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19 September 2025

The Productivity Commission  
Alex Robson & Barry Sterland  
Deputy Chair & Commissioner

Online Submission

**RE: Creating a more dynamic and resilient economy**

Dear Mr Robson & Mr Sterland,

INPEX Operations Australia Pty Ltd (**INPEX**) thanks the Productivity Commission (**PC**) for the opportunity to provide comments on its interim submission titled '*Creating a more dynamic and resilient economy*' dated 31 July 2025 (**the Report**).

For context, INPEX CORPORATION is Japan's flagship energy company and, has been an active member of the Australian business community since 1986. INPEX is the largest Japanese investor in Australia and operator of the Ichthys LNG, one of Australia's largest and most complex energy developments. INPEX's Australian portfolio also includes participating interests in Van Gogh and Coniston, Ravensworth, Prelude FLNG and Bayu-Undan/Darwin LNG.

We are also Operator of a 53% participating interest in the Bonaparte Carbon Capture and Storage Project (**Bonaparte CCS**) which recently obtained major project status to assist with INPEX's ongoing decarbonisation efforts.

INPEX is also a 50% owner in the Potentia Energy platform, a Joint Venture co-owned with Enel Green Power, which through growth and acquisition has become one of the largest renewable energy generation platforms within Australia, with significant wind, solar and Battery Energy Storage Systems (**BESS**) operations in WA, New South Wales, South Australia, the Australian Capital Territory and Victoria.

INPEX's capital expenditure in Australia since 2011 exceeds AUD \$76b and its annual operating expenditure is over AUD \$1.5b. When INPEX sanctioned Ichthys LNG, it was the single largest Japanese investment globally and significantly contributed to the growth in the size of the Northern Territory economy with Gross State Product (**GSP**) increasing by 3.8% in 2012 when the Final Investment Decision (**FID**) was taken; 7% as construction started in 2013 and 6.1% in 2020 during the first full year of production operations. It also represented the single largest investment by Japanese and French (TotalEnergies) companies into Australia. As a result of this investment, INPEX now directly employees 600 personnel located in the Northern Territory and more than 1,000 personnel in Western Australia as part of operations. Many more thousands of people act as a contract workforce and are engaged for maintenance and shut down related activities.

In renewable energy, INPEX's share of the investment in the Potentia Energy platform already exceeds AUD \$800m<sup>1</sup>. Approximately, a further 100 people are employed by Potentia Energy to manage the 899MW<sup>2</sup> of

<sup>1</sup> Represents INPEX's estimated share of the enterprise value in the Potentia Energy platform

<sup>2</sup> Royalla, Greenough River, Clare, Bungala 1 and 2, Cohuna and Gigarre solar farms, and the Albany Grassmere, Warradarge and Flat Rocks Stage 1 wind farms

operational projects and the additional 9GW development pipeline assets<sup>3</sup> across both the National Energy Market (East Coast) and the Wholesale Energy Market (WA).

Between 2011 and 2023, INPEX paid AUD \$2.069b in taxes including some AUD \$589m in 2023 alone. Paying tax is one of the most important contributions we make to the social and economic development of Australia. We publish our tax payments annually and copies of our tax transparency reports are freely available on the INPEX Australia website.

Importantly, INPEX has significant growth aspirations in Australia that could total many billions of dollars, with the potential grow the economy significantly as Ichthys LNG has done to the Northern Territory including improving productivity and reducing carbon intensity on existing operations, as well as expand upon its rapidly growing renewables portfolio.

This is demonstrated in INPEX's corporate [Vision 2035](#), where we aim to increase our business substantially, including plans for future development at Ichthys LNG to maintain production and a potential expansion option to build a third LNG train. As Operator of the Bonaparte CCS project, this investment forms part of this strategy, with the integration of CCS into our LNG projects, providing important greenhouse gas reductions domestically and potentially internationally to help meet the Government's emissions reduction targets. The capital spend would result in a significant capital deepening in Australia.

