

18 December 2006

Ms Roberta Bausch
Science & Innovation Study
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Ms Bausch

Public Support for Science & Innovation – Research & Development Funding

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing the collective interests of companies engaged in petroleum exploration, development and production in Australia. The Association's membership comprises companies that account for around 98 per cent of Australia's petroleum production and the vast majority of exploration.

The petroleum exploration and production industry is recognised as a technology-reliant industry sector. Considerable capital resources are invested with the aim of discovering or making available more petroleum resources on a global basis. The development of Australia's discovered petroleum reserves, which are largely located in remote and technically challenging locations, requires the availability of enabling technologies to facilitate bringing these resources to markets.

Companies engaged in petroleum operations in Australia utilise the existing 125 per cent research and development tax concession. It forms an important part of the fiscal framework as it helps in part respond to the risks that exist in the broader project decision making process. Because of the very high up-front capital costs associated with many activities in the industry, measures that assist in either reducing risk or assisting project economics (such as the R&D concession) play an important role. Australia's isolated geographic location (together with relatively expensive input costs) further highlights the importance of measures such as those contained within the R&D system.

The commercialisation of the nation's oil and gas resources provides enormous benefits to the Australian economy. Not only does the industry contribute significant taxation revenues to the Australian Government (estimated to be in excess of \$5 billion per year), the provision of reliable and competitively priced energy is essential for the efficient operation of the national economy.

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Advice from APPEA members indicates a strong desire for the current provisions to be retained. Any decision to abolish or diminish the scope of the current arrangements could realistically be expected to lead to companies reassessing their R&D decisions in Australia.

Please do not hesitate to contact Noel Mullen (nmullen@appea.com.au) should you wish to discuss any matters referred to above in more detail.

Yours sincerely

Belinda Robinson
CHIEF EXECUTIVE