Chapter 4

Revenue from the Minerals Resource Rent Tax

Introduction

4.1 The total revenue expected to be raised from the Minerals Resource Rent Tax (MRRT) received significant attention in submissions and at the hearings. This chapter discusses the revenue projections and associated issues as well the impact of the MRRT on future investment.

4.2 The Revised Explanatory Memorandum states that the government expects to raise the following amounts of revenue over the three years from its introduction:

Table 4.1: Projected revenue implications of the MRRT (October 2011)

Year	2011–12	2012–13	2013–14	2014–15
Projected revenue	nil	$3,700m	$4,000m	$3,400m

Source: Minerals Resource Rent Tax Bill 2011 and related bills, *Revised Explanatory Memorandum*, p. 4.

4.3 The *Mid-Year Economic and Fiscal Outlook 2011–12* (MYEFO), states that amendments to the MRRT to raise the low profit threshold to $75 million and extend the phasing out of the offset from $100 million to $125 million, 'will have a cost to revenue estimated to be $60.0 million over the forward estimates period'.[1]

4.4 At the same time, the government noted in MYEFO that, in its view, 'the outlook for prices and investment remains favourable, notwithstanding the unsettled global environment'.[2] However, resource rent taxes are 'a highly variable source of revenue as they are heavily influenced by commodity prices and exchange rate levels'.[3] Any changes in global demand for resources, particularly from China, will also affect revenue from the MRRT. Moreover, revenue could be reduced if the states increase the royalties they demand from mining companies, as has been foreshadowed.

4.5 The Deputy Prime Minister and Treasurer, the Hon. Wayne Swan MP, expanded on this in February 2012:

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1 Australian Government, *Mid-Year Economic and Fiscal Outlook 2011–12,* 'Appendix A: Policy decisions taken since the 2011–12 Budget', p. 167.

2 Australian Government, *Mid-Year Economic and Fiscal Outlook 2011–12,* 'Part 1: Overview', p. 4.

3 Australian Government, *2011–12 Budget – Budget Paper No. 1*, statement 5, p. 29.

> There are swings and roundabouts when you have a variable revenue stream [but] I don't accept that in an environment where revenue is adjusted depending upon variable factors beyond the forward estimates it is unsustainable to make the commitments we have made. They are entirely sustainable within the budget framework.[4]

4.6 By and large, comments on Treasury's modelling have concentrated on whether the MRRT will meet its revenue projections. The modelling itself has been subject to less attack. To some degree this is because Treasury has not been able to release all the assumptions underlying its modelling.

Factors affecting the revenue projection

2011–12 Mid-Year Economic and Fiscal Outlook

4.7 As indicated, the actual revenue from the MRRT will be affected, upwards or downwards, by changes to commodity prices and the Australian dollar's exchange rate. These in turn are affected by the uncertainty in the global economy.

4.8 The government addressed these issues in MYEFO:

> International growth prospects have weakened markedly since Budget and the risks to global stability from the European sovereign debt crisis have intensified … Notwithstanding the deterioration in global conditions since Budget, the Australian economy continues to outperform the developed world with solid growth prospects, low unemployment, a record pipeline of resources investment, and strong public finances.[5]

4.9 However, in relation to the resources sector, it stated:

> Australia’s economic growth prospects are driven by record investment intentions in the resources sector and strong forecast growth in commodity exports. Commodity prices have fallen in recent months, but the outlook for prices and investment remains favourable, notwithstanding the unsettled global environment … Looking beyond these near-term movements, the medium-term outlook is for Australia’s terms of trade to decline as the global supply of iron ore and coal increases. Still, the rapid pace of economic development in emerging Asia, and the prospect that strong resources-intensive investment in China and India will continue for many years to come, underpin expectations that the decline in the terms of trade will be gradual.[6]

4.10 The government, in MYEFO, estimated that a one per cent decrease in nominal GDP caused by a drop in Australia's terms of trade would result in a

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4 Adrian Rollins and David Crowe, 'Swan unruffled by "variable" mining tax', *Australian Financial Review*, 13 February 2012, p. 5.