It is against these growth plans that INPEX assesses the PC recommendations.

With regards to the two main areas covered by the Report, INPEX has no significant comments in addition to those made by the PC in the section titled '*Regulating to promote business dynamism*.' INPEX confirms regulation costs are increasing significantly, and more concerningly are often a duplication on already existing regulations, which has the impact of imposing costs and time delays for minimal community benefit to both industry and government. In the case of CCS project investment for Ichthys LNG, this has already delayed by more than one year due to Environmental Permit (EP) issues and the requirement to have 125 approvals across Commonwealth and Northern Territory Government agencies. It is clear material duplication exists in environmental and operational regulatory requirements, however we note significant duplication in corporate reporting as well.

One of the most obvious corporate reporting examples is that there is a need for INPEX – a Top 100 taxpayer in Australia – to notify Australia's Foreign Investment Review Board in writing each year that we have complied with taxation requirements in Australia. Put simply, there is now regulation imposed where we must notify one regulator that we complied with the requirements of another.

Other submissions will cover the regulatory environment in more detail and as such, INPEX wishes to focus its comments on the Report to the first section titled '*Corporate tax reform to spur business investment*' and specifically on the Net Cash Flow Tax (NCFT) recommendation.

### **Comments on the NCFT Proposal**

INPEX has had the benefit of reviewing the detailed submissions from the Business Council of Australia (BCA), the Corporate Tax Association (CTA) and Australian Energy Producers (AEP). These outline a significant number of concerns which are consistent across the large business market (i.e. not sectoral specific). INPEX agrees with the comments in the submissions and adds only the following for context.

INPEX's major investment decisions globally are driven by Net Present Value (NPV) and Internal Rate of Return (IRR) calculations. For investment decisions to be taken, the projects must meet the required hurdle rate, which is correctly identified by the PC in its assumptions on investment decision making.

For the avoidance of doubt, INPEX is not advocating for a corporate tax rate cut. It has consistently stated that long term investment decisions need fiscal stability. Large investment decisions, particularly the ones that grow the GDP of Australia, and the GSP of various States and Territories such as Ichthys LNG did, are made on a forty

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<sup>3</sup> The Quorn Park Solar Hybrid Project (hybrid as it includes BESS) is currently under construction. Additionally, there are a further six projects under development including Mologa Solar Hybrid project, and the Harrogate, Ridgey Creek, Blanche, Capricorn and Emeroo BESS projects.

year timeframe, not a five year one. Project Financing was the only way the Ichthys LNG Project could proceed. Put simply, there was not enough equity that could have been raised to fund this Project.

What is proposed for large business under the PC NCFT proposal is a tax increase and a significant one. A NCFT is not a 5% equivalent increase in the corporate tax rate given it is not calculated the same where it denies financing related expenditures and depreciation on existing assets (should no transitional provisions be provided for previous spend). The Effective Tax Rate (**ETR**) will vary year by year, but for large, capital intensive industries, where financing is required, it will be higher than the 5% headline rate.

Some general comments are as follows:

- INPEX makes its investment decisions based on the entire legislative environment. There are so many legislative changes that have occurred and are proposed to occur, that there is now a real difficulty in making these investment decisions particularly for long term projects.

The process seen to date is that each one of these changes is modelled independently by those proposing the change and each change, by and of itself, may not appear to be significant. However, the cumulative impact of these changes is significant. INPEX, and business in general, models all changes as part of the decision making process.

The higher political and regulatory risk will inevitably drive multinational capital to more stable jurisdictions, undermining Australia's competitiveness for large-scale investment.

- The competitiveness and reputation of Australia as a long-term stable LNG producer is critical, and ongoing legislative changes are putting this at risk. LNG exports attribute a significant economic contribution to the Australian economy with LNG export earnings of AUD \$92b in FY2022-23. Australia's long-term LNG contracts with Asian LNG buyers are due to expire from around 2030, at the same time competitive LNG projects come online, including the US and Qatar. It is therefore critical that the Australian LNG projects maintain and enhance their competitiveness against these rival LNG projects and jurisdictions.

