

PEPANZ Oral Submission to the Finance Expenditure Committee re CW57 – 3 April 2019.

1. Good morning. My name is Cameron Madgwick and I am the Chief Executive of PEPANZ, and with me is our Policy Manager Joshua O'Rourke.
2. Today I want to discuss an important tax provision for the offshore petroleum sector, which will expire at the end of this year.
3. This provision is not directly related to the omnibus tax bill which is before you, but this current bill is the last legislative opportunity to renew CW 57 before its expiry at the end of the year, so I am asking that you recommend the House add its renewal to the current bill.

Explanation of section CW 57

4. Section CW 57 of the Income Tax Act 2007 provides an exemption for non-resident drilling and seismic ships from the normal tax resident requirements in an offshore permit area.
5. Without this provision, an artificial incentive is created for vessels and rigs to leave New Zealand and be replaced before the resident requirement threshold of 183 days expires. It would be expensive and time consuming, and worse for the environment through increased transport emissions.
6. This provision has been renewed every five years since its enactment in 2005 and has enjoyed support from both National and Labour-led Governments.

Reasons for renewal

7. Renewal of section CW 57 is important because it removes the incentive for this inefficient 'rig churn' and minimises unnecessary costs on operators and transport-related emissions.
8. Renewal would support the Government's stated intent to honour existing permit holders' rights and we consider that maintaining long-standing exploration rules (including this provision) is an important part of that. It has been in place for almost 15 years and it has been renewed by successive Governments.
9. Businesses in our sector have inferred from this support that the exemption was a relatively stable aspect of New Zealand's tax policy settings, and accordingly renewing the provision would be positive for investor confidence in New Zealand.

Revenue-neutral and not a subsidy

10. Official advice shows that Treasury, IRD, MBIE and the Tax Working Group consider the CW 57 to be revenue-neutral, which means that renewing the provision has no fiscal cost to the Crown.
11. We are aware that some have considered it to be a subsidy to the oil and gas sector. However, the agencies I've just mentioned do not agree, and that view was affirmed by APEC in its 2015 Peer Review on Fossil Fuel Subsidy Reforms in New Zealand.

12. Most recently, the Tax Working Group affirmed this view, saying “there are grounds for it being considered not concessionary, as oil rig operators are *unlikely* to pay New Zealand tax with or without this exemption. This is because without exemption, oil rig operators are expected to ‘churn’ their rigs”.
13. The policy simply prevents outcomes that would be artificially created by the tax resident threshold and is similar to treatment of other sectors where non-residents enter New Zealand for short periods.
14. For example (as explained more fully in our submission):
 - section CW 56 exempts non-resident aircraft operators from income tax;
 - section CW 19 exempts non-residents professional services in New Zealand from income tax if their visit is for fewer than 92 days.
 - Section CW 11B exempts qualifying foreign equity investors from income tax on sale of shares if the sale occurs within 12 months of purchase. This is intended to "remove a tax barrier to unlisted New Zealand companies gaining access to offshore private equity and venture capital".

Next steps

15. We ask that the Committee recommend the current taxation bill be amended to include renewal of CW 57, or otherwise recommend that Government advance this through a supplementary order paper in the Committee of the Whole House.
16. We are happy to take questions.