Chapter 2

The mining boom and the MRRT

The economic environment

2.1 The Minerals Resource Rent Tax (MRRT) package must be considered in the context of both the current and the developing economic environment. At present the Australian economy is strong. It has been able to ride out the global financial crisis and stands in a stronger position to face the future than many of its competitors in the developed world.

2.2 A significant factor in Australia's recent economic success has been the huge increase in demand for certain resources from key emerging economies, such as China and India. As a result of Australia's geographic location and vast endowment of resources, Australia has seen, and will continue to see, a boom in its mining sector which will have positive carry over effects on other sectors in the economy. However, the surge in the mining sector is creating challenging conditions for many other sectors and is accelerating the structural transformation of the economy.

2.3 A report prepared for the ANZ Bank by Port Jackson Partners looked at the current economic environment and described the current global situation:

> The shift of economic growth from the developed to the developing world is unleashing extraordinary forces in the global economy. Huge low-income populations across the developing world are demanding more basic necessities: minerals, energy, food and fibre. In particular, commodities such as iron ore, copper, coal, aluminium, gas, grain, protein and fibre are the central ingredients in the industrialisation and urbanisation of developing countries. Much of this is happening on Australia's doorstep, in China, in India and in South East Asia.[1]

2.4 It went on to highlight the opportunities for development created by the current mining boom:

> The direct export opportunity is unparalleled in Australian history. If Australia expands capacity rapidly enough, commodity export revenues could reach $480 billion in real terms by 2030, even with significant price and margin reductions across key sectors. Direct and support sector employment could double with at least 750,000 jobs created, and likely many more. Investment related employment in particular is likely to grow faster than current estimates indicate. To achieve this level of export

1 Port Jackson Partners, *Earth, Fire, Wind and Water: Economic Opportunity and the Australian Commodities Cycle*, August 2011, p. 5.

> growth, [gross] investment of around $1.8 trillion is required over the next 20 years.[2]

2.5 Similar statements concerning the opportunities created by the mining boom have been made by the Secretary to the Treasury, Dr Martin Parkinson:

> As the developing economies in the global fast lane have grown, their rapidly expanding industrial sector and the resource intensive nature of their economic development have led to remarkable benefits for Australia. These trends in the global economy are expected to be sustained into the foreseeable future.[3]

2.6 The Deputy Governor of the Reserve Bank of Australia, Dr Philip Lowe, has addressed the same issue in a recent speech:

> The investment boom in the resources sector, which the RBA has been discussing for some time, is clearly well underway. Over the past year, business investment has risen by around 20 per cent and there is more to come. Given the plans that have already been announced, the RBA is expecting double digit increases in business investment in each of the next couple of years.
>
> ... It is not an exaggeration to say that this is a once-in-a-century investment boom. It is, of course, occurring at a time when the terms of trade are also at a very high level, with the industrialisation and urbanisation of Asia supporting commodity prices and putting downward pressure on the prices of manufactured goods. This boom is having positive spill-over effects to a number of industries, with some of these effects being direct and others being indirect.[4]

2.7 While the mining boom has a number of clear benefits for the Australian economy, there are consequential effects which can have both positive and negative outcomes. One effect is the high terms of trade associated with the mining boom, which, along with other factors, has led to a dramatic appreciation of the exchange rate. As shown by Figure 2.1, the exchange rate of Australia's dollar is now at post-float highs.

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2 Port Jackson Partners, *Earth, Fire, Wind and Water: Economic Opportunity and the Australian Commodities Cycle*, August 2011, p. 5 (footnotes omitted).

3 Dr Martin Parkinson, Secretary to the Treasury, 'The implications of global economic transformations for Australia', *Treasury Economic Roundup*, issue 4, 2011, p. 29.

4 Dr Philip Lowe, Deputy Governor, Reserve Bank of Australia, 'The Forces Shaping the Economy Over 2012', address to the Committee for Economic Development of Australia, 16 February 2012, www.rba.gov.au/speeches/2012/pdf/sp-dg-160212.pdf, pp 5-6 (accessed 24 February 2012).