5 Australian Government, *Mid-Year Economic and Fiscal Outlook 2011–12*, p. 1.

6 Australian Government, *Mid-Year Economic and Fiscal Outlook 2011–12*, p. 4.

combined drop to revenues from the MRRT and the Petroleum Resource Rent Tax (PRRT) of $600 million.

4.11 Under questioning from the committee, Treasury officials stated that the expected revenue from the MRRT would represent around one per cent of the government's total revenue from taxation for a financial year.[7]

4.12 When this was put to Professor John Quiggin he indicated that he did not believe that volatility to the revenue of such a small percentage of the Budget would have any significant effect on the Australian economy.

> CHAIR: We heard evidence from Treasury that this tax is likely to raise about one per cent of revenue to budget—something in the order of $3.5 billion, $3.7 billion or $3.8 billion per year out of a total spend of $350 billion-odd. Do you regard a bit of volatility in the revenue flow to government from this tax as being significant in terms of the aggregates that the government has to receive and spend?
>
> Prof. Quiggin: Treasury is totally right here. Volatility in one per cent of the tax base has an essentially negligible effect. The only point I would make is that anybody leading that kind of evidence is discrediting their own credibility as an economist … All sources of government revenue fluctuate to some extent or another over the course of the business cycle. The amount of tax raised from different sectors of the economy fluctuates. The idea that in some way the value of the revenue is greatly reduced by the fact that it might fluctuate is just silly.[8]

Submissions questioning the modelling

4.13 A number of submissions have challenged Treasury's modelling and its revenue forecasts. One from the Perth office of accountancy firm BDO Corporate Tax (BDO) acknowledged that it was not privy to the revenue and productivity forecasts used by Treasury as the basis of its modelling. It made its own estimates based on publicly available information and assumed:

> … a starting base calculation using an average iron ore price of say, USD$148 dmt [dry metric tonnes] whereas mining revenue may be calculated by reference to a price say USD$120 dmt to USD$125 dmt.[9]

4.14 BDO went on to say that it recognised 'the calculations in reality are more detailed than this, but the general point is still compelling'. Based on its assumptions, BDO concluded:

> It is not until the actual price realised exceeds USD$148 dmt that a profit is made (all other things being equal and ignoring the impact of royalty credits

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7 Mr Rob Heferen, Executive Director, Revenue Group, Department of the Treasury, *Proof Committee Hansard*, 21 February 2012, p. 63.

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

9 BDO Corporate Tax (WA) Pty Ltd, *Submission No. 3*, p. 4.

> and the uplift factor). We are not suggesting that iron ore prices will perform in the manner outlined and the model assumes no new resources come on stream; it is merely to emphasise that it is unlikely there will be MRRT revenue generated in relation to the resource which has been included in the determination of the starting base amount.[10]

4.15 BDO's submission was lodged on 21 December 2011. It released the first version of its critique of Treasury's modelling on 1 November 2011, followed by a further version on 6 November 2011.[11] On 8 November 2011, the Deputy Prime Minster and Treasurer wrote to BDO about its 1 November 2011 analysis.[12] While this letter obviously predates the submission to the committee, the same criticisms of BDO's modelling apply to its submission. In that letter, Mr Swan pointed out that the practice of using a high starting base value for the assets owned by the miner, thus increasing the deductions allowed under the MRRT, in conjunction with budgeting a low return on that ore, is specifically disallowed by the package.

4.16 In its submission, the Institute of Public Affairs (IPA) also referred to the amount of revenue Treasury had estimated would be raised by the MRRT:

> Concerns have been raised in the past that the estimated revenue stream from the MRRT, off a much smaller taxing base of iron ore and coal producers, was not substantially lower than a RSPT to be imposed on a comprehensive basis. Such concerns have not been allayed by the publication of the latest MRRT revenue estimate in the 2011-12 MYEFO. As the June 2011 Senate Select Committee on the Scrutiny of New Taxes report noted, previous MRRT revenue estimates presented by the commonwealth have varied significantly, partly in accordance with changes in coal and iron ore prices.[13]

4.17 The Association of Mining and Exploration Companies (AMEC) referred to modelling conducted for it by the University of Western Australia in its submission, which showed:

> Before the introduction of the MRRT the average total tax (income tax and royalties) for mining companies would have been around 38%, and post MRRT the total effective tax rate increases to over 40% and over 44% for existing and new projects respectively.[14]

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10 BDO Corporate Tax (WA) Pty Ltd, *Submission No. 3*, p. 5.