Importantly, we note that foreign customers, whether in the LNG sector or not, would look at continually evolving legislative factors in Australia, and whether that may impact the ability for future supply requirements to be fulfilled from those suppliers.

- The foundation of Australia's LNG industry and infrastructure rests upon a significant investment by international oil and gas companies (**IOCs**) and long-term contracts with regional consumers. Between 2010 and 2023, the cumulative investment in Australia's oil and gas sector exceeded \$414b.

Oil and gas investment decisions, particularly of the mega-project scale developed in Australia, are often considered over decades. Australia's success to date in attracting investment in LNG developments has been supported by a comparatively stable policy and regulatory environment which underpinned the significant long-term investments by IOCs and the long-term contract commitments by regional LNG buyers.

A series of unfavourable changes to the regulatory, fiscal and legal regimes are damaging Australia's investment reputation and the proposed NCFT will only serve to further damage the reputation, leading to the opposite of the PC's main objective of capital deepening and its associated productivity growth.

- The NCFT will damage IRR and NPV's for large enterprises and investment decision making will become more difficult in Australia. It is, as mentioned, significant and not minor, but also just one more of many adverse cost impacts on projects, making investment decision for Australian projects more difficult. If large companies do not invest in Australia, or instead invest overseas, then it is highly likely the PC's estimates for GDP growth from implementing a NCFT regime will not be met.

From an INPEX sole perspective, the introduction of a NCFT makes the growth opportunities aligned with INPEX's 'Vision 2035' very challenging and at serious risk of not being developed. These include the multi-billion dollar investments associated with our back-fill and expansion developments at the Ichthys LNG Project and the Bonaparte CCS Project.

- INPEX awards operating contracts in Australia as part of decision making on new major investments. If it does not invest in Australia, then these contracts do not exist. This would be consistent with other companies. There is a real risk that these contracts form the basis of a not insignificant portion of the capital

expenditure referred to in the PC report as spent by those entities with less than \$1b in turnover<sup>4</sup>. If these contracts are not awarded, then it is highly likely the PCs estimates for GDP growth will not be met.

- The current global environment is unstable. Significant changes such as that proposed by a NCFT add more regulatory uncertainty. The likely outcome of uncertainty is a slowing down of investment decisions so that companies can properly assess the broader investment environment in full. That is, simply raising a change as wholesale as a NCFT will slow down, not speed up, investment decision making.
- Upstream oil and gas entities are already subject to one form of rent tax in the Petroleum Resource Rent Tax (**PRRT**). For transparency, INPEX will pay PRRT from 1 July 2026, under the 'deductions cap' legislation, bringing forward expected PRRT payments by nearly a decade. Minerals companies pay royalties already. Subjecting both types of entities to a NCFT on top of the existing measures would take taxation to extremely high levels<sup>1</sup> and further slowdown the very large project investments made into Australia by these entities.

There is an economic resource efficiency problem in extractive industries that will emerge using multiple sets of rent taxes whereby at some point in the future, it becomes uneconomic to recover the resources because of the rent take (as this is more akin to an operating cost than a corporate tax), and productive fields end life earlier and with resources still in the ground that would otherwise have been recovered, sold and taxes paid to the government. This is directly contradicting the goal of enhancing productivity in Australia.