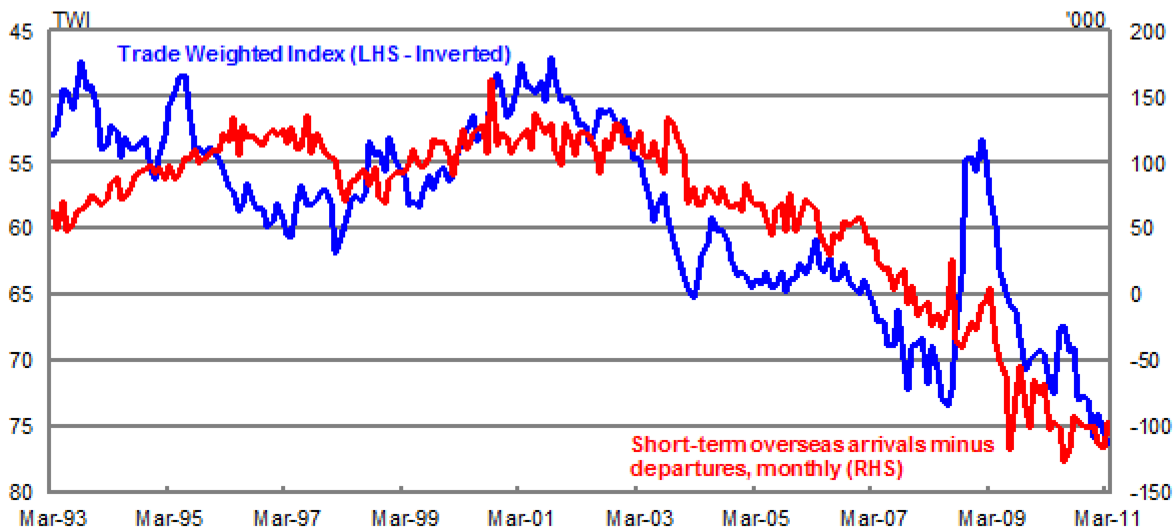
Figure 2.1: Australian dollar trade weighted index

Note: May 1970 = 100 for nominal; real indexed to equate post-float averages.

Source: Reserve Bank of Australia, February 2012; based on RBA, Thomson Reuters and WM/Reuters data.

2.8 While this is of likely benefit to consumers—as Australia is a net importer of manufactured goods it will lead to lower prices for these goods—it is a significant challenge for trade-exposed industries such as manufacturing, tourism and education services. The impact that a sustained high exchange rate could have on tourism in particular is striking. Figure 2.2 demonstrates the clear and responsive relationship between the exchange rate and short-term international arrivals in Australia.

Figure 2.2: Tourism and the trade weighted index



Source: Dr Martin Parkinson, Secretary to the Treasury, 'Opportunities, challenges and implications for policy', *Annual post-Budget Address to the Australian Business Economists*, Sydney, 17 March 2011, www.treasury.gov.au/documents/2036/HTML/docshell.asp?URL=martin_parkinson_20110517.htm (accessed 25 February 2012).

2.9 Another consequence many industries have to address is the gravitation of many workers towards the mining industry. The committee received evidence on some of the direct effects the mining boom was having on the labour market; for example, the National Farmers' Federation outlined some specific cases to demonstrate how parts of the agricultural sector have been affected:

> CHAIR: Apart from management, highly skilled labour and labour that requires mechanical or technical qualifications—leaving them aside, because I suspect that their wages are driven by the market—are your members complaining yet that they are having to pay above-award wages to attract and retain labour?
>
> Mr McKillop: Certainly even the unskilled and semiskilled workers, where they can, are being attracted into the mining industry. Someone who sits on a tractor out in western New South Wales at $25 an hour can go into the mining industry at something like double that rate.
>
> CHAIR: I am increasingly told—and my colleagues from Western Australia will confirm this in due course, I suspect—that a lot of the farm labour in the south of that state, in regional Western Australia, which is fairly rich agricultural land, is increasingly doing three-, six- and nine-month stints up north and using the income to build assets on their property down south. Are you aware of that development?
>
> Mr McKillop: Yes. We certainly had that with a number of people we employed in the business I was running before. We had cotton operations out of Burke, and they would disappear off to Cobar to the mines. Personally, again, I was on the board of Harvey Beef in Western Australia for a number of years, and we had the highest paid slaughtermen and boners and slicers anywhere in Australia, simply because if we did not they went down the road to the mines and smelters.[5]

2.10 While the mining boom may have a multiplier effect on employment in small, isolated communities, any other job creation effects associated with mining are limited. As Treasury identified:

> … in a well-functioning economy like ours, with unemployment close to its lowest sustainable rate, it is not the case that individual industries can create jobs; they are simply redistributing them.[6]

2.11 Related to the transformation the economy is experiencing is what has been described alternatively as the two-speed, multi-speed or patchwork economy—all of which are characterisations intended to highlight that while the mining sector is experiencing record growth and investment, other sectors are struggling. There are many indicators of a patchwork economy; one telling statistic is that mining profits

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5 Mr John McKillop, Chair, NFF Economics Committee, National Farmers' Federation, *Committee Hansard*, 22 February 2012, p. 49.