11 See Fortescue Metals Group Ltd, *Submission 1 to House of Representatives Economics Committee Inquiry into the Minerals Resource Rent Tax Bills 2011*, pp. 7-10.

12 The Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, letter to BDO Corporate Tax (WA) Pty Ltd dated 8 November 2011, www.treasury.gov.au/documents/2223/PDF/MRRT_Response_Letter.pdf, (accessed 17 January 2012).

13 Institute of Public Affairs, *Submission No. 12*, p. 14.

14 Association of Mining and Exploration Companies, *Submission 11*, p. 5.

4.18 Treasury was asked about this modelling when it gave evidence to the committee:

> Mr Sedgley: The modelling shows the impact of the starting base in one case versus a new miner that does not have a starting base on the other.
>
> Senator EGGLESTON: Does that mean to say that it is, in effect, biased towards the existing miner?
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> Mr Sedgley: No. It is just demonstrating in one case that the pre-existing miner has the benefit of a starting base, because they have undertaken investment prior to the announcement of the MRRT.[15]

Full release of modelling by Treasury

4.19 A full analysis of Treasury's modelling has been hampered to some degree by its inability to release the revenue and productivity assumptions upon which it has based its modelling of the MRRT and the PRRT.

4.20 Treasury addressed this issue in its evidence to the committee:

> Senator CORMANN: You know that state governments in Western Australia and Queensland get the same information from the same mining companies and publish their assumptions in their budget papers, so they can be part of the scrutiny of the budget estimates?
>
> Mr Heferen: To the extent we can publish material and are not in any difficulty of compromising the relationship we have with firms that provide us with information to refine a range of things that we do—not just revenue forecasting, but economic forecasting. We obviously have to be very reluctant to do that, because part and parcel of being able to provide that information to governments is relying on information that we provide in-confidence. We have to respect that confidence.[16]

Committee view

4.21 The committee considers this situation to be regrettable but unavoidable. The information in question was provided in confidence by industry participants, who did not agree to it being released. Their consent is required under Freedom of Information laws. Treasury, therefore, cannot be criticised in this regard.

Increases in state and territory royalties

4.22 The revenue raised by the MRRT may also be affected by state and territory governments changing their mining royalty schemes. This results from Division 60 of

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15 Mr Patrick Sedgley, Manager, Business Tax Working Group, Business Tax Division, Department of the Treasury, *Proof Committee Hansard*, 21 February 2012, p. 77.

16 Mr Rob Heferen, Executive Director, Revenue Group, Department of the Treasury, *Proof Committee Hansard*, 21 February 2012, p. 68.

the MRRT Bill, which provides for mining profit to be reduced by the amount of the royalties paid by the miner for that mining project.

4.23 In its 2011–12 Budget, the New South Wales government stated:

> To address the negative financial impacts on NSW of the carbon tax, coal royalties in NSW will be increased. The increase will only apply to firms that are subject to the Australian Government's proposed Minerals Resource Rent Tax (MRRT). As the Australian Government has committed to compensate mining companies for any royalties that are paid to state governments, the increase in royalties will not be an additional tax burden on mining companies.
>
> NSW legislation to implement the royalty supplement will be prepared after the Australian Government finalises its carbon tax and MRRT legislation.[17]

4.24 Treasury has indicated that its most recent estimate of revenue does not take into account proposed changes by the New South Wales government as they have been announced but not put into place.[18]

4.25 In June 2010, the Western Australian government increased the royalty on "iron ore fines" from 3.75 per cent to 5.625 per cent from 1 July 2010, with further increases to 6.5 per cent from 1 July 2012 and 7.5 per cent from 1 July 2013 announced in its 2011–12 Budget. It expects these increases to generate additional revenue of $1.9 billion over the budget period.[19]

4.26 To address these developments, on 17 November 2011, the Australian government amended the Terms of Reference of the GST Distribution Review[20] to include:

> 6A. The Review should examine and make recommendations on possible changes to the form of equalisation to achieve the following objectives:
>
> a. ensure that HFE [horizontal fiscal equalisation] does not provide a disincentive to State tax reform,

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17 NSW Government, *Budget Statement 2011–12*, p. 5-3.

