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Committee Secretary
Senate Economics References Committee

Sent by email: economics.sen@aph.gov.au

2 February 2015

Dear Dr Kathleen Dermody,

SUBMISSION ON THE INQUIRY INTO CORPORATE TAX AVOIDANCE AND MINIMISATION

I refer to your letter of 27 October 2014 in relation to the inquiry of the Senate Economics References Committee into corporate tax avoidance and minimisation (the **"Inquiry"**). I welcome the opportunity to make this submission on behalf of the Woodside Petroleum Limited group of companies (**"Woodside"**).

1. Introduction

As Australia's largest independent oil and gas company, with our headquarters and production operations located in Western Australia, Woodside has a vested interest in the stability, fairness and competitiveness of Australia's tax regime.

Woodside acknowledges that the payment of tax is a significant way in which we contribute to the Australian community. Woodside does not support the use of artificial structures that have no commercial purpose except the avoidance of tax. We believe that our taxation policy and governance arrangements, together with ongoing engagement with the Australian Taxation Office (**"ATO"**) and other revenue authorities (as detailed below in section 4) demonstrate our commitment to openness and compliance with both the letter and spirit of the law.

2. About Woodside

Woodside is Australia's most experienced LNG operator and largest independent oil and gas company. Our operations are characterised by strong safety and environmental performance in remote and challenging locations.

We have been operating our landmark Australian project, the North West Shelf, since 1984 and it remains one of the world's premier LNG facilities.

We continue to invest in the North West Shelf through brownfield developments, including the Greater Western Flank and Persephone projects, which will unlock further reserves that will be processed through the North West Shelf facilities.

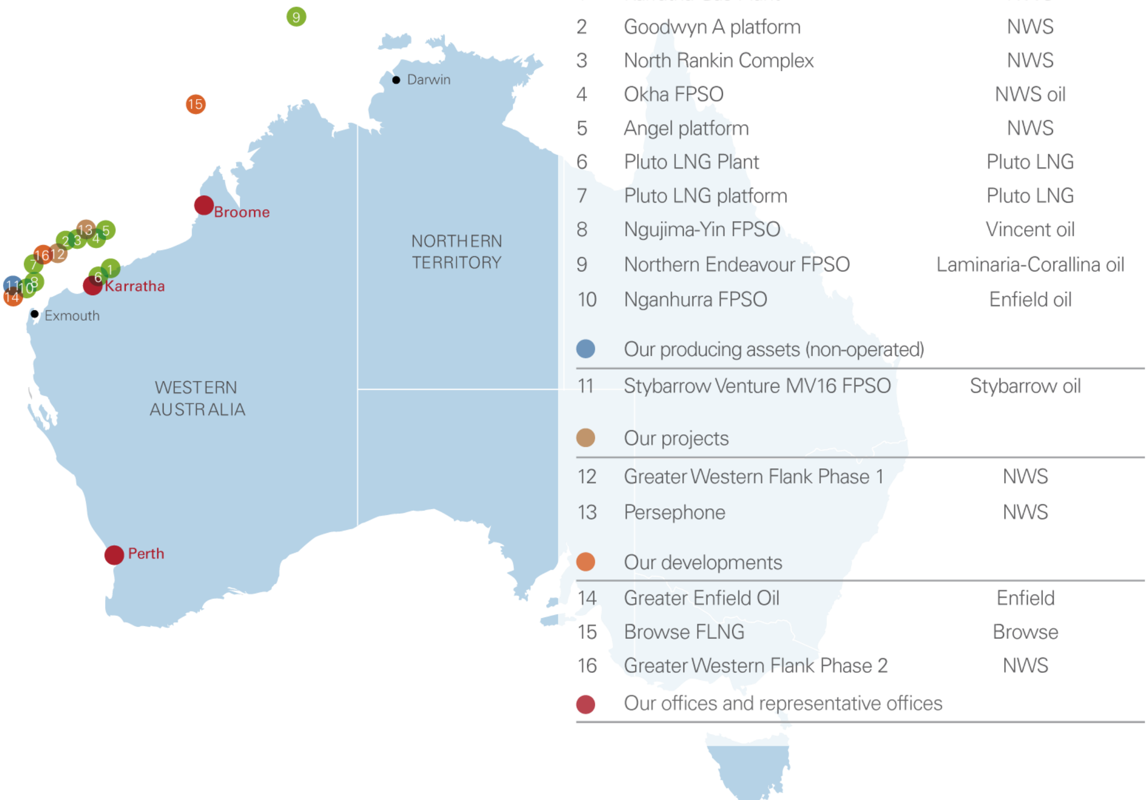
With the successful start-up of the Pluto LNG Plant in 2012, Woodside now operates six of the eight LNG processing trains in Australia. In addition, Woodside operates a number of oil projects at the Enfield, Vincent and Laminaria-Corallina fields off the coast of North Western Australia and holds an interest in the BHP operated Stybarrow oil project.