6 Dr David Gruen, Executive Director, Macroeconomic Group (Domestic), Department of the Treasury, *Proof Committee Hansard*, Additional Estimates 2011–12, 16 February 2012, p. 17.

grew by around 60 per cent in 2010 while over the same period non-mining profits declined slightly.[7]

2.12 In a market-based economy, the government's role in responding to such developments is necessarily limited. Further reform to taxation arrangements, however, is one appropriate response. As profits in the mining sector are based on non-renewable resources that are owned by various governments, on behalf of the community, the question arises as to whether the community as a whole is receiving an adequate return from the exploitation of those resources. The mining boom is a unique opportunity for the Australian economy, and it is important to ensure that some of the benefits from it help address the long-term challenges facing the economy, rather than being wasted.

Why a resource rent tax?

2.13 It is well known that the MRRT has its origins in the Australia's Future Tax System Review (the AFTS Review, also known as the Henry Review). In summary, the final report of the AFTS Review outlined an argument for introducing a resource rent tax, based on the following rationale:

- Australia's non-renewable mineral resources are owned by the Australian people, through the Commonwealth and state governments;
- the community should seek an appropriate return for the exploitation of those resources by private companies; and
- the most appropriate form of obtaining that return is through a rent resource tax.[8]

2.14 The AFTS Review argued that Australia is underpricing its resources as the current taxation arrangements 'fail to collect a sufficient return for the community because they are unresponsive to changes in profits'.[9] Figure 2.3, taken from the 2011–12 Budget papers, supports the AFTS Review's conclusion.

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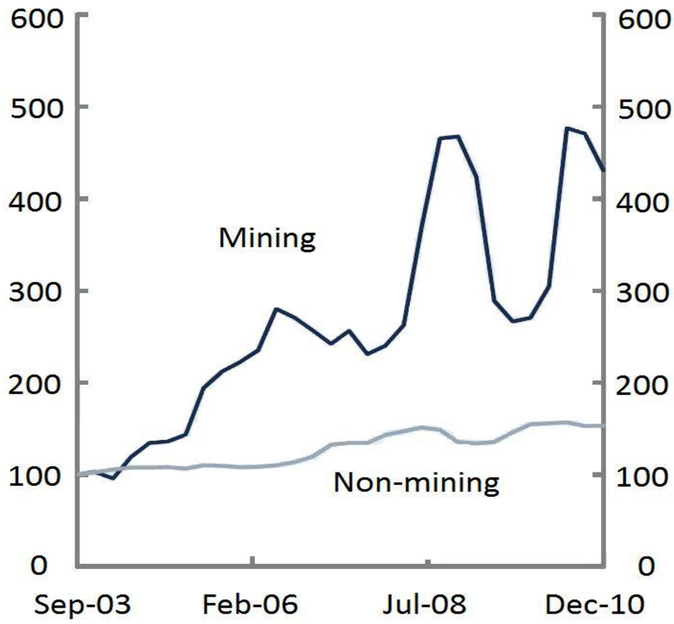
7 Australian Government, *2011–12 Budget – Budget Paper No. 1*, statement 5, p. 14.

8 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 217.

9 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 217.

Figure 2.3: Business profits



Notes: Index (September 2003 = 100)

Source: Australian Government, *2011–12 Budget – Budget Paper No. 1*, Statement 2, p. 23; based on ABS cat. 5676.0 and Treasury data.

2.15 A resource rent tax is based on the concept of economic rent. According to economic theory, an economic rent is the excess of the return to either labour, capital, land or enterprise above the amount that is required to sustain the current use of the factor (or to entice the use of the factor).[10] In the resources sector, rents can exist where the revenue from the sale of the resources exceeds the cost of exploration, the cost of extraction and an appropriate rate of return. The AFTS Review observed:

> In most other sectors of the economy, the existence of economic rents would attract new firms, increasing supply and decreasing prices and reducing the value of the rent. However, economic rents can persist in the resource sector because of the finite supply of non-renewable resources. These rents are referred to as resource rent.[11]

2.16 The nature of economic rents throughout the resource sector can differ. Differences between low cost mines and marginal mines can be characterised by large and rich endowments of the desired mineral, the nature of the mining operation (such as whether its open-cut or underground) and other factors such as the mine's geographic location and its access to infrastructure with sufficient capacity.[12]

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10 Australia's Future Tax System Review, *Report to the Treasurer*, overview, December 2009, pp. 171–72.

