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SELECT COMMITTEE ON THE SCRUTINY OF NEW TAXES

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SENATE SELECT COMMITTEE ON

SCRUTINY OF NEW TAXES

Monday, 22 November 2010

Members: Senator Cormann (Chair), Senator Hutchins (Deputy Chair) and Senators Bushby, Cameron, Fifield and Williams

Senators in attendance: Senators Bushby, Cameron, Cormann, Fifield, Hutchins and Williams

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Carol Brown, Cash, Colbeck, Coonan, Crossin, Eggleston, Faulkner, Ferguson, Fielding, Fierravanti-Wells, Fisher, Forshaw, Furner, Heffernan, Humphries, Hurley, Johnston, Joyce, Ian Macdonald, McEwen, McGauran, Marshall, Mason, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Stephens, Sterle, Troeth and Wortley

Terms of reference for the inquiry:

To inquire into and report on:

(a) new taxes proposed for Australia, including:

  (i) the minerals resource rent tax and expanded petroleum resource rent tax,

  (ii) a carbon tax, or any other mechanism to put a price on carbon, and

  (iii) any other new taxes proposed by Government, including significant changes to existing tax arrangements;

(b) the short and long term impact of those new taxes on the economy, industry, trade, jobs, investment, the cost of living, electricity prices and the Federation;

(c) estimated revenue from those new taxes and any related spending commitments;

(d) the likely effectiveness of these taxes and related policies in achieving their stated policy objectives;

(e) any administrative implementation issues at a Commonwealth, state and territory level;

(f) an international comparison of relevant taxation arrangements;

(g) alternatives to any proposed new taxes, including direct action alternatives; and

(h) any other related matter.

WITNESSES

Committee met at 9.01 am

CHAIR (Senator Cormann)—I declare open this third hearing of the Senate Select Committee on Scrutiny of New Taxes. Today's hearing will inquire into the government's proposed minerals resource rent tax and expanded petroleum resource rent tax. These are public proceedings, although the committee may hear certain evidence in camera. The proceedings are governed by rules set by the Senate, copies of which have been given to the witnesses. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. I remind members of the committee that the Senate has resolved that public servants shall not be asked to give opinions on matters of policy.

[9.02 am]

HENRY, Dr Ken, Secretary, Department of the Treasury

PARKER, Mr David John, Executive Director, Revenue Group, Department of the Treasury

CHAIR—Welcome. Dr Henry, would you like to make a brief opening statement?

Dr Henry—No, thank you, Chair.

CHAIR—All right. I will kick off, and government senators will be asking questions after the break. Revenue estimates from the mining tax keep bouncing around quite a bit, based on changes in underlying assumptions. Are you now in a position to release those assumptions?

Dr Henry—The government released a Mid-Year Economic and Fiscal Outlook recently which contained our most up-to-date forecasts for revenue from the mining resource rent tax. The Mid-Year Economic and Fiscal Outlook indicated the assumptions upon which those most recent estimates were based. As I am sure the committee would be aware, the revenue estimates are sensitive to movements in both commodity prices and exchange rates, in particular the Australian-dollar-US-dollar exchange rate, which has been moving around quite a bit—and appreciating, of course. That movement in the exchange rate has had a significant impact on a number of heads of revenue, but the mining resource rent tax revenue is one of those. The Mid-Year Economic and Fiscal Outlook explains how that occurs and sets out the assumptions with respect to the exchange rate, anyway, and commodity prices upon which the MRRT revenue forecast has been based.

CHAIR—It sets out the assumptions?

Dr Henry—I believe it does. I do not have a copy of the Mid-Year Economic and Fiscal Outlook with me, but I believe it does indicate what the exchange rate assumption is and what the commodity prices are, in general terms, for iron ore and coal. I can have that checked while we are in session, but that is my understanding.

CHAIR—If the assumptions are now published in MYEFO, why would you not be releasing the equivalent assumptions used for the revenue estimate around the resource super profits tax and the original minerals resource rent tax announcement on 2 July?

Dr Henry—As you know, that is a matter for the Treasurer. It is the usual practice to update revenue forecasts with budgets and mid-year economic and fiscal outlooks, and that is what has happened on his occasion. There has been an update for purposes of the Mid-Year Economic and Fiscal Outlook. That is quite a recent document, so that remains our most up-to-date forecast of revenue, including revenue that is likely to come from the MRRT. It is obviously a matter for the Treasurer whether he wishes to provide any more detailed assumptions underpinning revenue forecasts with respect to either the MRRT or the RSPT or, indeed, any other tax. It is not a matter for me.

CHAIR—Did you—or did Treasury, rather—draft the government's response to the orders of the Senate seeking that information?

Dr Henry—I really do not know. I will take that question on notice.

CHAIR—Thank you. The reason that was given for not releasing the commodity price assumptions was that the information was in part provided by BHP, Rio and Xstrata. That would not be the case for the exchange rate assumptions, would it?

Dr Henry—No, that is correct.

CHAIR—So what would be the reason to—

Dr Henry—Just a moment. We, in producing forecasts, have a technical assumption with respect to the exchange rate—essentially that the exchange rate is unchanged from its level at around the time of publication. Obviously companies making forecasts of their own revenues, expenses and future tax liabilities might choose to use different exchange rate assumptions—that is to say, they might want to make their own judgments about future movements in the exchange rate. I do not want to breach any commercial-in-confidence material here, but I guess I can indicate that the companies in their discussions with us have taken views on the future course of the exchange rate.

CHAIR—Has that driven your assumptions, or is it the case that your assumptions are your assumptions and you just take note of what the companies' views are?

Dr Henry—With respect to the exchange rate, our assumptions are our assumptions. We have our own technical forecasting assumptions.

CHAIR—Which are the basis of your revenue estimates?

Dr Henry—Yes, that is correct.

CHAIR—So what would be the reason for you not to share the various iterations of exchange rate assumptions that you have used in the course of the various iterations of the tax and of mining tax revenue estimates?

Dr Henry—As I indicated earlier, the government publishes updated forecasts with the budget and the Mid-Year Economic and Fiscal Outlook. That is what has happened on this occasion, and it happened very recently. With respect to the MYEFO, it is a matter for the Treasurer whether he would wish to publish any other assumptions outside that normal cycle. I must say that it is standard practice, and has been for a very long time, to publish updates of revenues only with the budget and the Mid-Year Economic and Fiscal Outlook.

CHAIR—Of course. I understood that. I guess the question is how much transparency there is around the underlying revenue assumptions. We have had a discussion about this in the past. In terms of the RSPT and the MRRT and its original $10½ billion revenue estimate iteration, there was not much information forthcoming on the underlying revenue assumptions. I have not been able to put my finger on any more transparent information in the context of MYEFO, but you are checking that. How much of the $3.1 billion in reduced revenue estimate from the mining tax was due to the variation in the exchange rate and how much was due to other causes?

Dr Henry—I think we will have to take that question on notice, Chair.

CHAIR—No worries. When we last spoke about commodity price assumptions you mentioned that they were in part based on new information from ABARE and in part based on information from the companies. ABARE released a five-year forecast in March 2010. The June forecast was only a one-year forecast, which was to June 2011. How relevant can a one-year forecast in June 2010 be for a tax which starts to take effect on 1 July 2012, if it does come into effect?

Dr Henry—Obviously it provides a starting point and then judgments have to be made about where commodity prices and the exchange rate are likely to move over the period beyond that. Since the secretary of the committee has helpfully provided a copy of the Mid-Year Economic and Fiscal Outlook, I can indicate that the forecasts in the Mid-Year Economic and Fiscal Outlook are based upon a trade-weighted index of around 74 and a US dollar exchange rate of around 98½c. So that is the exchange rate assumption, if you like, upon which both the economic and revenue forecasts are based.

CHAIR—Just on that note, we have the exchange rate forecasts in MYEFO; have we got an equivalent exchange rate forecast in the budget and for the MRRT revenue estimate at 2 July 2010?

Dr Henry—There would have been an exchange rate number disclosed in the budget as well.

CHAIR—If it is so easily available, why wouldn't you just put that into the response to the order of the Senate? Why would you not respond to a question that was put to you by the Senate?

Dr Henry—As I indicated, Senator, the normal practice is for revenues to be updated and the updates published with the budget and the Mid-Year Economic and Fiscal Outlook. That is standard practice.

CHAIR—We have moved away from the question on ABARE, which was: how relevant is a one-year forecast in the context of a tax that is due to start on 1 July 2012?

Dr Henry—As I indicated, there is a starting point, but assumptions would have to be made about the course of commodity prices and the exchange rate beyond that one-year period in order to derive revenue estimates for those future years.

CHAIR—And you would rely on the five-year forecast of ABARE in March 2010?

Dr Henry—That is one of the inputs into the process but it is certainly not the only one.

CHAIR—You mentioned earlier—and this is the reason why the government does not want to release this information—that in part the commodity price forecasts are based on commercial-in-confidence information provided by BHP Billiton, Rio and Xstrata. You are confident that BHP

Billiton, Rio and Xstrata have provided the government with internal commercial-in-confidence data about expected commodity prices?

Dr Henry—Yes, indeed.

CHAIR—They have provided the government with commercial-in-confidence data about their internal commodity price expectations?

Dr Henry—That is correct.

CHAIR—They have not just pointed you to publicly available data from market analysts?

Dr Henry—No.

CHAIR—Have BHP, Rio or Xstrata asked Treasury not to release the government's commodity price assumptions used to estimate the revenue from the RSPT or the MRRT?

Mr Parker—I can answer that. In addition to the Senate requests for information we have had a number of FOI requests. In the context of those requests we have an obligation to consult with the companies which provided the information, and they have objected to its release.

CHAIR—I have asked a very specific question. Have the companies objected to you releasing information about the government's commodity price assumptions?

Mr Parker—Yes, they have, in the context of the FOI—but not the government's commodity price assumptions. They are published—

CHAIR—In relation to the Senate order for you to release commodity price information, the government's commodity price assumptions, have the companies asked you not to provide that information?

Mr Parker—They have asked us not to provide the information which they have provided to us.

CHAIR—But that is not the question I am asking. In relation to the commodity price assumptions, have the companies asked you not to provide the government's commodity price assumptions for iron or for coal?

Mr Parker—No, of course not.

CHAIR—Well, if they have not asked you not to provide it, why wouldn't you—why would you use those companies as an excuse not to provide that information?

Mr Parker—You are drawing a distinction between two pieces of information.

CHAIR—I am.

Mr Parker—But those two pieces of information are—

CHAIR—The same?