18 Mr Rob Heferen, Executive Director, Revenue Group, Department of the Treasury, *Proof Committee Hansard*, 21 February 2012, p. 66.

19 Government of Western Australia, *Budget 2011–12 – Economic and Fiscal Outlook, Budget Paper No. 3,* May 2011, p. 75.

20 On 30 March 2011, the Australian government announced a review of the distribution of revenue from the GST to the states and territories, to be conducted by the Hon. Nick Greiner AC, the Hon. John Brumby and Mr Bruce Carter. The review will consider the long-term 'ability of States and Territories … to deliver broadly equivalent levels of services and infrastructure to their residents', given the structural change in the economy; the Hon. Julia Gillard MP and the Hon. Wayne Swan MP, 'Review of GST Distribution', *Joint media release,* 30 March 2011.

b. utilise HFE to provide incentives and disincentives to promote future State policy decisions which improve the efficiency of State taxes and mineral royalties, and

c. examine the incentives for States to reduce Minerals Resource Rent Tax or Petroleum Resource Rent Tax revenue through increasing State mineral royalties.

6B. In considering this issue, the Review will be guided by the following:

a. the findings of the Australia's Future Tax System Review relating to existing State taxes and mineral royalties,

b. the Minerals Resource Rent Tax and Petroleum Resource Rent Tax provide a more efficient approach to charging for Australia's non-renewable resources than mineral royalties, and

c. State tax reform will not be financed by the Australian Government.[21]

Committee view

4.27 Moves by some states to increase royalties have the potential to undermine the superannuation and taxation reforms the MRRT is intended to support. The committee sees the announced increases as opportunistic, made in the knowledge that, long-term, the miners will be compensated for the increased royalties under the design of the MRRT.

4.28 In the committee's view, it is appropriate that increases by state governments to their royalties from the mining and petroleum industries, should be taken into consideration by the GST Distribution Review panel.

Outlook for the mining sector

4.29 There is constant speculation about where commodity prices and demand for Australia's mineral resources are heading in both the short-term and the long-term. Indeed, support can be found for almost any view of the sector's outlook. For example, on 5 and 6 January 2012 *The Australian* newspaper ran three separate articles that expressed contrasting views on the outlook for the mining sector:

> With much of the rest of the world facing severe financial difficulties, construction work on new resources projects in Australia rose by 31 per cent, an unprecedented growth rate, and investment in machinery and equipment rose 20 per cent over the year.[22]

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21 Australian Government, *GST Distribution Review*, Terms of Reference, www.gstdistributionreview.gov.au/content/Content.aspx?doc=tor.htm (accessed 18 January 2012).

22 Mitchell Hooke, 'Mining sector defies spruikers of doom', *The Australian*, 5 January 2012, p. 16.

> Economists believe Australia's trade performance may have peaked, with the November trade surplus falling 2.9 per cent to $1.38 billion as imports outstripped export growth. While exports grew 0.2 per cent in the month, mineral shipments of iron ore and coal were down, reflecting a slowdown in demand from Australia's Asian trading partners … "Australia has likely seen the peak in the trade balance," ANZ economist Andrew McManus said … Commonwealth Bank economist John Peters said he expected the surplus to narrow in the coming months, but there would still be strong trade surpluses, which would ensure the current account deficit would shrink.[23]
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> What to expect in 2012:
>
> 1. Commodity prices will be volatile but remain strong by historical standards.
> 2. Billions of dollars of "baked in" resources investment will continue being rolled out.
> 3. Local resources stocks to remain undervalued unless global economic conditions improve.
> 4. Australian commodity exports to hit $200 billion for the first time.
> 5. Australia to take giant strides towards becoming the world's biggest LNG exporter as new projects are built and approved.
> 6. [merger and acquisition] activity to intensify, particularly in the gold and uranium sectors.
> 7. Africa to lose some of its lustre, with explorers returning to Australia or launching into South America.
> 8. The MRRT and carbon tax will make life harder for some companies but won't put anyone out of business.[24]

4.30 This variation can be found in submissions to the committee also. The IPA, for example, stated:

> There are a number of risks to the outlook for Australian mining, including a continuation of recent falls in productivity, declines in our global share of exploration and production, and in the shorter term weaknesses in the global economy, which could have an effect on the availability of credit, which could lead to some miners reassessing expansion plans.[25]

4.31 However, elsewhere it stated:

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23 Sid Maher and Rowan Callick, 'Trade surplus shrinks on weak Asia demand for commodities', *The Australian*, 6 January 2012, p. 4.