11 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 218.

12 Professors John Freebairn and John Quiggin, 'Special Taxation of the Mining Industry', *Economic Papers*, vol. 29, no. 4, December 2010, p. 385.

2.17 In theory, economic rents from mining can be taxed with few distorting effects on the extraction and use of the minerals. The AFTS Review contrasted its proposed resource rent tax to royalty regimes, while making it clear that a resource rent tax will not be a completely neutral tax:

> A well-designed rent-based resource tax is *less likely* to distort investment and production decisions [than an income-based tax or an output-based royalty]. This is because rent-based taxes do not apply to the normal rate of return to investment in projects. The government achieves this by effectively contributing to costs at the same rate as it shares in receipts from resource production.[13] [emphasis added]
>
> The current resource charging arrangements, and associated mechanisms for allocating exploration permits, distort investment and production decisions and thereby lower the return to the community. Under output-based royalties, firms are likely to invest and produce less than they otherwise would. The calculation of such royalties does not take production costs into account. This leads to less exploration, lower industry output and earlier closure of projects. In addition, some investments may not be undertaken due to higher sovereign risk—specifically the risk of governments making ad hoc adjustments to royalty rates in response to changes in profitability.[14]

2.18 The AFTS Review went on to state that, in addition to the relative lack of distorting effects, a resource rent tax is the most appropriate form of taxation of economic rents for the following reasons:

> For non-renewable resources that are expected to generate significant amounts of economic rent, a rent-based tax is the most suitable charging mechanism, as the potential economic efficiency and revenue gains are likely to outweigh the higher administration and compliance costs of this tax compared with output-based royalties and income-based taxes.
>
> For non-renewable resources expected to generate low rent and where the administration and compliance costs are likely to outweigh the potential efficiency and revenue gains from a rent-based tax, output-based royalties may be an appropriate charging mechanism.[15]

2.19 Noted research economist Professor John Quiggin of the University of Queensland similarly argued that rent-based taxes are optimal compared to fixed-rate royalties, as they only tax excess returns from projects where profits are greater than the normal return to capital, whereas royalties act to 'discourage marginal projects'.[16]

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13 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 222.

14 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 229.

15 Australia's Future Tax System Review, *Report to the Treasurer*, part 2: detailed analysis, vol 1, December 2009, p. 225.

16 Professor John Quiggin, *Submission 32*, p. 3.

Criticism of a resource rent tax

2.20 Resource rent taxes have been criticised on the basis that they are purported to be more efficient than other taxation regimes and have few distorting effects on the economy. The Institute of Public Affairs (IPA) contended that:

> … the ability to extract resources is contingent upon entrepreneurs absorbing the costs of mineral exploration and development at their own risk. No mining tax is completely neutral in its economic effects, and attempts to tax rents will reduce entrepreneurship and innovation in the sector.[17]

2.21 Fortescue Metals Group (Fortescue) also argued about the relative efficiency of resource rent taxes and royalty schemes. Fortescue accepts that the royalty regime 'is not, in theory, a particularly efficient form of taxation'. However, it argued that the current regime has not impacted the level of production in the mining industry. Contrasting the effect it believes a resource rent tax will have on existing projects with the impact of the current royalty system, Fortescue argued that the only activities deterred by royalties are those:

> … that create so little added value that they cannot cover the required royalty payments that are the ones that are deterred. New projects that are deterred by the effect of being required to make royalty payments do not result in the resource being lost or deteriorating in any way – the resources remains in the ground until such time as more favourable conditions eventuate that justify their development; existing projects on the other hand cease to chase marginal ore where rising costs overtake the expected revenue generated.[18]

2.22 In its evidence to the committee, Fortescue continued to argue that alternative methods of taxation would have simplicity benefits and be less distorting for the industry:

> Senator LUDLAM: Do you think there is some way of designing a resource rent tax that is neutral?
>
> Mr Tapp: In terms of the complexity and everything else, I just do not understand why there was not some form of variable royalty regime or some income tax surcharge for resource companies. It would be administratively easy, and if you were just trying to get more money from mining to spread for good causes then why not use the existing mechanism? Why come up with something that is incredibly complex and is a completely new distorting tax?[19]

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17 Institute of Public Affairs, *Submission 12*, p. 3.