Mr Parker—They are not precisely the same but they are—well, I would have to go and check whether the numbers are precisely the same, but they are—

CHAIR—So you are saying that the assumptions the government has used are so closely aligned with the commodity price expectations of the three companies that it would be commercially damaging to them for you to release that information?

Mr Parker—That is a judgment that has been taken, yes.

CHAIR—How much of the revised $7.4 billion in mining tax revenue do you estimate or do you expect to be paid by the big three, BHP Billiton, Rio and Xstrata?

Mr Parker—That goes to issues affecting individual taxpayers. That is an area of sensitivity which, before many Senate hearings, we have not got into.

CHAIR—Are you assuming a supply response in the outyears which will impact on commodity prices moving forward? Do you expect commodity prices to come down?

Dr Henry—Yes, and in fact that is made clear in the Mid-Year Economic and Fiscal Outlook, where we have the terms of trade falling over the projection period. I am just looking to see if I can find where it is, but somewhere in the MYEFO we note that commodity prices are likely to fall in the medium term because of a supply response.

CHAIR—The $7.4 billion in mining tax revenue is net of state royalties to be credited?

Mr Parker—Yes, that is right.

CHAIR—And I assume it is also net of any impact on company tax revenue estimates?

Mr Parker—Yes, that is right.

CHAIR—Just going to the deal that was signed between the government and the three companies, what is the reason that you are not prepared to table the signed copy of the heads of agreement?

Mr Parker—I do not see that there is any reason why it could not be tabled, Senator—

CHAIR—The Senate has asked for it twice now. The Senate has asked twice now for a copy of the signed deal. You have not complied with the request and you have not explained why you have not released it either. Do I take it from what you have just said that you will be releasing it?

Mr Parker—Naturally, I have to refer the matter to the Treasurer, but my understanding is that it has been published in full. I will refer that to the Treasurer.

CHAIR—Thank you. Whose signature was at the bottom of the agreement? The Prime Minister's, presumably.

Mr Parker—I will have to refresh my memory about precisely who signed the document. It was signed on both the government's side and on the companies' side.

CHAIR—Could one of your officials try to find that?

Mr Parker—We will endeavour to find the answer to that.

CHAIR—It should not be too hard to find out who signed it.

Mr Parker—No, it should not be too hard.

CHAIR—Did Treasury see the final draft of the heads of agreement before it was signed?

Mr Parker—I am not sure if it was the precise final—we would have to check that—but we certainly saw something which was either the final or very close to it.

CHAIR—You did not see the final version just before it was announced, did you?

Mr Parker—Yes, sure.

CHAIR—Did you see the final version of the agreement that was signed before it was signed or did you see it before it was announced?

Mr Parker—I took your first question to be whether we saw it before it was signed. Is that right?

CHAIR—That was my first question, but it was not quite clear whether you did see a final draft of the agreement before it was signed.

Mr Parker—When I say 'close to final', it would be a matter of editing or something like that. Naturally—if my recollection is correct—we saw the signed version before the announcement.

CHAIR—Was the bit about all royalties being credited in the final version that you saw before it was signed?

Mr Parker—Yes, I believe so.

CHAIR—So Treasury saw the bit which says that all state royalties will be credited before the government signed it, and you gave advice on that?

Mr Parker—We saw it. I would have to check whether advice was sought precisely on that matter. We were asked to look at the heads of agreement in its totality before it was signed.

CHAIR—Dr Henry, I had a close look through your review document again. Chapter 6, ‘Land and resource taxes’, under 6.1, ‘Charging for non-renewable resources’, talks about how current charging arrangements distort investment and production decisions, thereby lowering the community’s return from its resource—hence your recommendation. It is fair to say that your recommendation was for the national resource rent tax to replace state royalties completely. That is right, isn’t it?

Dr Henry—Yes, that is correct.

CHAIR—And under the RSPT the distorting effects of royalties were effectively removed because they were completely refunded—is that right?

Dr Henry—That is correct.

CHAIR—But under the MRRT they are not, are they?

Dr Henry—No, clearly they are not.

CHAIR—So the distorting elements of state royalties, to the extent that they exist, have not been removed, have they?

Dr Henry—To the extent that there is not a full credit provided for those royalties under the MRRT, the royalties would be impacting on investment decisions.

CHAIR—Would be impacting on investment decisions?

Dr Henry—I would expect so, yes.

CHAIR—And, potentially, production decisions too, wouldn’t they?

Dr Henry—Indeed.

CHAIR—Smaller projects that are not yet subject to the MRRT would continue to pay royalties?

Dr Henry—That is correct.

CHAIR—What is the status of royalty increases post the announcement of the RSPT on 2 May, other than the known and scheduled increases? What is happening with those?

Dr Henry—I am not sure that I would be aware of all that are under consideration. There are, presumably, some that are under consideration. There have been some announced increases. Some of those, we were aware, were being contemplated before the 2 May announcement of the RSPT—at least some of them; maybe even all of them. I am not sure; I would have to check.

CHAIR—What would be the status of royalty increases that would be announced moving forward? For example, if a state government over the next year or the next five years announces further increases in state or territory royalties, what happens to those increases?

Dr Henry—Do you mean, 'How would they be treated under the MRRT?'

CHAIR—That is right.

Dr Henry—It is my understanding that there would be no credit provided under the MRRT for those future increases.

CHAIR—No credit. So that means that companies would be subject to paying the MRRT as well as the increases in state royalties moving forward?

Dr Henry—That is my understanding.

Mr Parker—Of course that is a matter of contention between the government and—

CHAIR—I understood, and we will get to that. So we have got the first bit, which is that smaller projects are going to be continuing to pay royalties. All of the ones paying the MRRT will be—or you say will be—subject to royalty increases. Then there is a third area, isn't there? Once a mine becomes less profitable towards the end of its mine life, presumably it might fall out of the MRRT liability situation—

Dr Henry—That is correct.

CHAIR—So a mine in that situation would continue to pay state royalties, as they have throughout, without being able to claim royalty credit, wouldn't they?

Dr Henry—Yes.

CHAIR—So if I go back to what your original intention was by proposing a resource rent tax, root and branch reform of the tax system, a fairer and simpler tax system, removing distortions in investment and production decisions, the MRRT does not achieve any of that, does it?

Dr Henry—The MRRT does achieve some improvement in the neutrality of the resources taxation arrangements in the case where the royalties payable are less than the MRRT liability. The MRRT should be seen as a more efficient and more neutral form of taxation than the existing royalty regime. So in the case—which I think was the second of your cases—where the MRRT liability is at least as large as the royalty liability, there is an improvement in the taxation arrangements taken as a whole.

CHAIR—But I guess a key selling point of the RSPT and a key selling point of the resource rent tax reforms were that in the early stages of small- to mid-tier mining projects they would be better off on the resource rent tax than on the state royalties. Then in the final stages of a project they would be better off because the community would get a return over a longer period of time. I think these features are no longer—

Dr Henry—I think you understand the RSPT better than almost anybody else, actually, Chair. But you describe it as a 'key selling point'—

CHAIR—It was a key selling point of the government.

Dr Henry—Indeed, it was to my mind a key selling point as well. I think we agree on that.

CHAIR—But under the MRRT, that feature of removing distortions of investment and production decisions at the beginning of a project and at the end of a project, those times when I guess the project would be most vulnerable, is no longer there.

Dr Henry—The fact is that royalty regimes remain in place. That is a fact.

CHAIR—So we now end up with a national resource rent tax which delivers additional revenues to the Commonwealth, but a royalty regime that remains in place. So really, the situation is that we are now in a more complex environment than we were before.

Dr Henry—It is more complex, although I do not think that there should be any suggestion that the level of complexity is such that the affected taxpayers would find it difficult to understand their tax obligations. I do not think that is the point. I think that they are more than capable of understanding their taxation obligations. Yes, it is more complex but it is not a level of complexity that I think would be material in considering the merits of the tax.

CHAIR—Given that the objective was to make things simpler and they are now more complex, I guess that one of the significant tests for tax reform set by the government when they commissioned you to conduct the Henry tax review seems to have failed.

Dr Henry—It was really for the review panel to decide what weight to place on the simplicity objective. We placed a fair amount of weight on that particular objective, particularly in reflecting on the way that the tax and transfer system confronts individuals in households, and there is quite a lot in the report in those areas, which I am sure you have read.

In respect of the resource taxation proposals, simplicity is a relevant consideration but it would not be the overriding consideration. The overriding considerations, to our mind anyway, were the ones that you referred to earlier—what you described as the key selling points of the proposal.

CHAIR—Are there any other features of the MRRT which will distort investment and production decisions by more, compared with the design of the RSPT?

Dr Henry—I cannot go too far down this path, since you are asking me to comment on matters of policy.

CHAIR—I am not asking you for your opinion; I am asking you for an assessment of facts.

Dr Henry—I would regard that as the same thing. My colleague, Mr Parker, reminds me that of course the uplift rate is different between the two. I think that in this committee—if not this committee, some other committee—we have had discussions about what is the appropriate uplift rate. I am on record on those matters. The uplift rate is different; it is much more generous under the MRRT.

CHAIR—You suggested in your review that the allocation of revenue and risks from the new tax should be—and I emphasise—negotiated between the Australian and state governments. That did not happen before the announcement, did it?

Dr Henry—There was no negotiation as such, no.

CHAIR—What is the status of discussions with states and territories on royalty arrangements and interaction between the MRRT and royalties now? Is there negotiation around that with state and territory governments? Have they impacted on it?

Dr Henry—I am not aware of any negotiations as such on those matters. That is not to say that there have not been discussions, but I am not aware of any. There were some discussions before the announcement of the RSPT.

CHAIR—There was advice provided about the announcement that was imminent, but there was no two-way engagement about the merits or otherwise and design features and structures of the tax, were there?

Dr Henry—Again, I am not sure where one draws the line, but there were certainly discussions with at least one state government that went beyond that state government being told what was going to be announced.

CHAIR—To what extent did it go beyond?

Dr Henry—It is difficult for me to describe it. I would not regard it as a negotiation, if that is what you are looking for—certainly not.

CHAIR—What is the likelihood that all states and territories would ever agree to the removal of royalties on resources, in your mind?

Dr Henry—I would hope that one day they would. I remain hopeful.

CHAIR—Would the Commonwealth be able to force states and territories into a position where they cannot either charge or increase state loyalties?

Dr Henry—Of course the Commonwealth could, if it wished.

CHAIR—It would have, in your mind, the constitutional power to force states into a position of not charging royalties on state-owned resources or not increasing royalties, as it sees fit at any one point in time, against their will?