Driven by our world-class capabilities, we are committed to expanding our LNG portfolio through premium developments including the Browse Floating LNG (FLNG) Development. Additionally, we are seeking to expand our exploration portfolio, both within Australia and globally, to generate future growth opportunities for the company.

As part of our growth strategy, we recently announced the proposed acquisition of a number of assets from Apache including an interest in the Wheatstone LNG project and the Balnaves oil project, both of which are located in Australia, and the Kitimat project which is located in Canada.

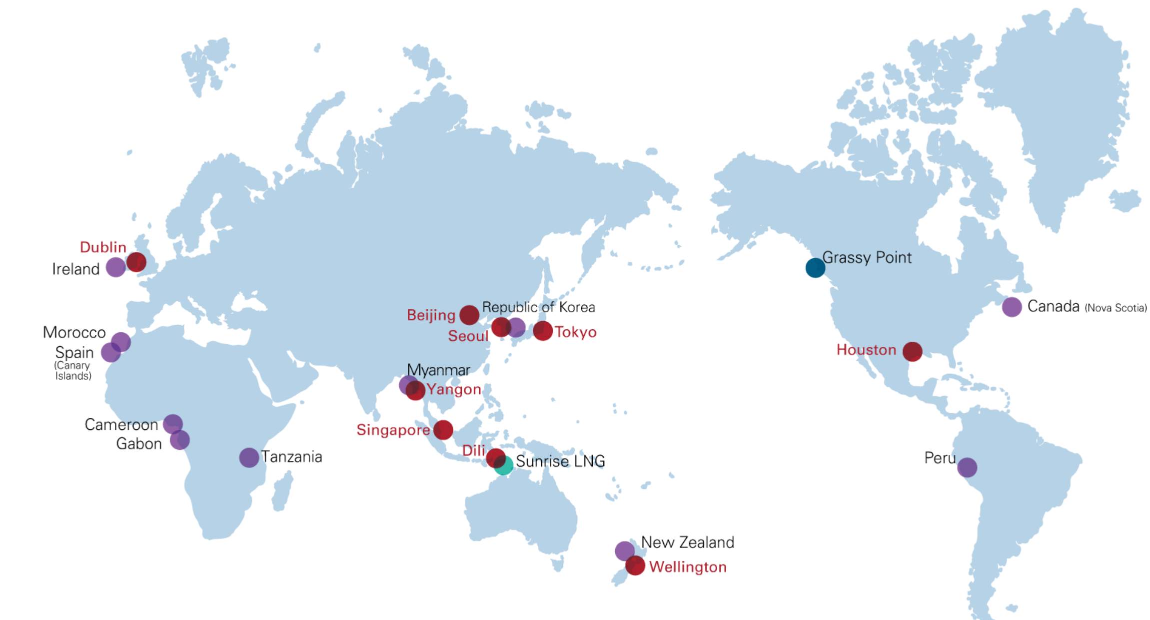
A map of Woodside's areas of activity is below.

Our Australian business



Our producing assets (operated)		
1	Karratha Gas Plant	NWS
2	Goodwyn A platform	NWS
3	North Rankin Complex	NWS
4	Okha FPSO	NWS oil
5	Angel platform	NWS
6	Pluto LNG Plant	Pluto LNG
7	Pluto LNG platform	Pluto LNG
8	Ngujima-Yin FPSO	Vincent oil
9	Northern Endeavour FPSO	Laminaria-Corallina oil
10	Nganhurra FPSO	Enfield oil
Our producing assets (non-operated)		
11	Stybarrow Venture MV16 FPSO	Stybarrow oil
Our projects		
12	Greater Western Flank Phase 1	NWS
13	Persephone	NWS
Our developments		
14	Greater Enfield Oil	Enfield
15	Browse FLNG	Browse
16	Greater Western Flank Phase 2	NWS
Our offices and representative offices		

Our global business



Woodside offices and representative offices
Exploration acreage
Developments
Business opportunities

3. Applicable taxation regimes

In considering the Australian taxation contribution made by Woodside, it is important to recognise that hydrocarbon production in Australia is subject to a complex mix of primary and secondary taxes including:

- Income Tax;
- Petroleum Resource Rent Tax (**"PRRT"**);
- Royalties (Federal royalty applicable to the North West Shelf Project); and
- Excise (Federal excise applicable to the North West Shelf Project).