18 Fortescue Metals Group Ltd, *Submission 26*, p. 5.

19 Mr Julian Tapp, Director, Strategy, Fortescue Metals Group, *Proof Committee Hansard*, 21 February 2012, p. 45.

2.23 Dr Alan Moran from the IPA outlined his concerns with attempts to tax economic rents:

> It is very, very difficult to pinpoint an example of when we have an economic rent. We certainly have examples of firms earning high profits, but these are normally called quasi rents in the economic profession. If you tax them they have adverse secondary effects. You can certainly heavily tax a firm which has found—luckily or by skill—a good find and makes a lot of money, and that tax might not have any adverse effects in terms of that firm's behaviour, but it would certainly have clear adverse effects and the additional tax would be factored into investors' plans.[20]

2.24 While critical of taxing economic rent, Dr Moran did acknowledge the benefits of a profits-based system of taxation compared to one based on the level of production:

> If we were starting on royalties anew, I would suggest that royalties placed on a profit basis are better than on an output basis. They are both taxes. One is based on profits and one is based on output. There is a case against it, but the conventional view, which I subscribe to, is that is the way that we should impose these taxes.[21]

The Minerals Resource Rent Tax package

2.25 On 2 November 2011 the government introduced into Parliament the five bills that make up the Minerals Resource Rent Tax package:[22]

- Minerals Resource Rent Tax Bill 2011 (the MRRT Bill);
- Minerals Resource Rent Tax (Consequential Amendments and Transitional Provisions) Bill 2011;
- Minerals Resource Rent Tax (Imposition—Customs) Bill 2011;
- Minerals Resource Rent Tax (Imposition—Excise) Bill 2011; and
- Minerals Resource Rent Tax (Imposition—General) Bill 2011

(collectively, the MRRT Bills).

2.26 The government's reasons for the introduction of the MRRT were set out by the then Assistant Treasurer, the Hon. Bill Shorten MP, in his second reading speech on the MRRT Bill:

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20 Dr Alan Moran, Director, Deregulation Unit, Institute of Public Affairs, *Proof Committee Hansard*, 21 February 2012, p. 13.

21 Dr Alan Moran, Director, Deregulation Unit, Institute of Public Affairs, *Proof Committee Hansard*, 21 February 2012, p. 21.

22 As outlined in chapter 1, six other bills were introduced at the same time as part of the overall MRRT package.

> Australia is experiencing an unprecedented boom in our resources sector which has delivered record profits to mining companies year after year.
>
> Mining profits have jumped 262 per cent in the last decade. Along with the coal and the iron ore, a large share of these profits are also shipped off overseas.
>
> The current arrangements fail to provide an appropriate return for these non-renewable resources to the Australian community, who owns the resources 100 per cent.
>
> Royalties just don't keep up with the booming profits of our mining companies.
>
> Royalties often take a flat amount of revenues or production regardless of profitability.
>
> Taxes on profit mean the higher your profit, the more tax you pay.
>
> Taxes on mining profit are better for the nation and the mining industry.
>
> Taxes on profit return more to the nation when times are good, but they also relieve the tax burden on the industry when times are bad. Taxes on profit automatically relieve struggling mines and their communities of tax when times are tough, unlike royalties.[23]

The development of the Minerals Resource Rent Tax legislative package

2.27 The first version of a resource rent tax was the Resources Super Profits Tax (RSPT), announced by the government in May 2010 as part of its response to the AFTS Review. The key design features of the RSPT were:

- a rate of 40 per cent;
- it applied to all non-renewable resources;
- losses could be transferred to other projects or carried forward;
- it was an allowable deduction for income tax purposes;
- existing state and territory royalty schemes would remain in place, however, tax payers would receive a rebate for royalty payments. The unused portion of the rebate could be refunded or transferred;
- approximately 2,500 companies would be affected by it.

2.28 The government ultimately decided not to pursue the RSPT. Instead, it entered into a period of consultation with representatives of Australia's largest mining companies—BHP Billiton, Rio Tinto Australia and Xstrata Coal—to refine the design of the tax and negotiate on the objections to the RSPT that were raised.