Dr Henry—None of this is in contemplation, but you ask a hypothetical question and you ask whether—

CHAIR—I ask whether the Commonwealth has the power.

Dr Henry—The Commonwealth has the power, and it has used it on occasions to have the states do things or not do things. Principally the Commonwealth's power comes through the state's reliance on the Commonwealth for such a large proportion of their funding. The Commonwealth is pretty much in control of that funding. I say 'the Commonwealth' because I am talking about the Commonwealth parliament, since mostly what I am talking about is appropriations made by the Commonwealth parliament to the states. If the Commonwealth parliament decided the states should do something they are not presently doing, or stop doing something they are presently doing, the appropriations power affords the Commonwealth parliament a fair degree of leverage.

CHAIR—That is leverage as part of a negotiation—

Dr Henry—Yes.

CHAIR—But any state would want to continue to impose state royalties on its resources or increase royalties on its resources. There is nothing that you can do in terms of the constitutional powers of the Commonwealth to prevent them from doing it, other than wanting to use—

Dr Henry—Yes, that is correct. Absolutely.

CHAIR—Thank you. You mentioned earlier that future state and territory royalty increases will not be creditable against the mining tax liability, but the heads of agreement is pretty clear, isn't it? It does say:

All State and Territory royalties will be creditable against the resources tax liability …

Why is there any argument about this?

Dr Henry—Well, I could point out that it does not say 'all future royalties', for example.

CHAIR—What limitation is there on 'all'?

Dr Henry—Obviously, as my colleague Mr Parker indicated earlier, there is some dispute, which you are obviously well aware of, among various parties about the meaning of that particular phrase, and that suggests—

CHAIR—But 'all' is pretty all-encompassing, isn't it?

Dr Henry—'All' is obviously all-encompassing. I think that is a tautology.

CHAIR—Indeed.

Dr Henry—But does it refer to all things in existence now or all things in existence at any point in time? That is the question.

CHAIR—It is a 1½-page heads of agreement—

Dr Henry—Yes, it is a summary.

CHAIR—You say it is a summary of the real agreement?

Dr Henry—It is a summary of the intentions of the various parties, obviously.

CHAIR—So was there something signed other than the 1½-page heads of agreement?

Dr Henry—Not that I am aware of. What I am suggesting to you is that there was a lot that was in people's heads that is not captured in that document.

CHAIR—Sure. But, just looking at what is captured and what has been signed off on by the various parties that signed the agreement, in the section on market valuation it specifically points to 1 May 2010 as the time when market based valuations are to take place, yet there is no limitation to the statement I read before:

All State and Territory royalties will be creditable against the resources tax liability …

Dr Henry—Who knows why that is the case? Maybe it was so clear in the minds of the parties to the negotiation that it did not need to be written down. I do not know. I would suggest that you do not look at this very brief document in the same way that you as a senator look at legislation.

CHAIR—It is an agreement—

Dr Henry—Of course it is an agreement, but—

CHAIR—signed by the Prime Minister, the Treasurer and the minister for finance.

Dr Henry—Yes, of course. But when the MRRT is legislated you will see, quite possibly, hundreds of pages of legislation to give effect to that agreement. You should not expect, I suggest, that that agreement captures all of the detail that you as a senator would want to see in a piece of legislation you were scrutinising.

CHAIR—Who provided the initial draft of the joint press release that was put out on 2 July by the Prime Minister, the Deputy Prime Minister and Treasurer, and the Minister for Resources and Energy? What was Treasury's involvement in drafting that release?

Mr Parker—We would have to take that on notice, Senator.

CHAIR—Okay. Thank you. But is it fair to say that, before the press release was put out into the public domain, Treasury would have cleared it?

Mr Parker—We saw it, Senator.

CHAIR—So after you saw it, did you make any changes at all to the release? You say you saw it, so did you provide any value to the release by making either grammatical or substance adjustments to the release that was put out?

Mr Parker—We would have to refresh our memory with the relevant document.

CHAIR—The reason I am asking it, please refresh your memory, but are you aware that the words ‘all state and territory royalties will be creditable’ were removed from the press release of the Prime Minister, the Treasurer and Minister for Resources and Energy?

Dr Henry—Were removed from—sorry?

CHAIR—This is a four-page release which includes all other elements of the heads of agreement and faithfully restates all of the other parts of the heads of agreement. Even the second part of the sentence about the state royalty credits is reproduced. In the heads of agreement it says:

All state and territory royalties will be creditable against a resource tax liability but not transferable or refundable. Any royalties paid and not claimed as a credit will be carried forward at the uplift rate of long-term bond rate plus seven per cent.

The only reference in the press release is to ‘unused credits for royalties paid will be uplifted at the government long-term bond rate plus seven per cent, as per other expenses. Unutilised royalty credits will not be transferable or refundable.’ The eight words ‘all state and territory royalties will be creditable’ have been removed. I am trying to find out who did that.

Dr Henry—I suspect nobody in this room knows the answer to that question. We will have to take that question on notice and see if we can find out.

CHAIR—If you do find out who has removed those eight words which have turned out to be quite strategic and critical in the way the debate has developed, could you take on notice to find out why they were removed. That would be very useful indeed to the extent that you can assist us with that. Then we have also got the Policy Transition Group issues paper which has a third way of treating all of this. In paragraph 229 it says that state and territory royalties will be creditable at least up to the amount imposed at the time of the announcement. That seems to envisage that it could be more. Yes? Did Treasurer draft—

Mr Parker—Can I just get a hold of the document. Could you direct me to the page, Senator?

CHAIR—Paragraph 229, page 56. It says that state and territory royalties will be creditable at least up to the amount imposed at the time of announcement, including scheduled increases and appropriate indexation factors. That seems to suggest that future increases could be included.

Mr Parker—As a matter of grammar, you could read—

CHAIR—I am just a humble immigrant. Please explain the grammar to me.

Mr Parker—It says ‘at least up to’.

CHAIR—So it could be more.

Mr Parker—I think it means that at least up to that point, not necessarily more.

CHAIR—Not necessarily more, but it could be more. That is my point. If it was just up, to then you would say ‘up to’. The words ‘at least’ have a meaning, haven’t they?

Dr Henry—It goes on to say ‘including scheduled increases and appropriate indexation factors’.

CHAIR—That is the amount imposed at the time of the announcements?

Dr Henry—Including scheduled increases.

CHAIR—Including scheduled increases and appropriate indexation?

Dr Henry—Yes.

CHAIR—So the ‘at least up to’ includes scheduled increases and appropriate indexation factors, so it could be more? I do not want to lose too much time on this, but I just observe that there are three different versions of how state royalty credits may well be credited moving forward. There is one in the heads of agreement, which says, ‘All of them will be credited.’ Then there is the government’s view, which says, ‘They will only be credited up to what was known at the time of the announcement on 2 May, including scheduled increases and appropriate indexation.’ Then there is the policy transition review, which says that at least that much will be creditable. I am sure that, in the fullness of time, these things will be resolved. In terms of your revenue estimates moving forward, have you made any assumptions about whether states increase their royalties in the future?

Mr Parker—For the purposes of the revenue estimates, future royalties would not be creditable. Indeed, one could observe that, were future royalty increases to be creditable, it would be extremely difficult to make a revenue estimate of the MRRT.

CHAIR—It seems to be extremely difficult now, given the fluctuations that we have already observed for tax—

Mr Parker—We would not dispute that. Estimating the revenue of a tax which is sensitive to the exchange rate and to commodity prices is extremely difficult, adding uncertainty.

CHAIR—A sensitivity to state government decisions about royalties—it is just another sensitivity, isn’t it?

Mr Parker—No.

CHAIR—It is not? Do you mean you would be subject to sovereign risk, having states make decisions about taxes?

Dr Henry—Do you mean if future royalties and future royalty increases were to be creditable? Certainly.

CHAIR—Which is, of course, what it says in the heads of agreement. We are going around in circles. Now that you have got it, can I just take you to page 53 of the PTG issues discussion paper. In the little grey summary box, right at the bottom, alongside 'Royalty credits,' it says:

The terms of reference state that royalties can be credited against MRRT liability, and can be uplifted, but they can not be transferred or refunded.

Does that mean that, if I am a small mining project which, essentially, accumulates credits for state royalties without being able to offset them against MRRT liability and I sell my project to a larger company, I cannot transfer credits for state royalties?

Mr Parker—No. Transferability in that case refers to transferability to another project.

CHAIR—Transferability to another project. I thought that losses and credits were transferable across projects within the same company?

Mr Parker—Yes, they are. At the level of generality—that is, losses generated by having your expenses larger than your revenues. But it is quite clear in the terms of reference that that transferability does not apply in respect of credits arising from royalties.

CHAIR—So, if I am BHP, Rio or Xstrata and I accumulate state royalty credits for project A, I cannot offset those state royalty credits against project B?

Mr Parker—That is right. Of course, in that case the mine where royalty credits are accumulating is not paying MRRT—that is, it is an unprofitable mine, if you like; unprofitable in the sense of not being larger than the royalty amounts.

CHAIR—So we have just found a fourth area where the distorting effects, which Dr Henry has described as state royalties, will continue to play out—that is, within big companies, such as BHP, Rio or Xstrata, as well as within smaller companies, if I accumulate royalty credits within one project I cannot actually use those credits for other projects. Is that what you are saying?

Mr Parker—Yes, it is not a big company/small company issue at all.

CHAIR—With small companies the situation is very clear: if you have one project you accumulate them, you cannot offset them and you cannot get a refund, so they are distorted. We have already gone through that. But there is now a fourth element. What we said before is that the big companies which are likely to pay MRRT will actually also pay state royalties that are not creditable or refundable on projects within their portfolio of projects and will not be able to offset that against their MRRT liability. That is right, isn't it?

Mr Parker—That is right. There is a slight nuance here relating to the definition of a project, and that is a matter which is being worked on by the Policy Transition Group. You will see in the paper put out by the Policy Transition Group a discussion of the extent to which the concept of 'project' may cover more than one, if you like, mine.

CHAIR—Okay, and that might be great for me if I am a big company. But if I am a small company with one project, whatever your definition is of ‘project’, that is not going to help me, is it?

Mr Parker—As we have discussed before.

CHAIR—Yes, as we have discussed before. So whatever you might do to the definition of ‘project’ might help the BHP Billitons, Rios and Xstratas; it will not help anybody else to soften the impact of ongoing state royalty payments on them.

