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There are a couple of simple tests that should be applied to the Government's plan for a new super tax on the minerals sector. What is the problem that the new tax is trying to fix? Will it harm or hinder investment, jobs and growth in the sector that kept Australia out of recession and underpinned economic growth over the last decade? And is there a better way?

Let's test the 5 key propositions underpinning the Government's case for a super tax on the resources sector against these criteria.

First, the Government argues that current arrangements – 6 different State and Territory-based royalty regimes - are unwieldy and inefficient. But will the new tax streamline these arrangements? Actually no. The states will still operate their own schemes (with the Canberra rebating this impost from its new super tax back to companies). So a mining company operating in several states will still pay royalties to these states *as well as* the complexity of working through the new federal resource tax. This is reform? And what is the incentive for state governments to restrain themselves from new royalty hikes? None.

Second, the Government claims that the new super tax will ensure that the community gets a fair share of the dividend from the mining expansion. Citigroup analysts wrote last week that 'Australian royalties/taxes are already some of the highest in the world'. And this new super tax will make us the undisputed world champion on mining taxes. Of course, the Government claims that it missed out on \$35 billion in revenue over the last decade. The facts tell a different story, but don't take my word for it. The Prime Minister, Kevin Rudd wrote last year that the mining boom had boosted Commonwealth revenues by \$334 billion since 2004-5. That's the equivalent of a GFC-style stimulus package every year for the last 5 years. The Treasurer, Wayne Swan told the National Press Club a few months ago that it had been 'raining gold bars' as a result of the minerals boom. Until yesterday, the Finance Minister, Lindsay Tanner spoke frequently about the 'surge of revenue' into government coffers as a result of higher commodity prices.

The simple fact is that existing arrangements *have* delivered a big dividend for the Australian community. That is plain from the fact that the mining sector accounts for almost 18 per cent of corporate tax revenues despite accounting for about 8 per cent of the economy. And the Tax Office's own data, the average tax take from mining is 13 per cent higher than the all-industry average. We have a two-speed tax system and the mining sector is already in the fast lane.

Third, the Government has decided – for the mining industry alone – that any profit higher than a 6 per cent return (the long-term government bond rate) is a 'super' profit and will attract the new 40 per cent super tax. Think about that. Any dollar that a mining company earns that is higher than if it had lent the money to the government is a super profit. How will that promote investment in inherently risky mining projects? One investment house, MF Global, wrote last week that with the tax charge on mining likely to increase 'investors might want to diversify their holdings away from highly Australia-exposed stocks'.

Fourth, the Government claims that a new tax of tens of billions of dollars on the minerals sector will actually boost investment, jobs and growth in the sector. There are two critical issues here. First,

the Government plans to apply this new tax to existing mines. In other words, the rules applying to hundreds of billions of dollars of long-standing investments will change overnight (and dramatically). The value of projects will be summarily slashed. Leaving aside the grave risks to Australia's reputation as a safe place to invest, the trials, tribulations and working out the liability of 500 existing operations will be highly problematic. It is clear that the only sector earning super-profits in the post-Henry era will be the tax accountants. And you thought the main purpose of tax reform was to simplify the tax system.

Then there is the question of the \$108 billion of minerals projects under feasibility study or awaiting a final investment decision. The inevitable consequence is that many of these projects will be reviewed. Lower growth, fewer jobs, reduced investment. The burden will fall heaviest on regional Australia, where one in four jobs depends on exports. But the impact will be wider. Just as the benefits of the mining boom spread through the Australian economy, so will the consequences of a self-induced slowing of the sector. The beneficiary will be projects abroad. And there are plenty of other options – Australia accounts for less than 10 per cent of global consumption in most of the key commodities. Investment capital will look elsewhere with a keener eye - Australia will be the only nation in the world with a super tax on mining projects. It is worth noting in this context that the Government cites the year 2000 as an informal benchmark for the optimal share of mining profits to royalty take. In that year, there were just 3 major mining projects underway.

Finally there is the proposition that the mining tax grab should fund corporate tax cuts, infrastructure provision and changes to superannuation. The Government argues that – in defiance of economic logic - the a new multi-billion dollar annual mining tax will actually *increase* mining output and therefore increase tax collections which can then fund other commitments and promises. But the more likely outcome – projects deferred, lower growth, and a new enthusiasm for off-shore investment – will mean that the revenue gains from the new tax could be much, much lower than the Government anticipates. Locking in future spending on a gamble on future commodity prices is an interesting approach.

None of the above should be interpreted as a refusal on the part of the minerals sector to play a constructive role in resource tax reform. We have been saying for months that current arrangements can be improved. But key features of this version of reform falls well short. There is a better way, but to find that solution, the consultation process established yesterday cannot be limited to 'technical design' questions.

The Government message seems to be confused. It wants more from the mining sector while taking actions that will slow it down. The Government is tapping the brakes to slow the mining sector down and to let the rest of the economy catch up. But as American comedian George Carlin once said, when you step on the brakes your life is in your foot's hands.

ENDS.