Focussing on Woodside's income tax contribution, with the majority of our production Australian based, our effective income tax rate is near to the headline rate of 30%.[1]

Calendar year	**2011**	**2012**	**2013**
Effective Income Tax Rate	30.43%[2]	27.19%[3]	29.77%[4]

Woodside's franking account balance as at 31 December 2013 exceeded AUD 3 billion.[5]

Apart from income tax, Woodside's payments under the abovementioned taxes in relation to the last 3 financial years are summarised in the table below. All amounts are in Australian dollars.

Financial year ended 30 June	**2012**	**2013**	**2014**
PRRT	$228,185,787	$159,156,799	$85,795,767
Royalties	$265,945,685	$305,481,068	$328,172,479
Excise	$178,467,438	$181,417,895	$166,114,789

4. Woodside's taxation policy and our arrangements with revenue authorities

As an Australian headquartered group, Woodside is subject to a robust and highly complex regulatory framework governing tax avoidance and profit shifting covering all our global operations.

Group Taxation Policy

Our Group Taxation Policy establishes the following objectives:

- Woodside must comply with all relevant taxation laws and regulations, and pursuant to these, will pay an appropriate amount of tax; and

- Woodside should maintain a risk rating not higher than 'Quadrant 2' ("key taxpayer") in the 'Risk Differentiation Framework' of the ATO.[6]

These objectives are to be achieved, among other things, by:

- transparency and accountability in our dealings with revenue authorities; and

[1] Calculated as the income tax expense (excluding PRRT) (**"Income Tax Expense"**) divided by the accounting profit before Income Tax Expense (**"Pre-tax Profit"**), both per audited accounts.
[2] Income Tax Expense: USD 660m / Pre-tax Profit: USD 2,169m
[3] Income Tax Expense: USD 1,137m / Pre-tax Profit: USD 4,181m
[4] Income Tax Expense: USD 769m / Pre-tax Profit: USD 2,583m
[5] The franking account keeps track of the income tax credits that Woodside can pass on to its shareholders. It is, among other things, credited by income tax payments and debited with franked dividend distributions.
[6] The Risk Differentiation Framework is a model developed by the ATO to categorise taxpayers into one of four quadrants. This categorisation is based on the estimated likelihood of the taxpayer adopting a tax position that the ATO will disagree with and the consequences of that potential non-compliance. A key taxpayer is considered to be less likely to adopt a position that the ATO will disagree with but the consequences of any potential non-compliance is considered high due to, for example, the taxpayer's size. Woodside is currently achieving this objective.

- constructive engagement and consultation with revenue authorities to inform their understanding of Woodside's key taxation matters.

The policy also mandates a strict taxation governance and reporting framework.

Annual Compliance Arrangement

In late 2013, Woodside voluntarily entered into an Annual Compliance Arrangement (**"ACA"**) with the ATO in relation to both income tax and PRRT. The primary purpose of the ACA is to provide a compliance and risk management relationship framework predicated on mutual trust, respect and transparency, to facilitate interaction and cooperation between the ATO and the taxpayer. The ACA framework establishes an environment in which either party can raise compliance risks and other technical and administrative uncertainties and resolve issues in a constructive, efficient and expeditious manner. In addition, details of any material tax risks and issues relating to publicly disclosed or completed transactions must be disclosed by Woodside. Woodside is one of the few large businesses in Australia to have taken advantage of the opportunity to enter into an ACA. Woodside sees this as a proactive way to maintain our positive working relationship with the ATO.

Participation in other programs

On an international level, Woodside participates in the Extractive Industries Transparency Initiative (**"EITI"**) in East Timor. The EITI is a global coalition of governments and companies working to improve openness and accountable management of revenues from natural resources. Countries implement the EITI Standard to ensure full disclosure of taxes and other payments made by oil, gas and mining companies to governments. These payments are disclosed in an annual EITI Report.

Woodside is also in active communication with the ATO and other government bodies responsible for tax policy and administration, directly and via participation in industry and business groups.

5. Comments on terms of reference

Woodside provides the following comments in regards to the terms of reference:

- Woodside is supportive of any changes to Australian taxation laws that address specific instances of tax avoidance and create a "level playing field".

- Any recommendation regarding greater transparency in relation to taxes paid must be considered in light of international benchmarks and ensure that Australian based companies will not be disadvantaged over their international competitors.

- It is important that the Australian taxation regime is internationally competitive and supports Australian companies seeking to expand their operations overseas.

- It is important that any changes to the Australian taxation regime take into account the compliance burden which may be created, and that the benefit to be obtained is considered in light of the impact such measures may have on productivity.

- Wide industry and business consultation prior to any changes to the Australian taxation regime is recommended to ensure that all relevant stakeholders have had sufficient input.

We trust that this submission will be of assistance to you in the course of your inquiry.

Yours faithfully,

Anthea McKinnell
Vice President Treasury and Taxation