Mr Parker—It is a basic feature of the tax that if the MRRT implicit liability is less than the royalty then there is no refund of the royalty. It is a basic feature of the tax. It is, if you like, a top-up tax at a lower rate than—

CHAIR—It is a top-up tax rather than a replacement tax.

Mr Parker—That is right—a top-up at a lower rate than the RSPT.

CHAIR—It is a top-up tax, but the RSPT was a replacement tax.

Mr Parker—That is right.

Dr Henry—That would have raised more revenue.

CHAIR—The RSPT was a replacement tax which would have raised more revenue, and this is a top-up tax where the Commonwealth raises a bit less revenue—

Mr Parker—Which raises less revenue, that is right.

CHAIR—but all of the complications and all of the features criticised in the royalty regime are still ongoing.

Mr Parker—That is right. Of course, under the RSPT the replacement of royalties, as you mentioned, was a replacement in economic terms—that is, the royalty regime still existed; it was not placed as a matter of law or as a matter of administration. It was replaced as a matter of economic effect. The complexity, which you have referred to, remained in place.

CHAIR—I have a question on the impact on states and territories and on individual commodities. When we met on 5 July in a different committee, you said, Mr Parker, that you had assessed the $10½ billion mining tax revenue by commodity—that is, that you had a breakdown of how much revenue would be raised from each commodity.

Mr Parker—Yes.

CHAIR—We have had a very specific order of the Senate and we have had questions on notice. In fact, there have been two orders of the Senate. Treasury completely ignored that specific order. You made one consolidated response to all three orders and the question about you providing us with the breakdown on a commodity-by-commodity basis of the mining tax revenue estimate was completely ignored. Why is that?

Dr Henry—I would need to check, Senator, but I am pretty sure that that was one of those questions that we took on notice to refer to the Treasurer. I suspect strongly that it was the Treasurer's decision what material should be released to the committee rather than a decision taken by the department.

CHAIR—But if a decision is made not to release information sought by a committee, and we have sought this information on a number of occasions now, you would be well aware of the need to point to a public interest ground and parliament would—

Dr Henry—I am aware of that, but I do not agree that I need to point to such a claim.

CHAIR—You can refer it to the Treasurer.

Dr Henry—Indeed.

CHAIR—I understand that, but whoever deals with the Senate committee's request or the Senate's request—

Dr Henry—That is the Treasurer.

CHAIR—has to point to a public interest ground and to explain the public harm.

Dr Henry—I do not think you can fairly bring this one back to us. I think it is a matter as between this committee and the Treasurer.

CHAIR—Are you aware of any reason why it would not be in the public interest to release the breakdown?

Dr Henry—It is a matter for the Treasurer.

CHAIR—But you can confirm that that is analysis that has been done? That is what you told us on 5 July, so it has been done. It is information that is held by Treasury; it is information that is held by the government but the Treasurer has decided not to release that information.

Mr Parker—That is right. We have the information.

CHAIR—You have the information?

Mr Parker—We have done the analysis by commodity.

CHAIR—Since you took it on notice on 5 July, have you done the analysis on a state-by-state basis?

Mr Parker—We are still working on that matter.

CHAIR—Again, I am quoting you, Mr Parker. You said on 5 July:

It would not be a difficult piece of analysis to do.

That was on 5 July. That is five months ago.

Mr Parker—I note that you placed some considerable emphasis on that in your last report—something which caused me some distress, I might say—

CHAIR—I do not mean to cause you distress, but it is—

Mr Parker—I would like to explain that because I think there has been a miscommunication in that sense. Saying that something is not difficult does not necessarily mean that it can be done quickly. You can have a task which is not difficult but which is nevertheless large. It could be not difficult in the sense that you know how to do it. Let me give you some examples. Going to the moon was a difficult task and it took a long time. There are some tasks which are difficult which do not take very long because they are time limited in some way.

CHAIR—You are saying this is a task that is not difficult but it takes a long time.

Mr Parker—This is a task which is not difficult in the sense that we know how to do it but which is nevertheless large and requires substantial information gathering. That is ongoing. There is also some work which is being done by the policy transition group—some modelling which will assist in the exercise. One could do the work on the back of the envelope, so to speak, but that would be an estimate of a quality which we would not regard as being sensible to put into the public domain. In order to do the task which you have flagged, essentially the exercise needs to be modelled from the bottom up, if you like—that is, mine by mine and region by region. That is not the same task as the aggregate revenue estimation, where one can look at the industry effectively as a whole.

CHAIR—You would have seen the WA Treasury estimate, which is that up to 65 per cent of the MRRT revenue over the forward estimates would come from Western Australia. They published their assumptions, they published their detailed methodology and they invited people like you to look at it, criticise it and tell them where they were wrong, if they were wrong, complemented with additional information to the extent that it could be shared. Have you reviewed the WA Treasury estimate that 65 per cent of the mining tax would come from Western Australia?

Mr Parker—I have not personally reviewed that.

CHAIR—So you are not aware as to whether it is an accurate estimate or whether it is not an accurate estimate?

Mr Parker—Some of my people may have looked at it. They are not here at the moment, so if you like we can take the question on notice as to whether we have reviewed it.

CHAIR—I have to say, I am somewhat concerned about that. It is a pretty out-there claim. Essentially, out of $10½ billion worth of revenue one state says nearly $7 billion will come out of Western Australia. Revenue estimates have been reduced since then. Surely you would want, at your level, to reassure yourself one way or the other, whether that is right or whether that is wrong.

Mr Parker—Indeed, and we are in the process of doing that. It is also obviously relevant in the context of any discussions which take place with the states, so we would want those numbers to be well based.

CHAIR—When do you expect that not difficult but large piece of work to be finalised?

Mr Parker—I would have to take the precise date on notice.

CHAIR—Before the end of the year? Early next year? By 1 July 2011?

Mr Parker—I would certainly expect it to be done by 1 July 2012, but I do not wish to be flippant. My understanding is that the task is substantially advanced but not yet complete. I do not have a precise date—

CHAIR—'Substantially advanced'—so we are getting to the pointy end of a task that is not difficult but takes a long time?

Mr Parker—I am not precisely sure what you mean by 'the pointy end'.

CHAIR—'The pointy end' means that we might expect something soon. Is that information going to be publicly shared?

Mr Parker—That would be a matter for the government.

CHAIR—Last time—and I looked through the *Hansards*—Dr Henry, you and I had a bit of a discussion about the fact that more revenue would come from iron ore than from coal, in general terms. I have reviewed the transcripts now. It was remiss of me not to ask some follow-up questions there because it was related to the interaction between the MRRT and state royalty credits, and I did not quite understand what you were saying. Can you explain to me why the interaction between MRRT and state royalty credits impacts on coal differently than on iron ore?

Dr Henry—Not off the top of my head, no.

Mr Parker—Was this the second of the hearings?

CHAIR—It was the second of the hearings, indeed. I think that the gentleman who is sitting behind you, Dr Henry, was assisting you at the time.

Dr Henry—Who was this?

CHAIR—I do not know his name; I am sorry.

Dr Henry—Mr Davis?

Mr Parker—Senator, could you point us to the *Hansard* itself?

CHAIR—I cannot right now.

Mr Parker—It is difficult for us to respond—

CHAIR—Let me ask a question in a general sense then. You have done the breakdown; you are not going to share the specifics with us, but is it fair to say that most of the revenue from the MRRT will come from iron ore?

Mr Parker—Yes, I think that is the case.

CHAIR—And can you give us a sense of the proportions?

Mr Parker—Not off the top of my head.

CHAIR—Is it like 70-30? Is it 60-40 or 55-45 or is it like 80-20?

Mr Parker—Not off the top of my head.

CHAIR—Can you provide us on notice with the proportion?

Mr Parker—We can take the question on notice.

CHAIR—So why is it that the most of the revenue would come from iron ore as opposed to coal? What is driving that?

Mr Parker—There are some parts of the coal industry which are particularly profitable, especially the metallurgical coal sector, which is used to make coke for steelmaking. The thermal coal sector is less profitable. So there are significant parts of the coal industry which, compared with other parts of the coal industry and compared with the iron ore industry, would not be paying substantial amounts of tax.

CHAIR—Would you expect the coal industry to pay much MRRT beyond the state royalties that are going to be refunded?

Mr Parker—Sorry, could you repeat that?

CHAIR—The way the MRRT works is that there is a credit—

Mr Parker—Yes, I understand how it works; I just did not quite hear precisely what you said.

CHAIR—What I want to know is the proportion of state royalty credits as a part of the revenue, the overall MRRT liability, for coal.

Mr Parker—I would have to take the question on notice to get that.

CHAIR—Do you understand the question?

Mr Parker—I think so. As I understood, you asked the question in two slightly different ways.

CHAIR—I have asked it in slightly different ways but I am after the same information. Essentially I want to know about the gap between total MRRT liability and total state royalty credits for coal.

Mr Parker—Right.

CHAIR—Like how much is—

Mr Parker—The net MRRT.

CHAIR—the net MRRT on coal compared to the state royalty credits that you expect to pay for coal? I guess I would like, related to that, the same information for iron ore. Are you able to tell us in a general sense whether that gap between state royalty credits and total MRRT liability is larger or smaller for iron ore than it is for coal?

Mr Parker—On average, I think it would be larger for iron ore than coal. But, as I said before, there are different parts of the coal industry.

CHAIR—Sure, but this is what we were discussing last time. I guess I am very interested in the fact that 96 to 98 per cent of iron ore production is in Western Australia.

Mr Parker—That is right. The balance being from South Australia and Tasmania.

CHAIR—So, to the extent that there will be a tax which mostly collects revenue from iron ore, it will be a tax, to a large degree, on Western Australia, won't it?

Mr Parker—Yes.

CHAIR—Has there been any decision made by government in relation to the treatment of magnetite that you are aware of?

Mr Parker—That depends on what you mean by decision.

CHAIR—Has there been a decision to exclude magnetite?

Mr Parker—There has been no decision to exclude it. That is a matter which has been put to the PTG and which ultimately will need to be considered by government.

CHAIR—Have there been any other decisions in relation to the treatment of magnetite under the MRRT?

Mr Parker—Any other decisions?

CHAIR—Decisions to change the treatment of magnetite under the MRRT.

Mr Parker—No. There have been no decisions since the announcement.

CHAIR—When we last met in July you had not obtained any specific legal advice on the constitutionality or otherwise of the MRRT and expanded PRRT. Have you done so now?

Mr Parker—Regrettably, I was not able to attend the second hearing, so I would need to go and see specifically what was said in the *Hansard*.

