taxing policies of the Rudd government. Throughout their short history, so far we have seen a total commitment to higher taxes. Unfortunately, this huge increase in tax, which was imposed without consultation with the North West Shelf joint venture partners—which include Shell, BP, Chevron, MIMI and Woodside—will have some seriously adverse consequences, not only in WA where the increased tax will most likely be passed on to domestic and industrial consumers in the form of higher prices for electricity—

Senator Mark Bishop—I have already explained that.

Senator EGGLESTON—This will be done when contracts come up for renewal, Senator Bishop. Ordinary Western Australia families—mums, dads and the kids—will have to pay higher prices for goods in stores and suburban household electricity bills will be higher. Also, from a national perspective, this decision by the Rudd government has compromised Australia's good reputation as a nation where sovereign risk is low. Whereas until now investors have considered that the word of the governments of Australia could be relied on and trusted when it came to agreements for large resource investments, following this decision—to unilaterally break an agreement without any prior consultation—this reputation for reliability will be in tatters. It is hard to escape the conclusion that this $2.5 billion tax on condensate produced on the Burrup Peninsula is an example of the fact that many of the Rudd government's budget measures have not been thought through and will have serious, adverse impacts if passed.

Apart from putting up prices for ordinary families being an example of an unintended outcome, other budget measures having unintended outcomes include the axing of the Commercial Ready program, which provided finance for companies doing innovative research and its axing will mean that Australia loses products to other countries, and the axing of the Regional Partnerships program, which had so many unforeseen impacts on people living in rural Australia that the Rudd government was compelled to backtrack and to restore many of the projects it had planned to terminate. Imposing this $2.5 billion tax on condensate will, without doubt, have an impact on the people and the economy of Western Australia as Woodside has indicated to the stock exchange that the $2.5 billion in additional tax will have to be passed on to its consumers, including families, in Western Australia. This impact will be widespread because Western Australia has become heavily dependent on gas as a source of energy for both domestic electricity and many industrial users in Western Australia, including the large Alcoa bauxite refinery at Pinjarra, as well as mining and other industries in the Pilbara and eastern goldfields.

It seems extraordinary that the Rudd government should be surprised that Woodside has indicated to the stock exchange, as I said, that it will inevitably have to pass on the $2.5 billion additional tax to its customers. Western Australian consumers, most importantly ordinary families, will have to bear that cost increase. An extra $2.5 billion in costs is a large amount of money by anyone's standard. One can only say that, in not comprehending that this would inevitably have to be passed on, the Rudd government has demonstrated its naivety in not understanding the fundamentals of running a large corporation. That the Rudd government appears to be so naive about the realities of finance in business must be a cause of great concern to those considering large capital investments in Australia.

The manner in which this decision was made, in secret, and then only communicated to the North West Shelf joint venture as a fait accompli in the budget, must also raise serious concerns about the attitude of the Rudd government in dealing with the interests of large resources companies. According to the Parliamentary Library, the North West Shelf oil and gas venture is Australia's largest resources project and has involved some $20 billion in capital investment to April this year. Given this, surely it would have been reasonable to assume that consultations would have occurred between the Rudd government and the company when a major and fundamental change to the financial arrangements between the company and the government was under consideration.

This is particularly important when it is understood that the arrangements to exempt the company from condensate excise had been in place since the earliest negotiations about the project and that there had never been any suggestion that these arrangements would be subject to review or change, much less unilaterally terminated, as is proposed by the government. In fact, according to the briefing the Senate economics committee received from Treasury, there was no termination date placed on the arrangements for the exemption from condensate tax, so the North West Shelf joint venture was entitled to think that this was a permanent condition, especially since it had been in place for several decades. However, in spite of this, the joint venture was only informed of the decision to end the exemption for the condensate excise immediately prior to the budget, without any prior consultation or hint that the condensate exemption was to be terminated.

Senator Siewert spoke about Woodside's greed. Unlike oil projects which are profitable after a relatively short period of time, gas projects have a long period before the enormous cost of setting them up is recovered and profit on capital is generated. Senators should understand that the joint venture has continued to expand the North West Shelf project at great expense over the years and only recently has commissioned two additional trains, as they are called, to increase production levels. As I said, total investment is now approaching $20 billion, and senators will appreciate that it takes a long time to recoup development costs of that kind. So it is hardly greed on the part of Woodside that it wants to be given a reasonable opportunity to recoup its investment.