2.29 On 1 July 2010 the government and the mining companies entered into a heads of agreement that set out the key principles of the MRRT.

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23 *House of Representatives Hansard*, 2 November 2011, p. 12412.

2.30 To inform the design of the MRRT, the government then engaged in a process of extensive consultation with other stakeholders through its Policy Transition Group (PTG), a panel jointly led by the Hon. Martin Ferguson AM MP, Minister for Resources and Energy, and Mr Don Argus AC, formed to advise on the technical design of the MRRT. In December 2010 the PTG released its 94 recommendations on the proposed taxation arrangements, all of which were accepted by the government. The design of the MRRT Bills was based on those recommendations.

2.31 The drafting of the MRRT Bills themselves was informed by the Resource Tax Implementation Group (RTIG) which was set up following the PTG. The RTIG was made up of representatives of the industry, tax experts, Treasury, the Australian Tax Office and the Department of Resources, Energy and Tourism.

2.32 On 10 June 2011, an exposure draft of the MRRT Bill and the Explanatory Memorandum was made available for public comment. Changes to the bill were made and a second exposure draft was released for further comment in September 2011.

2.33 Following this process, the MRRT Bills were introduced into Parliament on 2 November 2011. The package of bills was referred to the House of Representatives Standing Committee on Economics for inquiry. Its report was presented to the House on 21 November 2011.

2.34 This inquiry, therefore, represents the final stage of a long and thorough consultation process.

Design of the MRRT bills

2.35 The MRRT represents a revised approach to the issue of taxation of non-renewable mineral resources. The consensus from industry, even from opponents to any resource rent tax being imposed on the minerals sector, is that it represents a significant improvement on the RSPT. One key advantage the MRRT has over the RSPT is that it focuses on the most profitable resources—iron ore and coal—significantly reducing the number of companies that would be affected by the new taxation arrangements.

2.36 The main design features of the MRRT are:

- an effective rate of 22.5 per cent (30 per cent reduced by a 25 per cent extraction allowance);
- it applies to iron ore, coal and coal seam gas produced as a consequence of mining operations;
- losses can be transferred to other projects or carried forward;
- it is an allowable deduction for income tax purposes;
- existing state and territory royalty schemes would remain in place, however, tax payers would receive an allowance for royalty payments, reducing their MRRT liability by the amount of the royalty. The unused portion of the

allowance is uplifted for application in later years at the rate of the long-term bond rate plus seven per cent;

- the low profit offset, meaning that where a miner's projects have a total mining profit of less than $75 million in revenue, the miner would not pay the MRRT. The offset will phase out for projects with revenue between $75 and $125 million; and
- approximately 320 companies would be affected by it.

Criticisms of the MRRT development process

2.37 There has been much criticism of the decision by the government to consult with the big three miners in the preliminary stages of the MRRT's development. The Association of Mining and Exploration Companies (AMEC) stated, in its submission, that it considered the MRRT to be:

> … ill conceived as it was a direct result of a private and secret consultation process with three large multi-national companies and the execution of a Heads of Agreement with those companies, which formed the basis of the tax design. AMEC was not consulted in any way during this private 'negotiation' process. These companies had no mandate to act on behalf of the many other mining and exploration companies with projects or interests throughout Australia … These companies undoubtedly negotiated the Heads of Agreement with the Government with the interest of their own shareholders in mind, and not necessarily for the benefit of the wider industry.[24]

2.38 Fortescue's submission contained similar protests.[25] However, others were more positive about the approach taken by the government. While critical of the consultation relating to the RSPT, the Minerals Council of Australia commended the consultation undertaken for designing the MRRT, praising the PTG process in particular:

> That period of consultation was, in contrast, outstanding, and was actually a pretty good model of how you go about getting an understanding of reconciling the real world of what companies do and how it manifests with the companies in terms of the design of a new tax and getting the policy developments together.[26]

Committee view

2.39 The committee believes criticism about the consultation process for the MRRT is unfounded and intended to discredit the tax by implication. It is true that the

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24 Association of Mining and Exploration Companies, *Submission 11*, p. 1.

25 Fortescue Metals Group Ltd, *Submission 26*, p. 5.

26 Mr Mitch Hooke, Chief Executive Officer, Minerals Council of Australia, *Proof Committee Hansard*, 21 February 2012, p. 35.

initial consultation process was with just three companies. The committee believes that that was a reasonable decision for the government to take for three main reasons. First, for practical reasons the number of parties involved in the negotiations had to be limited. Second, the big three were the miners with the greatest knowledge and experience of the mining industry, and are most likely to be involved in future developments. Third, Treasury is on record as stating that they expect that those companies will be the ones that will pay the greatest amount of tax under the MRRT.