CHAIR—I asked Dr Henry about whether or not the MRRT was constitutional and he said yes it was. I asked whether any new advice had been obtained since the RSPT and the answer was no. So the question I have now is whether, since that time, since July, Treasury has sought any further advice on that.

Mr Parker—I would have to take it on notice.

CHAIR—Obviously there has been a bit of information released around constitutional considerations, specifically around the potential for discrimination between states because of the state royalty arrangements.

Mr Parker—We had an extensive discussion of this matter at the last estimates hearing.

CHAIR—That may well be the case, but now we are going to have a discussion at this hearing about it. But you are confident that you are able to draft the legislation such that you will not be in breach of constitutional requirements on that point?

Mr Parker—The advice which was released in response to the FOI request went through the issues of constitutionality and discrimination. I do not regard myself as a constitutional lawyer. I simply point out that that advice included analysis of the RSPT, not the MRRT. That is the first point to observe. The second point to observe is that that advice—I do not have it in front of me, I am afraid—included a mechanism by which legislation could be prepared which would not be discriminatory.

CHAIR—Are the constitutional issues that were raised in that advice about the potential for discrimination between states the reason why the government cannot go down the path of making all state royalties creditable under the MRRT, including future increases—because there would be the potential for discrimination between states in that context?

Mr Parker—I do not believe so.

CHAIR—If the states were to vary their royalties to different degrees and you were to refund them to different degrees, you would be in the situation where you would potentially be discriminating between states, wouldn't you?

Mr Parker—No, I think if you read that advice carefully it raises the issue of potential discrimination in the event that the Commonwealth is not refunding all royalties, present and future. So it talks about the potential for discrimination in respect of a refund on which there is some limit, and then it points to a mechanism by which legislation could be written that did not discriminate on that basis.

CHAIR—So you are saying that the Commonwealth could be refunding different rates of state royalties without discriminating between states?

Mr Parker—Yes, I believe so, in the same way that different rates of royalties that presently apply and that are presently deductible for income tax purposes are deductible for income tax purposes. There is no discrimination in the sense that it treats all states equally—that is, it does not give the same deduction but it gives the same deduction for whatever expense has been incurred.

CHAIR—So like the MRRT, essentially, you like at this as if it were an income tax?

Mr Parker—I was drawing an analogy there. It is a rent tax.

CHAIR—You spoke about legislation. When do you expect draft legislation to be made publicly available.

Mr Parker—We are presently working towards making draft legislation available, hopefully around May of next year. Whether that slips, who is to say.

CHAIR—How will the market value starting base operate? Can you give us a one-sentence—

Mr Parker—One sentence!

CHAIR—Give us a snapshot to kick the discussion off.

Mr Parker—The market value is established as at 2 May. The reason that a specific—

CHAIR—Wasn't it 1 May? The day before the announcement.

Mr Parker—Could be.

Dr Henry—I think it is.

Mr Parker—It is established on 1 May. The reason a specific date is specified in that case is that one needs to know a specific date to strike a set of numbers. So the market value is established and thereafter that market value can be written off over a period up to a maximum of 25 years or shorter effective life. I am not sure if that was one sentence!

CHAIR—That is okay. Presumably, the big three mining companies would have written off by now the investment in infrastructure and I suspect their market valuation as at 1 May would all be in the value of their proven resources in their existing projects, wouldn't it?

Mr Parker—I think a substantial amount would be in their proven resources, but not all of it. Of course the relevant value is the value only upstream, to use the jargon of the taxing point—not downstream.

CHAIR—But as at June 2009, BHP and Rio, when they announced their joint venture, valued their combined operation at about $116 billion. Is that proportionate to the tax shield that they will be able to claim in the context of market valuation?

Mr Parker—I am not sure. I would have to have a look at the basis on which they valued it and what assets it covered.

CHAIR—But why the whole deduction works is that they can claim it over 25 years or the life of the mine. Yes?

Mr Parker—Yes.

CHAIR—Doesn't that approach front-load the tax liability?

Mr Parker—Front-load the tax liability—

CHAIR—To the extent you take the valuation as at 1 May 2010 and you spread it over 25 years. As the mine gets depleted the value of the mine goes down. So doesn't the value of the deduction increase over time?

Mr Parker—No, the value of the deduction stays the same over time. It would be written off—

CHAIR—I do not mean the nominal value, I mean the value of the reduction to the company. I think Dr Henry is nodding—

Mr Parker—Perhaps Dr Henry has understood the—

CHAIR—Essentially if you have a mine that is consistently depleting, the value of the mine will go down, whereas you have fixed the market value at a point in time—1 May 2010—and you are going to spread that value over a period of time.

Mr Parker—That is right.

CHAIR—So in the latter part of that period it will be artificially high.

Mr Parker—No, I think you have misunderstood, Senator.

CHAIR—I am sorry if I have misunderstood. Enlighten me.

Mr Parker—What happens is that you strike the value at 1 May and then that is written off over the effective mine life or up to 25 years. Let us suppose, just for the sake of making it simple, that the only value is the resource; it does not have value incorporated in the plant and equipment inside the taxing point. That mine will deplete over 25 years. Mine life is exactly the same as 25 years. In 25 years time, the value of the resource in the ground would be zero. And in 25 years time the value that is left from writing off the market value as at 1 May 2010 would also be zero. What is left of the market value struck at 1 May will also decline through time.

CHAIR—You only deduct four per cent in any one year if you do it over 25 years, don't you?

Mr Parker—That is right.

CHAIR—I think what you have just said is a bit disingenuous because, yes, of course you end up at zero at the end of 25 years in both cases, but the four per cent of the 1 May 2010 market value in year 21, 22, 23 and so on is much higher for the company.

Mr Parker—No, no.

CHAIR—If you have got a progressively less profitable mine, it stands to reason that the proportion of your deduction continues to increase, so you pay more tax upfront in your early years. Just by virtue of the fact that your profitability goes down, you pay less tax later. But the fact that your deductibility is based on market valuation on 1 May 2010 compounds that.

Mr Parker—I think you are neglecting to take into account the fact that the market value is not uplifted. So the deduction in year 25 would be four per cent of what the market value was in nominal terms on 1 May 2010, whereas you would expect commodity prices—they are difficult beasts to forecast—with all other things being equal in nominal terms, to be higher over time because of inflation and depletion of resources.

CHAIR—Looking at how this market valuation method impacts on the bigger versus the smaller mining companies: Fortescue, Atlas Iron, BC Iron and all the other emerging miners are not able to take advantage of this deduction, are they, because they were not sufficiently mature at 1 May 2010 and the market had not properly valued yet the extent to which they might generate revenue into the future?

Mr Parker—Do you mean the equity market?

CHAIR—The market valuation of the company is not yet fully matured, is it, whereas it is for BHP, Rio and Xstrata.

Mr Parker—I think you might be drawing more of a distinction than is real. When you say 'mature', equally Fortescue has much of its investment in front of it to fully become mature in the same way that you have talked about BHP and Rio.

CHAIR—But BHP and Rio, on 1 May 2010, were established. For their existing projects, their market value was well and truly established, whereas Fortescue, Atlas Iron and BC Iron are not quite in the same circumstances, because they are investing in new projects, whereas most of the activity of BHP, Rio and so on is expanding existing projects. How do they get impacted in different ways on that basis?

Mr Parker—One way to think of this at the conceptual level is that at one end of the spectrum you would have a mine which is fully known about and is in depletion phase; it would have a market value at 1 May largely related to the known resource. At the other end of the spectrum you will have a piece of bare ground which has a resource in it but where nobody knows about the resource and it has not been found yet; that would have a low market value. Then there is a spectrum in between. So the market value mechanism in the MRRT is intended to operate to ensure that the tax is prospective and attaches to the super profit which will be realised over the life of the mine given the extent and value.

CHAIR—I have 10 minutes left, so I am just going to go quickly through a few questions here. Do you think that the way the MRRT is designed is competitively neutral and is not having a distorting effect depending on whether you have a BHP, Rio or Xstrata business model or an FMG, Atlas Iron or BC Iron business model?

Mr Parker—I guess that depends on the benchmark of competitive neutrality, which takes us back to the discussion which we had early in this session. We have mentioned a number of non-neutralities.

CHAIR—Is it good public policy for taxes to be competitively neutral?

Dr Henry—It is, but there are none in existence that are competitively neutral.

CHAIR—The context is that the government has negotiated a tax with three taxpayers, having excluded all other relevant taxpayers. Obviously we have had a lot of commentary around the fact that that has given those three taxpayers a competitive advantage given the different business models now in operation in smaller mining companies. How would Treasury respond to those concerns?

Mr Parker—In this context we have an announced government policy as per the heads of agreement. We have a Policy Transition Group which is consulting on the announced policy and on the means of implementation, and Treasury's role in that context is to implement government policy, including through the consultation process and the preparation of legislation. Our role is not to comment on government policy. Traditionally we do not.

CHAIR—Yes, okay. So you decline to make a comment on that—understood. At the committee's first public hearing, in Perth on 8 November, the committee heard from FMG, and Andrew Forrest said:

> The RSPT … would have eliminated Fortescue. Treasury knew those numbers, yet they proceeded with it.

What is your response to that?

Dr Henry—Sorry? The RSPT would have eliminated Fortescue?

CHAIR—There was some documentation released through FOI which showed that Treasury was aware that the RSPT—I am quoting Andrew Forrest now:

… would have eliminated Fortescue. Treasury knew those numbers, yet they proceeded with it.

Senator CAMERON—He was quite animated and agitated from time to time, so you may have to take that with—

Senator WILLIAMS—You probably did that, Senator Cameron.

CHAIR—I have only six minutes left.

Dr Henry—I do not understand those comments.

CHAIR—The thing is that you can understand why Andrew Forrest is feeling a little bit aggrieved. I am just looking at this email. Is Jason McDonald still a senior manager in the Revenue Group?

Dr Henry—Yes, he is.

CHAIR—You would be aware of the email that was released under FOI that he sent to Hamish McDonald—in the Treasurer's office, isn't he?

Mr Parker—Yes, that is right.

CHAIR—I quote from the email:

Hamish

We are in a good position. The longer this runs, the more the big mining arguments appear hollow and the more good news stories will come through (mining investments will continue, small miners and finance will see through the misinformation).

This was on 3 June 2010. At the bottom of the email, it says:

- The Treasurer could consider writing a letter to the ASX about the Fortescue travesty and how it misleads shareholders.

That is getting quite close to the political operations of government, isn't it, for a Treasury official?

Dr Henry—If you are raising that in a substantive way, I will have a close look at that email.

