Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: **BET 356**

Topic: Subsidies to the Mining Industry

Hansard Page: Written

Senator WATERS asked:

376. What general economic principles would make a case for subsidies, tax concessions or assistance to a particular industry? Perhaps helping establish an 'infant industry', tiding an industry over a temporary setback, assisting a very innovative industry or one which generates spillover benefits?

a) Do any of these arguments justify ongoing subsidies to the mining industry?

Answer:

There are some situations where government intervention may be desirable in a market economy. Market failures and other external shocks can occur, and subsidies, whether in the form of tax concessions or direct assistance, may be an appropriate way to improve public welfare in some of these cases. Examples of situations where such support could be justified could include cases of natural disasters, the existence of high barriers to entry, or large unrealised positive externalities.

However, any form of subsidy needs to be considered on a case by case basis. Misjudged concessions can unnecessarily distort investment decisions and lead to a sub-optimal allocation of resources, protect unviable industries, and support inefficient business practices. Reflecting these concerns, careful thought is given to the costs and benefits of any industry support.

The Australian mining industry is important to Australia's economy and is a valuable source of growth, employment and investment. It is, however, important that industry contributes their fair share of tax receipts, and that the economy is not negatively affected by measures that encourage inefficient resource allocation.

The Minerals Resource Rent Tax, which commenced on 1 July 2012, will enable the Australians to receive a better return from the use of their non-renewable resources while ensuring that mining remains sustainable into the future.