2.40 Further, the extensive consultation process that followed provided interested parties with ample opportunity to comment on the design of the MRRT. Taking all those opportunities into consideration, the committee does not believe that any party with an interest in the MRRT, whatever their view, has been denied the opportunity to make their views on the bills and the concept of a resource rent tax heard.

Views on the MRRT

Support

2.41 The majority of submissions received in relation to the MRRT were from organisations involved in the mining industry and consequently were opposed to the passage of the bills.

2.42 Support for the MRRT in submissions to the committee generally accept the arguments put forward by the government. The Australian Council of Trade Unions, for example, stated:

> The outmoded and inefficient system of resource taxation that presently exists, State royalties, sees the rate paid by companies rise and fall with the quantity of production, but not (for the most part) with the price per unit of production. This is a major systemic design flaw in the present system of resource taxation. A profits-based tax, such as the MRRT, corrects this flaw … Failure to implement an improved system of resource taxation now would leave Australia worse off in the coming years and decades.[27]

2.43 Professor Quiggin noted for the record that he preferred the design of the RSPT, but still argued that the MRRT is a 'beneficial measure'.[28]

Criticisms of the MRRT

2.44 A number of submitters and witnesses presented arguments against various specific aspects of the MRRT's design. These concerns will be addressed in the subsequent chapters of this report.

2.45 On the overall design of the MRRT and the theory underpinning it, the IPA critiqued it on the basis of economic rents. As noted earlier, the IPA has argued that

27 Australian Council of Trade Unions, *Submission 9*, pp. 5-6.

28 Professor John Quiggin, *Committee Hansard*, 22 February 2012, p. 2.

economic rents are difficult to identify and efficiently tax. In economic theory, economic rents can be categorised as either 'quasi-rents', 'differential rents' or 'monopoly rents'. The IPA characterised the MRRT as a tax on 'quasi-rents stemming from individual successes in R&D and innovation', not economic rents from the exploitation of a non-renewable resource.[29] Quasi-rents are, it states, '[h]igh profits from a particular mine … They are actually a reward for effort, albeit a reward of temporary super-normal profits in the short run'.[30]

2.46 In arguing that the MRRT will not tax the rents it intends to tax, Fortescue agreed that 'the majority of economic rent currently being earned would fall into the category of quasi rent; and the rest should be classed as differential rent'.[31]

2.47 Other research counters this analysis, instead taking the view that the MRRT has been designed to be a tax on differential rents, which result from:

> … the existence of different 'qualities' of a particular resource that yield an identical end commodity … In the case of mineral resources, differential rents occur because ore bodies yield different amounts of a commodity given the application of the same quantities of factors of production, such as capital and labour … These notions of rent are implicitly acknowledged in the MRRT Bills because mining profits are calculated on a project by project basis (although the low profit offset is based on a miner's 'mining group profits').[32]

Committee view

2.48 Australia's non-renewable mineral resources are assets that belong to the community, and it is starkly evident that the community is not receiving a sufficient return from the sale of these assets. However, mining companies, protected by the significant barriers to entry that impact competition in the industry, are able to make record profits from the extraction of these resources. It is proper for the government to take an interest in the price that these assets are being sold for. The current system of output-based royalties may be simple and adequate when commodity prices are at lower levels, but it is clear that they are not adequate for the dramatic and sustained rise in prices that has occurred over the past decade.

2.49 Rent taxes have a noteworthy history in Australia and have an accepted place in Australian tax policy. They are widely acknowledged by academics and tax experts as being more efficient methods of taxation than output-based royalties. As a resource rent tax only targets above-normal profits, it will preserve the international

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29 Institute of Public Affairs, *Submission 12*, p. 17.

30 Institute of Public Affairs, *Submission 12*, p. 18.

31 Fortescue Metals Group Ltd, *Submission 26*, p. 3.

32 Scott Komp-Harms and Kali Sanyal, 'The Minerals Resource Rent Tax – selected concepts and issues', *Parliamentary Library Background Note*, 24 November 2011, p. 3.

competitiveness of the mining sector and ensure that Australians receive a greater benefit from mineral resources for years to come.