CHAIR—I am raising it in a substantive way, because you have got a Treasury official who is sharing with the Treasurer's office that 'we are in a good position', taking some ownership of—

Dr Henry—Maybe. But you are not suggesting that it is political, are you? It is a while since I have looked at that—actually, I am not sure I have ever looked at it previously. But I do not take it that you are suggesting that the behaviour is political.

CHAIR—I wonder what other conclusion one could draw from a statement that says:

Hamish

We are in a good position. The longer this runs, the more the big mining arguments appear hollow—

this is still in the context of the RSPT—

and the more good news stories will come through …

It then goes through a whole series of points. This is in the context of analysis that was also released which showed that Treasury was quite conscious of the impact that the RSPT would have on Fortescue in terms of its—

Dr Henry—As I said earlier, I do not understand those remarks attributed to Mr Forrest; I really do not understand them. But I am not satisfied from what you have said to me that there has been any political behaviour as such on the part of Treasury officers. As I recall, in that period there was intense opposition to the government's proposal, some of it in my view, although that is not relevant, containing misinformation—a public information campaign that contained misinformation. It is not unusual, actually, for public servants to be involved in supporting a government in the implementation of announced policy. That is—

CHAIR—Did the Treasurer ever write a letter to the ASX about the 'Fortescue travesty' and how it misleads shareholders? There is a draft attached.

Dr Henry—I really do not know, but I can check that.

CHAIR—If you could take that on notice, thank you.

Dr Henry—I will take that on notice.

CHAIR—Now, FMG also argued that the design of the tax would ensure that other, smaller companies 'could not afford to build infrastructure because they would be hit by tax before they had started earning revenues', because of the nondeductibility of debt. Do you agree with that statement?

Dr Henry—I am sorry; who said that?

CHAIR—This was FMG at our hearing. They argued that the design of the MRRT ensures that other, smaller companies 'could not afford to build infrastructure because they would be hit by tax before they had started earning revenues', because they will of course have to refund their debts—

Dr Henry—Just as they will have to pay interest on the debt. I really do not understand—

CHAIR—which are not deductible for the purposes of the MRRT. So they will have to pay the MRRT irrespective of whether they have a positive cash flow.

Dr Henry—Yes. That may be a little unusual, but it does not—

CHAIR—Irrespective of whether having a profit even.

Dr Henry—It depends how one defines ‘profit’, of course.

CHAIR—It always depends on that.

Dr Henry—The fact that a taxpayer may not be in a positive cash flow position in a year yet have a tax liability might be a little unusual but it does not present a unique problem to businesses, which after all often have to finance operations, particularly in the early years of operations, through debt. After all, none of these projects would have any debt if they had sufficient cash flow to offset their expenses.

CHAIR—Does it remain a best estimate that around 320 companies would be subject to the MRRT?

Mr Parker—I would have to check.

CHAIR—Roughly. That was the figure we were given at the time. Would there have been a change?

Mr Parker—You have asked me whether it remains the case. I would have to check.

CHAIR—If you need to check, then I assume you are taking that on notice, are you?

Mr Parker—I will take that on notice.

CHAIR—Can you also tell us how many of the 320 companies you expect to end up paying the MRRT and expanded PRRT?

Mr Parker—Yes.

Proceedings suspended from 10.30 am to 10.43 am

CHAIR—We will reconvene. I will hand over to Senator Hutchins.

Senator HUTCHINS—Dr Henry and Mr Parker, thank you, once again, for coming before the committee in whatever form it is at this stage. I asked this question of Professor Garnaut on Friday, in Melbourne. It was particularly relevant, considering we have had questions about where this proposed tax comes from and we have already heard that referred to today in questions from the chairman. Are you satisfied that the tax—I will use my words—will be paid by the Western Australian miners? Geographically, who will be paying the tax? Will it be the Western Australian miners, will it be their headquarters located in Melbourne or will it be their shareholders, who generally reside overseas—for example, in Park Avenue in New York or WC1 in London?

Dr Henry—I think it is pretty clear that, of those three, the incidence of this tax will fall on shareholders.

Senator HUTCHINS—The shareholders will be paying the tax.

Mr Parker—That is the economic incidence.

Dr Henry—The economic incidence will fall on their shoulders, so the company pays tax. As we heard just before the break, the payment of tax reduces their cash flow and that would have its principal impact in the form of somewhat lower dividends. So it would be the shareholders, we would expect, who would feel economic incidence of the tax.

Senator HUTCHINS—Could you just refresh for me and the committee why royalties are a bad way to charge for resources rather than a profit based tax.

Dr Henry—There was some discussion on this in the tax review document that Senator Cormann referred to. Royalties are typically based either on the volume of extracted material or on the value of extracted material. There is an exception in the Northern Territory but they are usually without regard to costs involved in extraction of the resource. Thus a very marginal project could find itself subject to a significant amount of royalty if the royalty is based on either of those two bases—that is, based either on the volume of material extracted or on the value of the material extracted. That is to say, there is the possibility that something in excess of all of the economic profit in the operation is extracted through the royalty. Obviously, if that were the case, there would be an adverse impact on investment and on production. The RSPT had the advantage of being a pure profits tax. The tax payable would be the 40 per cent share of the actual pure profit associated with the project. So if a project were making no pure profit then the tax payable would be zero. If it were making $10 million pure profit, the tax payable would be $4 million and so on. It was just a sharing of the pure profit. A pure profit based tax by definition does not impact on investment and production decisions.

Senator HUTCHINS—We had evidence before us on Friday from ABARE—I am not sure whether you would be able to comment on this. They indicated to us that, despite the Cassandra’s ringing loudly on this proposed tax, there does not appear to be in their studies any slowdown of investment in the mineral sector at all. I wonder whether that is the experience of Treasury in investment in the mineral sector.

Dr Henry—There is some material on this in the Mid-Year Economic and Fiscal Outlook, actually. If I could direct your attention to chart 22 on page 19, for example. It shows investment intentions for selected industries, and investment intentions imply a 50 per cent growth in mining investment in the current year. I take you back to page 10 of the Mid-Year Economic and Fiscal Outlook, chart 2.1, showing mining investment in current prices. In the year 2010-11 mining investment is forecast to be $55 billion, which is about five times the level of mining investment that we saw in the earlier part of this decade. Mining investment is at a level that it has never previously reached.

Senator HUTCHINS—And that is continuing, from what you were commenting on there?

Dr Henry—Yes. Our forecasts indicate that mining investment is likely to remain at historically high levels for some period of time.

Senator HUTCHINS—I would ask you to answer this, in light of people talking down the mining industry. I understand that only last week the *Australian* reported that small and junior miners are on track to raise well over $4 billion in 2010 to fund projects including domestic plants. Are you aware of that at all? I have a number of similar questions. If it is not fair to ask you these, you may wish to take them on notice.

Dr Henry—I am not aware of the article. It is not surprising. It sounds plausible to me, but I will take it on notice.

Senator HUTCHINS—In fact, on 16 and 17 October the *Australian* reported that Mr Forrest's company, Fortescue Metals Group, has plans to raise over $2 billion in the coming weeks to finance expansion plans. I know I should not editorialise here, but it was not the sort of impression that Mr Forrest was giving us in Perth when he appeared before us.

CHAIR—Just to clarify, it was $2 billion to refinance.

Senator HUTCHINS—Okay. Dr Henry, I do not have an economics background, so you might be able to help me here. I will just quote to you from the ABARE-Bureau of Rural Sciences paper that was put out last week, and you can tell us in essence whether I am right in my conclusions here. I know you do not have a copy of this paper, so it may be unfair to ask you this, but it relates to the theoretical Brown tax, as opposed to the current taxes being charged. This is the submission that ABARE gave us on Friday:

The estimates which were presented in the ABARE-BRS report to the AFTS review panel indicated that there is likely to have been a substantial shortfall in actual resource taxation revenue compared with potential revenue, particularly in the period 2000-01 to 2006-07, which was the latest period we assessed … This shortfall may have amounted to around $28 billion over the seven-year period. Given Australia's considerable demonstrated economic resources and continuing strong global demand for minerals, future resource rents and, hence, resource taxation potential are likely to be substantial.

That relates what we collected in that period to what the theoretical Brown tax would have collected in that period.

Dr Henry—That figure does not surprise me. I would need to check my memory on this, but I think I previously indicated to a least one Senate committee that the gap in revenue collection was of the order of $25 billion over that period. So that figure of $28 billion is not surprising. Mine, I must admit, was very much a back-of-the-envelope calculation, so I am not surprised by that figure.

Senator HUTCHINS—Do we have any figures available on what the current proposal may have netted in that period in taxation revenue or is that something unfair to ask you?

Dr Henry—I have not done those numbers. I am not sure that we have done those numbers. You are really asking how much revenue would the MRRT have collected over that period—so from 2002-03 or 2003-04 up to the present.

Senator HUTCHINS—Yes.

Dr Henry—No, I have not seen any numbers—

Senator HUTCHINS—Is it likely to have been in that ballpark, or a little more or a little less?

Dr Henry—I really do not know and I would not want to hazard a guess at that. I think we would have to take that one on notice.

Senator HUTCHINS—But in light of the fact that most economists who have appeared before us have argued that a profit based tax is a much better way of taxing this sector. We may have as a Commonwealth foregone $28 billion according to those statistics from ABARE that were presented to us last Friday.

Dr Henry—Surely every economist who has appeared before the committee has argued that a profits based tax would be superior—not much.

Senator HUTCHINS—All, yes.

Dr Henry—Surely, all.

Senator HUTCHINS—Some groups do not necessarily present themselves as economists, and we are assuming they are. We had one group present themselves saying that ownership of minerals by people was a fallacious argument.

Senator CAMERON—That would have been the IPA!

Senator HUTCHINS—One of the other areas was that some have called for lower taxes on mining output used by Australian businesses. Can you provide your assessment on whether the Australian community should give away resources for free—I know that sounds a bit—

Dr Henry—I know what you mean—

Senator HUTCHINS—because they are being used by companies generating profits in Australia.

Dr Henry—This is essentially a distributional question. The tax review referred to earlier argued that the resources sitting in the ground properly belong to the community in general—that means the Australian community in general—and not just those Australians presently alive but future generations of Australians as well. The question that you raise is a distributional one. Is it appropriate that a select group of people presently living reap the benefit of those resources and if they do reap the benefits shouldn't there be some form of compensation for those who do not have access to the resources, both those presently living and those future generations of Australians. The tax review came to the review, which is not an exceptional view at all—it is a view shared, I think, by all resource economists—that it is appropriate for the community, both present and future, to receive some compensation for the exploitation of that part of the nation's wealth.