24 Andrew Burrell, 'Boom times as mining giants spend billions on mega-projects', *The Australian*, 5 January 2012, p. 15.

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

- 'it remains likely that once existing and new projects reach their full production capacity much of the decline in productivity will be reversed';[26] and
- 'most economic analysts agree that the outlook for activity within the Australian mining sector remains robust'.[27]

Investment in the mining industry

4.32 One aspect regarding the future of the Australian mining sector which was raised in evidence to the committee is the concern that the introduction of the MRRT will lead to a decline in investment in the Australian mining sector and the flight of investment to competitor countries, particularly in Africa and South America.

4.33 The final report of the Review of Australia's Future Tax System considered the possible effect of a resource rent tax on investment. The report stated that a well-designed resource rent tax would be less distorting than the current output based royalty scheme 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.[28]

4.34 The Deputy Prime Minister and Treasurer, and the Minister for Resources and Energy, pointed to increased investment in a media release:

> The fact is that Australia last year achieved record levels of capital investment in resources and energy projects – a record we are on track to break this year. Companies are investing more in minerals and energy projects in Australia than they ever have before, in full knowledge of the MRRT ... Since the Government announced the MRRT and PRRT on 2 July last year, we have seen investment not only continue but accelerate, particularly in the three commodities – coal, iron ore and petroleum – covered by our resource taxation reforms.[29]

4.35 The question of investment in the mining sector was raised with Treasury at Senate Estimates on 17 February 2012:

> Senator LUDLAM: Dr Parkinson, you used a figure about half an hour ago of $450 billion in investment over the next half decade. You said something along the lines that there is nothing that you can see likely to stand in the

26 Institute of Public Affairs, *Submission 12*, p. 8.

27 Institute of Public Affairs, *Submission 12*, p. 11.

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

29 The Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, and the Hon. Martin Ferguson AM MP, Minister for Resources and Energy, 'Coalition would deny Australians the benefit of the mining boom', *Joint Media Release*, 20 November 2011.

way of that wave of investment going through. You were using rough numbers, but how much of that investment is in extractive industries, or is it effectively all of it? The rule of thumb number, the $400 billion to $450 billion in investment, is that primarily in extractive industries—mining, oil and gas projects?

Dr Parkinson: That is mining. I said in the next half decade or so. It was a bit of hand waving. A lot of these projects will take a long time to bring on stream.

...

Senator LUDLAM: That is what I thought. I just wanted to check on that. Relative to the size of the Australian economy, that strikes me as probably the single largest wave of investment in the country's history. Is that reasonable? It seems like an extraordinary amount of money.

Dr Gruen: It is the case that we are projecting investment, broadly speaking, all investment as a share of GDP, to be at multiple decade highs. If you add this stock of investment to the investment in the rest of the economy, investment as a share of the economy is expected to be at an all-time high for at least as long as the quarterly national accounts have been available.

Dr Parkinson: I can add to that. You can see that historically mining investment as a share of GDP has bounced around one per cent. We are anticipating in 2012-13 it will be about six per cent of GDP. It is a huge wave of investment that is hitting.[30]

4.36 Other witnesses argued the opposite; that mining investment was threatened by the MRRT. The committee heard claims from some witnesses that the MRRT will deter investment in Australia and drive it overseas to other resource rich countries in Africa and elsewhere. For example, the Chamber of Minerals and Energy of Western Australia argued that:

The vast scale of projects in the resources sector requires extensive infrastructure and long term investment capital. In a global economy, the capital essential to fund these projects is highly mobile. Even in the resources sector where Australia is well placed to drive economic growth, there are many competing jurisdictions for investment.