- There seems to be a view that debt is 'bad' to investment due to taxpayers being able to get a deduction for it for income tax purposes, whilst no deduction exists for equity investment. This seems to ignore the point that without the debt, the investments may not occur in the first place and capital deepening would not occur. This was directly the case with the Ichthys LNG Project, where it simply would not have proceeded without Project Financing. On this point:
  - In terms of assessing project values, a higher debt ratio (compared to equity) combined with deductibility of any interest component, both have the impact of improving project economics for assessing investments.
  - Using debt for large, capital intensive projects enables the cost of investment to be spread over the period of use of the asset making it easier to reach investment hurdle rates. This is consistent with how the government invests in long term public assets.
  - Using financing improves the leveraged equity IRR over conventional IRR calculations, helping make investment decisions easier at a group level.
  - In the case of Project Financing or limited recourse debt financing, this enables more investments to be undertaken as the equity commitment a company can make can be spread into multiple projects.
  - The NCFT will most likely have the impact of making finance more difficult for all companies as it is a new burden to factor in at a variable rate. In Project Financing, which is extensively used for funding renewable energy projects, having an additional factor in your cashflow waterfall will make these projects more difficult to develop, not less.
  - There are significant anti-avoidance rules in Australia to ensure excessive debt is not used and that it is priced correctly for income tax purposes.
- The proposed carry forward uplift rate is not comparable to those used by investors. Investors cannot fund projects at the 10 year Government Bond Rate (between 4% - 5%).
- It remains to be seen whether this measure would result in significant structuring by smaller entities for project development. The step change from less than \$1b in revenue, to over \$1b in revenue, would be a material increase in the ETR of a company. Demergers may be a likely outcome to protect shareholder value as a company with multiple business lines nears the \$1b in revenue. There is also likely to be an impact on the Mergers & Acquisitions market where a taxpayer would have to assess whether to combine and get larger than the \$1b in revenue which will automatically result in a materially larger tax burden, offsetting potential merger synergies. It also remains to be seen whether the proposal by the PC would actually result

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<sup>4</sup> Referring to studies by *Dynan 2021*, page 14 of the Report.

in lower imposts on distributions from discretionary trusts given it does not appear to limit the scope of the corporate tax rate reduction the same way the Base Rate entity rules currently operate.

- There are significant administration issues that need to be considered:
  - The ATO does not hold cash flow information from existing filings. New and extensive filings would be required adding to the regulatory burden, not subtracting from it, as the PC proposes in the second area of the Report.
  - If a starting base is to be provided for historical carried forward capital expenditure, there will likely be significant legal disputes (if market valuations are required) or issues if existing accounting registers are used, which may not reflect the actual base of expenditure (i.e. due to impairments). Tax asset registers often have different useful lives than accounting, as well as accelerated depreciation, and therefore may not be an appropriate reflection of the value of the investment either. Enormous resources will need to be dedicated to this piece of work by Treasury in drafting, and potentially on an ongoing basis by taxpayers and the ATO.
  - The flow through to dividend imputation needs to be considered, as this will impact the IRR for superannuation funds, infrastructure investors, etc. This pool of investors are considered critical to renewable energy developments in Australia.
  - There are major accounting considerations of a new tax proposal like this. Most concerningly, projects with small impairment headroom will need to reassess whether the assets are now impaired, which impacts the rates of return and carrying value of investments as well as profit and loss outcomes. Deferred tax balances will all need to be restated with potentially significant profit and loss outcomes.
  - It is unclear how the NCFT will impact with Double Tax Agreements and the OECD BEPS Project to impose minimum taxation requirements globally.
  - It is highly likely the NCFT will have material impacts on the new thin capitalisation rules implemented recently given the NCFT will go to EBITDA, such that a double up impact arises through income tax.

#### ✚ **Alternate Options for Productivity Gains within the tax system**

Australia is a high cost location for businesses because, rightly, it has prioritised the living standards of its citizens. The attraction of foreign capital, such as the billions of dollars invested by INPEX, helps to increase the capital deepening and living standards. Against this background, the focus then becomes how does Australia remain competitive without damaging these living standards.

Regulatory reform, that results in the speeding up of decision making (either for or against) and removing unnecessary regulation, helps minimise holding costs during project assessments. This has the main benefit of reducing costs overall for both industry and government, but also brings forward the timing of revenues from the investment, which increase the IRR / NPV of the investments. This is rightly identified as a major area which will help productivity and should be prioritised.