Senator HUTCHINS—Can I ask you to give a view about the uneven growth across the economy at the moment.

Dr Henry—It is quite uneven. Certainly there are some sectors of the economy that are growing very strongly and we would expect to see them continue to grow as strongly over the next several years. There are other sectors of the economy that are being affected, particularly by the high exchange rate, who are finding conditions more difficult. There are businesses also that if not affected by the high exchange rate are feeling the impact of rising interest rates and the dampening effect that those rising interest rates are having on demand. So there is some dampening of demand evident in the Australian economy currently. We would expect to see those trends continue for some time—for quite possibly several years.

So it is likely that we will see an Australian economy characterised by unprecedentedly strong rates of growth in some sectors of the economy, particularly in mining, mining investment and mining related construction activity, with other sectors of the economy growing somewhat slower than their historical trend rates of growth as the economy's factors of production, principally labour but also capital, move from the slower growing sectors to the faster growing sectors of the economy. In this uneven pattern of growth the Australian economy is being restructured, if you like. There is a period of structural change that the Australian economy is going through. I have said publicly on a couple of occasions recently that the external shock to which the Australian economy is adjusting, and by that I am referring to historically high commodity prices and the high terms of trade that come with those historically high commodity prices, will quite possibly prove to be the largest external shock ever to hit the Australian economy, and it is causing quite a deal of structural change. To date, not a lot of that structural change has occurred—some has—but over the few years ahead, we should expect to see quite significant structural change in the Australian economy.

Senator HUTCHINS—So the non-mining sectors appear to need some sort of assistance—not assistance, but maybe they need to be recognised?

Dr Henry—It is not clear that assistance is what is required. After all, what could appear to be assistance to a particular sector that is finding the going a bit tough could translate into even higher interest rates and an even higher exchange rate and could make life even more difficult for those sectors that are struggling now and that would not be in receipt of assistance. I think it is important to recognise that the pattern of growth will definitely be uneven in the next few years and recognise the challenge that poses for the conduct of both macroeconomic and structural policies. It has to be recognised, but you have to be careful that in constructing any form of assistance you do not actually make the problem worse.

Senator HUTCHINS—Would cutting company tax be of assistance to these non-mining sectors?

Dr Henry—Yes, and it is one of the reasons—it is not the only reason—the tax review document recommended a cut in the company tax rate. Another reason was to reduce the cost of capital in Australia in order to provide a more attractive destination for investment. That was a long-term view that was being taken in the tax review. Another reason for the tax review recommending a cut in the company tax rate, in association with a resource super profits tax, was to rebalance the pattern of growth somewhat to provide a lower cost of capital for those sectors of the economy that are feeling the pressure that is being exerted by this very rapidly growing mining sector of the economy.

Senator HUTCHINS—One concern that has been expressed to the committee has been about this so-called Dutch disease, which you may have heard Professor Garnaut comment on in our hearing on Friday. What appropriate measures should be taken? Should they be similar to the measures taken by Norway? Are there other areas that should be explored or are we going down the right track at the moment?

Dr Henry—I have not had the advantage of seeing Professor Garnaut's comments that he made to this committee on Friday. I think I can anticipate what he would have said in respect of Dutch disease and that is actually what I was referring to earlier when I was referring to the strength of the Australian dollar and the pressure that is putting on other sectors of the economy, particularly the trade exposed sectors of the economy. As to policy responses to so-called Dutch disease, without addressing particular policies I would say that in general terms it might be helpful to reflect on whether the increase in the exchange rate is considered to be only temporary or whether the increase in the exchange rate might reflect a medium-term or even a long-term change in Australia's terms of trade. Typically the Dutch disease label attaches to instances in which the appreciation of the exchange rate is considered to be temporary but the economic effects of that appreciation are long lasting.

I think it would be sensible on this occasion to contemplate the prospect that there has been a structural change in our terms of trade not a short-lived change in our terms of trade and that that structural change in our terms of trade will have to be associated with any change in the structure of the Australian economy. If that is the case then in general terms, again without talking about a particular policy option, policy would do better to focus on what could be done in order to support the structural change that is going on in the economy in a way that does least damage to people's lives. That might mean, for example, avoiding temptation to offer support to a particular business which, with these terms of trade, does not really have a long-term future in the Australian economy but to focus instead on programs that would support the transition of workers from that business to other businesses in the Australian economy which do have a long-term future with the sorts of terms of trade that we are confronting. That is a generalisation, I am conscious of that and you asked me about particular policies, but I would not want to at this stage get into arguing the merits of particular policies. I am happy to talk about policy approaches, but I would not want to get into a discussion of the merits of particular options.

Senator HUTCHINS—Thank you, Dr Henry, I have one final question. I am not sure if you are in a position to answer it. How consistent would an increase in company tax be with the AFTS review?

Dr Henry—An increase in company tax is clearly not what was contemplated in that review for the two reasons that I mentioned earlier. Firstly, the review, taking the long-term perspective, took the view that there were advantages to the Australian economy in reducing its cost of capital. The advantages being principally that that would lead to a higher level of capital deepening and through that there would be an improvement in Australia's rate of productivity growth and in Australia's material living standards. So it was the principal reason. It was taking a long-term perspective. The second reason is the one that we had just been discussing which is that a cut in the company tax rate in combination with heavier taxation of the mining sector of the economy is one way of limiting the size of the structural adjustment that is otherwise going to have to occur in this economy.

Senator HUTCHINS—Thank you very much, Dr Henry.

Senator CAMERON—Dr Henry, the submission of the Minerals Council to what was known as the Henry tax review said that there is a strong argument to reform the basis of determining royalty payments to a profit-based criteria from a revenue one. Did the Minerals Council give any further reasons as to why they were arguing for that approach?

Dr Henry—It is quite a long time since I have looked at that particular submission, but my recollection is that the council was arguing the merits of the profit-based tax for the reasons that we discussed earlier, that a profits-based tax would not distort investment decisions and would not distort production decisions. What the council was saying, as I understand it, is that they regard the existing royalty-based taxation arrangements as being distorting of investment decisions and distorting of production decisions. That is why they favoured a profits-based taxation regime.

Senator CAMERON—Professor Garnaut in his submission to the committee gave quite a detailed history of the development of mining taxes, including royalties ad valorem, brown tax and profit-based tax. He has been working on this for some years, hasn't he?

Dr Henry—I do not want to be indiscreet but some decades, I think you could say.

Senator CAMERON—Some decades. So is he considered an expert in this area?

Dr Henry—Yes, indeed he is considered an expert in resource taxation arrangements.

Senator CAMERON—That is good. He describes the recent financial crisis as the 'Great Crash' in his paper. I have been hearing some debates around this place where it is described as the 'North American financial crisis'. Can you clear that point up for me as to whether we had a North American financial crisis or a great crash?

Dr Henry—I am surprised to hear that people are referring to it as a North American crisis, given the situation that all of Europe finds itself in. There are some spectacular examples of the after-effects of crisis to be observed in Ireland, Greece, Portugal and perhaps Spain - anyway a number of countries in Europe are certainly feeling the after-effects of what we call the global financial crisis in Australia. Other countries outside of North America and Europe that have been badly affected include Japan and even countries in our region. New Zealand, for example, had a very bad experience with the onset of the global financial crisis. There is scarcely an industrialised country in the world that did not experience a recession as a consequence of the global financial crisis. Obviously the Australian economy did quite well, and certainly the Australian economy's experience is very different from that of almost every other industrialised country in the world.

Senator CAMERON—Is that on the basis of why you have said this morning about the external shock being the global financial crisis—

Dr Henry—No, sorry, the external shock that I was referring to earlier was actually the terms of trade shock. The terms of trade shock started hitting the Australian economy in 2003 and 2004. Maybe because it started so many years ago people are not seeing it as a shock, but the increase in our terms of trade is of the same order of magnitude as we experienced in 1951. Everybody in Australia who was alive at that time understood that this was a big external shock hitting the Australian economy, a huge external shock. This one has taken more years to build up but we are now at the same level of terms of trade that we had in 1951.

Everybody in Australia who was alive in the 1970s recalls the terms of trade shock—it was a positive one that hit the Australian economy at that time—and recalls the 17½ per cent inflation that the Australian economy experienced as a consequence of it. That terms of trade shock is somewhere between a quarter and a third the size of the one that we are experiencing now. This is a very big external shock associated with this increase in the terms of trade, and it is a shock that looks as if it is going to be sustained, as I said earlier, for quite some years. That is the external shock that I was referring to. In the middle of that very large external shock we had a financial shock that was an adverse financial shock—very much so—with the onset of the global financial crisis.

We have been dealing in the past few years with two very big external shocks. One that is going to cause, in my view. very substantial structural change in the Australian economy. That is the terms of trade shock. And it also created problems for macroeconomic management. You will recall through 2007 in particular and also through early 2008 there was very substantial demand pressure in the Australian economy. The 2008 budget, as I recall, was mildly contractionary where there was a moderate tightening of fiscal policy in the May 2008 budget. In early 2008 the Reserve Bank of Australia was still lifting interest rates. Those were the circumstances we were confronting.

Then through 2008, and particularly in the last quarter of 2008, the Australian economy was hit by a very large negative shock associated with the global financial crisis. Two very big shocks for the economy to deal with, posing quite different challenges for macroeconomic management and for structural and regulatory policy thinking; two very big shocks in a period of a couple of years. Nobody should underestimate the size and the challenge associated with either of those shocks. The global financial crisis has done enormous damage, as I said earlier, to almost every advanced economy in the world. It has not done lasting damage to the Australian economy. That has a lot to do with the structural flexibility of the Australian economy and the quality of regulatory arrangements in the lead-up to the onset of the global financial crisis, but it also has a lot to do with the way that policy, both monetary and fiscal policy, responded to the crisis when it did hit.

Senator CAMERON—Thanks for that explanation. In one of the briefing documents we received for this inquiry it shows that Australia's mineral resources could be depleted in 70 years. Is that Treasury's estimate?

Dr Henry—Well, we do not have an estimate. It is difficult to come to those sorts of judgments. I doubt that our brown coal reserves would be depleted within 70 years.

Senator CAMERON—I am sorry, it was iron ore for 70 years and 100 for coal—

Dr Henry—I have seen figures of this sort. I am no expert on these things and I am not sure that we have any experts within the Treasury on these things. But I have seen those sorts of figures for quite some years now. I would not want to take issue with those figures. They could well be right.