Australia's existing and recently-announced investments in mining and oil and gas are the culmination of significant project development processes. These investments cannot be taken as an indicator of future investments. The global resources sector is assessing other locations in other continents, which have significant potential, and Australia's tax system must remain internationally competitive in order to attract investment, economic development and employment growth into the future.

30 Dr Martin Parkinson, Secretary to the Treasury; Dr David Gruen, Executive Director, Macroeconomic Group (Domestic), Department of the Treasury, *Proof Committee Hansard*, Additional Estimates 2011–12, 17 February 2012, p. 19.

> In this global context, Australia needs tax policies that do not provide a disincentive to investment in an industry and so restrict the ability of Australian operations from competing internationally.[31]

4.37 Fortescue Metals Group (Fortescue), in its submission, also felt the MRRT would deter investment:

> … in effect the tax falls mainly upon new producers that were not in a position to obtain huge concessions based upon May 2010 market valuations. This effectively means that the perceived sovereign risk associated with investing in Australia (and the attractiveness more generally of Australia as an investment destination) will be undermined by a tax that won't raise anything like the projected revenues (due to the generous but misunderstood concessions that have been granted) but will increase the complexity of taxation, will increase the administrative burden and will act more generally as a deterrent to investment and as an inefficient tax.[32]

4.38 Similarly, the IPA raised the issue of Australia's international competitiveness in the mining sector and drew a link, in its submission, between the international economic situation and investment in Australian mining:

> Despite episodic reductions in its corporate tax rate over the last two decades or so, Australia's statutory corporate tax rate of 30 per cent exceeds the rates that exist in some of our major mining export competitors as well as other countries within the Asia-Pacific region that compete for foreign capital inflows.[33]

4.39 The flight of investment to other countries was raised by Professor Henry Ergas in his evidence to the Senate Select Committee:

> To the extent that there are some options or potential projects in Australia that are extremely attractive, even this tax will not prevent those going ahead, but at the margins it will shift riskier projects to overseas.[34]

4.40 Atlas Iron told the committee that it believed investment would be driven to other countries, particularly in West Africa, if the MRRT becomes law. It, for example, was investing in manganese mining in Namibia and Ghana, as well as iron ore mining in Brazil. Mr David Flanagan from Atlas Iron told the committee:

> Senator CORMANN: Has there been a strategic shift by Atlas post the proposal to introduce an MRRT, as it is on the table, in terms of where you direct your investment?
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> Mr Flanagan: It has definitely been a factor on the table.[35]

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31 Chamber of Minerals & Energy of Western Australia, *Submission 2*, p. 4.

32 Fortescue Metals Group Ltd, *Submission 26*, p. 4.

33 Institute of Public Affairs, *Submission 11*, p. 26.

34 Professor Henry Ergas, *Senate Select Committee on the Scrutiny of New Taxes Hansard*, Inquiry into a national mining tax, 30 March 2011, p. 11.

4.41 Senator Eggleston raised the issue of investment going overseas with AMEC:

> Senator EGGLESTON: Of course, the introduction of the MRRT is a factor that must be taken into consideration in new investment and perhaps—
>
> Mr Bennison: Absolutely.
>
> Senator EGGLESTON: driving this capital abroad.
>
> Mr Bennison: It is.[36]

4.42 In contrast, there were a number of witnesses who argued there was little evidence that the MRRT would drive investment overseas because other jurisdictions were less stable and had higher and less predictable barriers to investment. The Australian Council of Trade Unions noted:

> There is no evidence to suggest that the announcement of a resource rent tax has materially affected investment and activity in the Australian mining industry. The mining industry spent $16.9 billion on capital investment in the September 2011 quarter, more than double the $8.1 billion it spent in the final quarter before the announcement of the original RSPT, the March 2010 quarter. Mining investment in September accounted for 48.5 per cent of all capital expenditure in the economy.[37]

4.43 Importantly, the Minerals Council of Australia went further and outlined a number of features of the MRRT that it believed would not be a deterrent to investment:

- it 'establishes a more internationally competitive tax rate';
- the market value starting base allowance 'lessened dramatically the retrospective element' of the MRRT compared to the RSPT and removed the sovereign risk concerns;
- it differentiated between commodities based on their international competitiveness;
- it was designed to tax the value of the primary resource only;
- it allowed for the 'immediate deductibility of capital expenditure to encourage investment into coal and iron ore projects';
- the higher uplift rate allowed for 'a more appropriate return to capital invested'; and
- it would not apply to projects that turned a low profit.[38]

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35 Mr David Flanagan, Executive Chair, Atlas Iron, *Committee Hansard*, 22 February 2012, p. 14.