Senator Cameron, in his speech last night, was dismissive of coalition concerns about sovereign risk. The reliability of agreements with governments is known as sovereign risk. Australia has had an excellent reputation as a nation where governments kept their word and, accordingly, Australia has been regarded as a reliable country to invest in, with low sovereign risk. By contrast, a Third World banana republic would undoubtedly have a high sovereign risk, and no respectable investors would want to chance their money in such a country. The fact that Australia was a nation of low sovereign risk, with a reliable legal system and political stability, has been an important, key competitive advantage in attracting large resource investments to this country. This has been the case even though in Australia costs have been higher than in some of the alternative countries where investment in similar gas projects could occur, such as Indonesia, Qatar and Nigeria.

We in Western Australia have taken a lot of care over the years to protect our reputation for being a state where sovereign risk was low, because the Western Australian economy, since the 1890s, has been driven by great mining booms and resource developments. In the 1890s and on into the 20th century, it was gold, particularly in Kalgoorlie, which drove the WA economy. Then, from the 1960s on, it was nickel and bauxite. Most significantly, in the present, the Pilbara iron ore industry and the oil and gas developments of the North West Shelf are the key driving force of both the Western Australian and the Australian economies. Senator Cameron appeared to not understand that these great investments in gas resource projects have not occurred in Western Australia by accident but have been differentially and preferentially made in Western Australia because Western Australia has a reputation as a safe place for international investment, where sovereign risk is low.

However, this decision by the Rudd government to terminate the longstanding exemption from paying excise on condensate by the North West Shelf joint venture without any consultation has cast a cloud over the previously impeccable reputation of Western Australia, and Australia as a nation where sovereign risk was low. That the Rudd government have done this is incomprehensible and underlines their lack of experience and understanding of the expectations of great international resources companies. The Labor Party seem to think that these resources companies are bound to Australia, that they cannot go elsewhere. The Rudd government has seemingly ignored the reality that other countries also have large gas reserves and that if costs in Australia, which are already high, are raised too much through the unilateral ending of agreed exemptions or other conditions we in Australia will lose our competitive advantage. As a result, international resources companies like Shell, Chevron, BP and Woodside, who are partners in the North West Shelf joint venture, may cease to undertake new developments in Australia and instead invest in new projects elsewhere—for example, in countries like Indonesia, Qatar and Nigeria—where costs are low and regulations almost non-existent but sovereign risk is high.

The last point I wish to make about this decision of the Rudd government is that condensate is a relatively greenhouse friendly source of energy. It seems to me somewhat curious that a government which is obsessed with greenhouse issues and the reduction of carbon emissions in Australia should be penalising a greenhouse friendly energy source in this matter. But perhaps I should not be so surprised, because it is becoming increasingly apparent that the decisions of the Rudd government are often poorly thought through, often do not take into account the consequences and frequently are no more than ideologically driven, symbolic gestures designed to make a short-term impact. In fact, the Rudd government is becoming very much a government of symbolism, not of substance. By contrast, when the Howard government came into office their first budget contained a number of outstanding initiatives, such as setting up the Natural Heritage Trust, which was to be funded with $1 billion from the sale of Telstra, which was another outstanding proposed initiative. So I suppose it is reasonable for us to ask here today: what has the Rudd government done in the 10 months it has been in office? Sure, this government has signed the Kyoto treaty—

Senator Faulkner interjecting—

Senator EGGLESTON—My pronunciation is being corrected from across the floor—it has apologised to the Indigenous people of Australia and it has set up literally hundreds of reviews, but there has been very little significant new policy announced. I must say the people of Australia are justified in wondering just what this government has been doing with its time and whether it really does have any new ideas. The May budget reflected the approach of poorly thought through, ideological based, symbolic gestures. And now to the list of such a poorly thought through measures we must add this condensate tax, which will disadvantage ordinary families in WA by increasing the cost of domestic electricity in our state.

In conclusion, in the interests of preserving Australia's hard-earned reputation as a reliable nation of low sovereign risk where large capital investments in resource projects can be made with confidence and, most importantly, ensuring that families in WA are not burdened with higher electricity bills and increased prices for consumer goods, I call upon the Senate to reject this legislation.