If the PC is looking at capital deepening, instead of redistribution of existing returns to try to stimulate investment, then the focus needs to be on what will help improve new project NPV and IRRs as a whole.

Whilst a corporate tax cut does have that impact, it is also accepted that it has the impact of reducing the tax payable on existing investments. As such, putting a corporate tax cut to one side, with regards to capital deepening, the question becomes could policy measures help to increase project IRRs and NPVs. This is why these alternate suggestions keep getting made by business:

- **Immediate write off of capital expenditure** – has the impact of reducing tax in earlier years if there is other income to offset, thereby increasing the overall IRR / NPV.
- **Deemed start date for depreciation** – Australia's corporate tax system requires something to be held installed and ready for use to commence deducting capital spend on depreciating assets. However, it is noted that some projects can spend five plus years in development, where the assets do not meet this

definition and the capital spend remains in 'Assets Under Construction' (**AUC**). Some jurisdictions allow the AUC to write off after a set period of time, irrespective of whether it is fully complete or installed for use. This helps the investment decision making as it recognises the time delay on development, resulting in improved investment ratios.

- **Statutory caps** – this is used already in Australia for some long life assets, but could be extended to other categories like renewable infrastructure, data centres, network infrastructure etc. This has the benefit of accelerating depreciation write offs to improve the NPV / IRR of the investments.

Note, for each of the three measures above, these are only timing in nature to the Federal Budget (albeit over a longer period than the five year window the PC is assessing against) which will fully reverse over time. However, as capital deepening occurs, and productivity increases, the corporate tax take would also increase, offsetting the timing cost of any change, by a permanent increase in the overall size of the tax base.

- **Harmonisation of state / territory payroll tax regimes and Fringe Benefits Tax simplification** – enables operational efficiency to be maintained, improving productivity of the business overall.
- All of the above measures help improve borrowing conditions. Accepting that borrowing is necessary for capital deepening infrastructure investment, means that financing conditions for projects should improve so that financing considerations on investments is secure enabling investments to be sanctioned more readily.

INPEX is not advocating for change, but hopes the above context helps the PC understand why these alternate measures are often suggested from business.

INPEX wants to continue to invest in Australia, but this requires a favourable investment climate. We hold significant concerns about this proposal and its impact on the attractiveness of Australia as an investment destination. We also question whether it will actually work as modelled and result in the capital deepening required to continue to maintain and improve upon the living standards of all Australians. Without stable policy settings including the tax regime, INPEX will invest its capital in other core regions such as Abu Dhabi, Southeast Asia and Norway not in Australia.

Should you wish to discuss this submission please do not hesitate to contact John Williams Government Affairs and Regulatory Approvals Manager .

Yours sincerely,

Bill Townsend  
Senior Vice President Corporate

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<sup>i</sup> Note: Norway is often quoted as a having investment whilst also having a very high tax rate. Investments in the Norwegian Continental Shelf (**NCT**) do have a very high resource tax rate (cumulatively 78%, split 22% Corporate Income Tax (**CIT**) and an effective 56% Special Tax (**ST**) rate). However, Norway also refunds cash on spend for exploration and development and other losses incurred under the ST regime. It also allows immediate expensing for investments in the NCT under the ST regime, and a six-year straight line write off for CIT purposes. It de-risks all oil & gas projects by cashing out the losses and allowing very short effective lives, but in exchange gets the higher share of project returns. The combined effect of the regime means investors will be able to recover a minimum of 78% of their investment and as such, investment can still occur.

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Qatar, another country often used when comparing the tax take on hydrocarbon projects is also fundamentally different to Australia, where the field sizes are significantly larger, predominantly onshore, and near established infrastructure. Additionally, the HSE and labour market both differ materially from Australia.

These factors for both countries materially differ from Australia and de-risk the investment for any investor such that investment hurdles can be met, despite the higher share of government take.