36 Mr Simon Bennison, Chief Executive Officer, Association of Mining and Exploration Companies, *Proof Committee Hansard*, 21 February 2012, p. 61.

37 Australian Council of Trade Unions, *Submission 9*, p. 10.

38 Minerals Council of Australia, *Submission 20*, p. 4.

4.44 Mr David Richardson from the Australia Institute commented on the potential for the movement of investment to foreign countries in his evidence to the committee. Referring to a recent article in *The Economist*, he stated:

> Of the 10 major projects throughout the world announced in the last year, seven were from Africa. We hear scare stories about Australia increasing taxation through the resource rent tax, whereas in Botswana we have De Beers quite happily paying 80 per cent of their profits to the government. We have the hot heads in the ANC threatening nationalisation of mineral companies. We have royalties going up everywhere, and more profit sharing. Zimbabwe will not let you mine some minerals unless you refine them there as well. There are all of these sorts of things. The way the *Economist* describes it is that the whole world is looking for governments to have a greater share in mining profits at the moment. I think it is important that we take into account that we are not sitting in a flat environment and that things are moving in the rest of the world as well.[39]

4.45 That article referred to an Ernst & Young survey that showed that 25 countries around the world had announced plans to increase their take from the profits made by mining companies. It went on to state:

> … the immense ore deposits so far discovered and soaring commodity prices on the back of rip-roaring Chinese demand have convinced the world's miners that the continent is the next big frontier. Bumper profits have also spurred mineral-rich countries to seek a bigger share of the spoils. The list of African governments that have miners in their sights is a long one … Right across the continent governments are seeking new ways to squeeze more out of foreign-owned firms growing rich off what lies beneath Africa's soil … Even as governments move to grab bigger slices of the cake, high prices mean the miners remain profitable.[40]

4.46 The Construction, Forestry, Mining and Energy Union (CFMEU) in its evidence to the committee indicated that it considered investment in mining in Africa was uncertain and that for this and other reasons, the MRRT posed no threat to continued investment in Australian mining. Mr Peter Colley strongly made the following points in his evidence to the committee:

> I should address one more point, which was this capital flight argument. I heard Mr Flanagan from Atlas Iron. I am also aware of other players in this debate alleging that there will be capital flight from Australia. There are two answers to this. The first is clearly empirical. It is the list of proposed projects that are published on a six monthly basis by ABARES, the Australian Bureau of Agricultural and Resource Economics. That pipeline

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39 Mr David Richardson, Senior Research Fellow, The Australia Institute, *Proof Committee Hansard*, 21 February 2012, p. 22.

40 Author not stated, 'Wish you were mine', *The Economist*, 11 February 2012, http://www.economist.com/node/21547285 (accessed 21 February 2012). It should be noted that this article stated 'Australia is set to raise some $8 billion a year through a controversial new tax on miners'.

