

Senate Economics References Committee Inquiry into MRRT - Rio Tinto responses to questions on notice. 2 May 2013

1. First question from Senator Cameron (1 May 2013)

A substantial element of the Minerals Council's submission in support of the current Minerals Resource Rent Tax is the claimed economic benefits of the resource sector to the overall economic well-being of the country and that the benefits claimed ought to outweigh any consideration of real and potential costs placed on other sectors of the economy.

In this regard, I draw the attention of the Minerals Council and Rio Tinto to the recent judgement of the NSW Land and Environment Court in *Bulga Milbrodale Progress Association Inc. v Minister for Planning and Environment and Warkworth Mining Limited* [2013] NSWLEC 1948 (15 April 2013).

The judgment considered at length the claims of economic benefits predicted by modelling and cost-benefit analyses made by the proponent that were consistent with the claims of more general economic benefits contained in the submissions to the current inquiry and in public discussion of the industry generally.

I would ask that you specifically consider and respond to questions arising from the following passage from Justice Preston's judgement at paragraph 459.

"I accept Dr Denniss' evidence that, to a considerable extent, employment generated from the extension of the Warkworth mine would involve currently employed skilled workers transferring from other industries, but the vacancy thereby created in the other industries may not necessarily be filled.

"I am not satisfied that the economic analysis provided on behalf of Warkworth support the conclusions urged by both Warkworth and the Minister, namely that the economic benefits of the project outweigh the environmental, social and other costs"

1. Would you advise the Committee whether the criticisms in the judgement can be equally applied to the economic predictions arising from economic modelling made by the Minerals Council in its submissions on behalf of its members to this inquiry?
2. Given the Court's criticism of the company's economic analysis in the Warkworth mine expansion case, how can the Committee be confident that the economic analysis put by the Minerals Council of Australia to the committee does not suffer from the same weaknesses and flaws exposed in the Warkworth decision?
3. How many of the jobs created in the minerals sector results in displacement of jobs in other areas of the Australian economy?
4. What proportion of job vacancies in the minerals sector are filled by new entrants to the labour market?
5. What proportion of job vacancies in the minerals sector are filled by employees who in the period immediately prior to their employment in the sector were unemployed?

Rio Tinto response:

Questions 1-2

The court judgement referred to in the questions is currently the subject of an appeal, and therefore we are unable to provide comment at this time.

Questions 3-5

Rio Tinto does not routinely gather this kind of sector-wide information.

2. Second question from Senator Cameron (asked during the hearing on 29 April)

Question:

I ask the companies that are here if they agree with the Minerals Council's submission that any moves to further increase the tax burden through changing the design of the MRRT—I will cut to the chase—would undercut the very foundations of modern Australian prosperity? If you agree with that, could you give us details on how any modest changes or modest increases would undercut the very foundations of modern Australian prosperity?

Rio Tinto response:

Rio Tinto supports the submission made by the Minerals Council of Australia. As confirmed by the work of the Reserve Bank of Australia and others, the contribution of mining to Australian economic prosperity is significant. We are entering a period in which the success of the sector will depend more on volume share than the price increases of recent times. Production and project delivery costs in Australia have risen substantially in recent years. So higher costs, lower prices and the exchange rate are now challenging the competitiveness of Australian producers. The sector is also facing a volatile global economic environment which has a direct impact on prices and investor confidence. Ongoing uncertainty around the taxation regime, let alone an actual increase in taxation, will discourage investment decisions and/or reduce profitability. This will inevitably flow through to growth, jobs and government revenue.

2. Third question from Senator Cameron

Question:

On the spreading the benefits of the boom issue, I think it was BHP—though I cannot find it right now—indicated that there was some significant amount of money spent on Australian goods and services. I think Mr Hooke said that 88 per cent of goods and services from your industry were done locally. Could each of the companies here, on notice—I do not need it now—provide details of the value of the goods and services sourced in Australia compared to the value of goods and services sourced overseas? Can you delineate it from the running costs of running the mine and the building of the mine—the actual construction? You have said that is part of the reason that you are such good corporate employers. I would just like to understand exactly how it works. Is that a problem for any of you?

Rio Tinto response:

Rio Tinto will require additional time to update its data in order to answer this question and will provide a response at a later date.

3. Question from Senator Milne

Question:

I just want to put this on notice, and it follows BHP's contribution to this issue of what was understood by the term 'all royalties' in a heads of agreement document. What I want to ask all three mining companies to respond in writing to is this: was there an explicit discussion with Treasury and Prime Minister Gillard and Ministers Swan and Ferguson—all three of them or individually—as to the definition of 'all royalties' and was it made clear that the understanding was it did not encompass all future royalty increases? So was there an explicit discussion and, if so, was it explicit with both the ministers and Treasury?

Rio Tinto response:

From the announcement of the RSPT to the signing of the MRRT agreement, there were numerous discussions about most aspects including royalties. These discussions at various times involved ministers, ministerial staff and Treasury officials. The MRRT Heads of Agreement specified that all royalties would be included. If the intention had been that royalties would be capped in some way, this would have been made explicit in the Heads of Agreement. Treasury officials were aware of the wording. There was no uncertainty among the mining companies that the reference to all royalties meant just that. This was a fundamental principle and the Heads of Agreement would not have been signed without this element.