> of projects has increased every six months continuously throughout the period that the taxes, both the Minerals Resource Rent Tax and the RSPT, have been under discussion. Clearly it has almost no impact on the investment decisions of those who are investing in mining oil and gas in Australia.
>
> The other argument is a theoretical one. This is the argument put by some of the big players that they can only bring on a small number of projects at any one time, that they have a certain number of projects that they can manage, that each of those projects takes up considerable management time and is capital intensive. If they get a better tax rate in some other country, they will choose to prioritise those projects. My response to that is to say that there are any number of willing investors in the Australian mining industry that are willing to invest on the basis of making good profits rather than super profits.
>
> Chinese and Indian investors in particular are falling over themselves to invest in Australia. Even various American mining companies are keen to invest in Australia, despite their difficulties back home. There is no shortage of mining investment in Australia, and arguably there is too much. There is a great deal of speculative heat in the Australian mining industry. There are billionaires who have not mined a tonne of mineral in Australia, they have simply ridden the crest of speculation in the mining industry. On that basis, our argument would be that the resource rent tax is designed to only tax excess profits, high profit rates. It will not affect rational investment decision making. If some companies want to invest in other projects elsewhere that will continue to attract super profits, that is well and good. They will still need plenty of investors in Australian mining.
>
> I suppose a further point to make there is with regard to sovereign risk. We were told that Australia has more sovereign risk because of the resource rent tax. There is plenty of sovereign risk in Africa. Most companies that have ever invested in Africa have lost their shirt. That may change but most countries in Africa are still an incredibly difficult place to do business.
>
> Rio Tinto, with its Simandou major iron ore prospect, had half the lease summarily taken off it by the government and assigned to someone else. The government has even been contemplating taking more of that lease off them. This was a multibillion dollar project that Rio Tinto had been trumpeting. In contrast, Australia is a safe haven, which is why it continues to attract such a large share of international resource investment. I will leave my comments there.[41]

Committee view

4.47 It is clear to the committee that most commentary on this subject agrees that the Australian mining industry will continue to prosper for some time to come, though

41 Mr Peter Colley, National Research Director, Mining and Energy Division, Construction, Forestry, Mining and Energy Union, *Committee Hansard*, 22 February 2012, p. 33.

possibly not at the recent extraordinary levels. Any anticipated downturn in the industry is generally attributed to external factors, such as:

- general global financial conditions, which have made money more expensive everywhere in the world and lessened capacity to invest in the industry;
- increased competition from developing mining industries, in Africa and South America in particular, and
- some contraction in the expansion of the Chinese and other North Asian economies.

4.48 But the positive factors outweigh the negative and include:

- the current economic environment and the dynamism of the Australian economy, (as discussed in chapter 2 of this report);
- the continued record profits being announced by Australian mining companies; and
- the possibility of the exit from the market of Indian iron ore competitors.[42]

4.49 It is noted that the design of the MRRT includes pre-mining allowances that recognise the costs associated with the mining industry, further lessening the potential that the MRRT will act as a disincentive to investment in the mining sector.

4.50 The committee is not aware of any strong evidence of investment moving to foreign countries as a result of the MRRT.

4.51 The committee also notes that Australia has many, many advantages over its African and South American competitors for mining investment dollars including:

- a high level of existing infrastructure now in place;
- stable, democratic governments;
- a robust, globally-integrated, highly-developed economy;
- skilled workers; and
- proximity to the largest markets for iron ore and coal.

4.52 The committee is confident that the mining industry will continue to grow and that investment in it will continue to be strong regardless of the introduction of the MRRT.

Concluding comments

4.53 The committee accepts that the revenue that will be generated by the MRRT will be affected by proposals from state governments to increase their royalty rates

42 Ayesha de Kretser, 'Hopes rise for iron ore exports', *Australian Financial Review*, 6 January 2012, p. 36.

and fluctuations in commodity prices and the exchange rate. Nonetheless, it believes that Treasury's modelling of the revenue generated by the MRRT should be accepted for the following reasons:

- it included information provided by the major industry players, putting it in a good position to allow for expected changes to commodity prices and mining production rates, making it the best source of industry information;
- Treasury is the best placed body to assess future movements in the exchange rate for the Australian dollar and developments in the economy generally;
- attacks on the accuracy of modelling have not undermined its findings in any significant way; and
- until the GST Distribution Review panel has completed its work, any assessment of the effect of increases to state and territory royalties is purely speculative.

4.54 In the committee's view, the argument concerning investment flight largely covers similar territory as that concerning the economic outlook for the mining sector, the allowances made in the MRRT for innovation and exploration and comparisons between the effects of a resource rent tax and the royalty scheme. As noted elsewhere, the MRRT provides for the immediate deduction of capital expenditure, which should act as an incentive for investment.

4.55 The committee has seen no evidence that the MRRT has led or will lead to a reduction in investment in Australia's mining sector. In fact, it believes any change in investment is more likely to be attributable to external economic factors than to concerns about Australia's economic environment, the future of the mining industry or the MRRT.