Senator CAMERON—So there is a possibility that a child that is born this year could in their lifetime see an end to the mineral resources within Australia?

Dr Henry—I guess that is possible, yes.

Senator CAMERON—So we have to think long term for the economy in terms of where we go. That is a variation of the Dutch disease, isn’t it, in a way?

Dr Henry—Yes, it is, although the Dutch disease, as I said earlier, typically refers to a rather short-term appreciation of the exchange rate which has long-lasting effects. What you are referring to here, I think—in the sense in which it is analogous to Dutch disease—is that the economy for perhaps several decades restructures in a way that is characterised by fast growth in the sectors of the economy that are associated with exploitation of natural resources and then some decades down the track has to restructure back again because of the depletion of those natural resources. So it is analogous to the Dutch disease, but the Dutch disease typically refers to a rather short-lived increase in an exchange rate which causes a structural adjustment that very quickly turns out to have been an adverse structural adjustment.

In the case of the Australian economy it is more likely that what we are looking at is a structural adjustment that could last for many decades. Of course, once those resources are depleted, there would be another structural adjustment that would have to occur in the Australian economy reflecting the fact that the resources are depleted. So it is an analogous challenge but it is also different in some important respects.

Senator CAMERON—Would it then be correct to say that the magnitude of the long-term structural adjustment depends on what we do in the intervening seven years to build to meet that structural adjustment?

Dr Henry—Yes, I think that is right.

Senator CAMERON—So the MRRT can play a role in building towards both short-term and long-term structural adjustment?

Dr Henry—Both short term and long term, correct.

Senator CAMERON—So it is important that we actually get a fair share for future generations—that the generation now gets a fair share of our minerals to plan for the future. Wouldn’t that be a proper assessment?

Dr Henry—Yes, that is a reasonable way of expressing it.

Senator CAMERON—On 27 May you said of the RSPT that you could not understand how it represented a risk to retirement savings. The arguments we have had here are that this will be a negative for the Australian economy because it will create uncertainty. The share price will go down. That will be reflected in retirement savings, and that will be a problem. You also said that the RSPT was a legitimate return for the owners, the people of Australia, and you said that mining pays too little tax because of the generosity of its deductions. Have you changed your view on any of those issues or do you want to elaborate on them?

Dr Henry—I probably expressed the last of those a little differently, but it is the case that the mining sector has available to it quite generous tax deductions and as a consequence, on the figures that I have seen, the tax paid by the mining sector of the economy is a relatively small proportion of profit.

Senator CAMERON—I always find the Institute of Public Affairs submissions very interesting. They have argued:

> There are no economic rents in mining unless barriers to entry prevent active competition. Hence there is no more case for a general excess tax on this industry than there is on other industries that involve discovering new means of meeting market needs, as we see in the IT industry.

So they are basically saying IT is the benchmark that we should be looking at. Do you have a view on that?

Dr Henry—Pretty clearly there are barriers to entry. I cannot, and you cannot, simply take over a mining activity for which some other person has a licence to appropriate the resources. So there certainly are barriers to entry. But even if there were not barriers to entry, I think a society would want to have some arrangement for distributing the appropriated value of resources that was not just a crazy free-for-all—let anybody go out and stake a claim to whatever they could find, it would be a sort of gold rush free-for-all. It is a long time since Australia has allowed such a thing for pretty sensible, cogent reasons. Typically, the way that these things work is that somebody is licensed to exploit the resources and the question is: should that person so licensed to exploit those resources make some contribution to the Australians who see their national wealth eroded by the exploitation of those resources? As I said earlier, I think every economist in the country would say the answer to that question is yes.

Senator CAMERON—Except Alan Moran, I suppose.

Dr Henry—I am surprised.

Senator CAMERON—The argument Dr Moran has put—I am not sure if he is an economist; I think he is but I am not sure—is:

> Governments have imposed royalties on the fallacious basis that the deposit is owned by the people. This is only true of deposits that are already known.

Can you explain why he would put that proposition to this committee?

Dr Henry—No. I am lost for words.

Senator CAMERON—Could you try to find some to help me?

CHAIR—I think you are asking the secretary for an opinion and not even on government policy and I think the secretary has answered the question to the extent he can.

Dr Henry—Thank you, Chair.

Senator CAMERON—You do not even want to take it on notice, Secretary, do you?

Dr Henry—No, I do not.

Senator CAMERON—You were asked earlier about the benefits to the big three from using market value to calculate the starting base. Is it not true that at least one smaller miner, Fortsecue, publicly advocated for the starting base for the projects to more closely resemble market value rather than book value prior to the announcement of the MRRT?

Dr Henry—I would have to check on that, but that is my understanding. I do not know if my colleagues recall—I will have to take that on question on notice. I do not want to mislead.

Senator CAMERON—A general question on market value: if we use market value as the starting base, do you have a view as to whether it would provide a significant benefit to an operation like Fortsecue? One of the arguments that I have heard is that Fortsecue is very highly geared and relies a lot on debt as its business model. Does the MRRT cause a problem for a highly leveraged debt—I would not say ridden company, but a company that has high debt?

Dr Henry—It should not by design. Neither the RSPT nor the MRRT should cause a problem for a company that has a high level of debt. Reference was made earlier to the cash flow difficulties that companies face that are having to pay interest expense, that may not have a lot of revenue and that are also facing a tax liability. But the fact that a company has debt suggests that the investor understands that there is a cash flow problem with that business. If there was not a cash flow problem there would not be any debt—that is pretty obvious. The lack of—

CHAIR—Isn’t it just a different way of financing?

Dr Henry—Sure, but what I am saying is if the cash flow was sufficient to cover the cost of the investment there would not be any debt, it would be internally financed. And by the way a lot of investments in the resources sector are internally financed from free cash flow. They are not debt financed; they are not financed by equity capital raisings; they are internally financed from cash flow. So if you see a business in the resources sector that is carrying a lot of debt, then you know that that is a business that is quite comfortable with negative cash flow by definition. Mr Parker has something to add.

Mr Parker—One of the fundamental issues in looking at distortions caused by any tax on economic decision making goes to the so-called debt equity distinction. Essentially a company finances its balance sheet either through debt or equity. Let us just put the MRRT to one side for a moment. Under the corporate tax system one is able to deduct interest expense; that is, the cost of holding the debt. When I say ‘one’, I mean the company. But there is no deduction at the company level for the cost of equity, either in terms of the return to shareholders in aggregate or one particular element of it which is dividend payments. This does get a little bit more complicated when you take account of the now almost unique feature of the Australian taxation system, which is the dividend imputation system. But let me put that to one side.

So from the point of view of a company decision maker you can deduct your interest expense but not your equity expense, and for the decision maker in a company—putting aside again the point to which they look through to their shareholders—there is a bias in favour of debt finance in the company tax system. As a result of that, there is also built into the company tax system some limitations on the extent to which one is able to gear up companies—and you find that in the form of the thin capitalisation and related transfer pricing rules. So within the company tax system there is a bias in favour of debt compared with a benchmark of no tax at all.

Under the MRRT there is the so-called uplift rate on any losses that result from substantial expenditure. You can deduct all expenditure upfront and then, to the extent that that gives rise to a loss, it is uplifted at the bond rate plus seven per cent. So if you compare the MRRT to the company tax system—and they are integrated, of course, because one can deduct the MRRT from the company tax—and look at just the MRRT for a moment, if you think about it as an analog of the company tax, under the MRRT you do not get a deduction for your interest expense but you get an uplifted deduction for all of your capital expenditure irrespective of whether it is financed by debt or by equity, and the rate of return which is effectively allowed on that is the long-term bond rate plus seven per cent.

What that means is that in the MRRT there is no bias in favour of debt or equity; they are treated equivalently. One of the design features of rent-based taxes is to not have the distortion between debt and equity that arises in income tax systems. That is one of the reasons why economists tend to be favour in rent-based taxes over income taxes, and it is one of the underpinning reasons for moving towards rent-based taxation in industries where there are substantial rents, such as in the mining industry.

I am sorry about the rather long introduction to the response to your question but, to give a specific response to your question, the correct benchmark here from a tax policy point of view is a no tax world, and in that world the company tax is distorting as between debt and equity and an MRRT is not distorting as between debt and equity. Now from an executive business person used to the company tax, they may take the distortion that is in the company tax in favour of interest as effectively their starting benchmark and then say, ‘Oh well, compared with that, if I just look at the MRRT compared to that benchmark, MRRT doesn’t give an appropriate treatment for debt because it is not favoured compared with equity.’ So that is point one in response to your question.

Compared with the actual cost of funding of the company, there is this term called the weighted average cost of capital, which is the weighted return on the debt and equity finance for a particular project. Effectively the implicit cost of capital allowance in the MRRT is the long-term bond rate plus seven per cent, presently in the range of 12 to 13 per cent—it goes up and down depending on where the bond rate is—and, depending on your position in debt and equity markets, that may be somewhat above or somewhat below the actual cost of capital to a company depending on its riskiness and so forth. So compared with the actual cost of capital, there may be a distortion either in favour of a company or against a company because of the single uplift rate which is struck in the MRRT. That, just as a footnote, did not apply in the RSPT because of the refund of losses under the RSPT which is no longer part of the MRRT. So there is a potential distortion there, but it is a distortion which needs to be measured against the actual cost of funds of the company—and that is a project specific issue, not just a company issue—but it is not a distortion which ought to be sheeted home to a debt equity distinction because in the MRRT there is no distortion as between debt and equity.

Senator CAMERON—Mr Parker, I am going to take *Hansard* to bed with me one night and I am going to read that again. Thanks for that detailed answer. In his verbal submission to the inquiry, Mr Forrest said as one of his upfront points that ‘a resource rent tax would discriminate against those states which wished to encourage investment through changing their royalty regime’. Isn’t that really the worst aspect of competitive federalism? Is there an argument there as to why we should reject the MRRT because of this argument on investment?

Dr Henry—In the tax review referred to earlier we proposed a national resource rent tax for mining investment partly for the reason that we considered such tax competition to be social welfare reducing. Some evidence was put to that committee—I might say it was put informally and not in writing—to the effect that some of the state governments feel under pressure, even intimidated, by mining companies in negotiating royalty rates. That is, that mining companies put to state governments: ‘If you charge us more than X per cent or X dollars per tonne,’ or whatever the rate is, ‘there will be no investment by our mining company in your state in the foreseeable future, and instead we will invest in the state beside yours or some other state in Australia; or indeed we will not invest in Australia at all, we will invest in the Gulf of Mexico or somewhere else in the world.’ But at least with respect to the threat of investing in the neighbouring state or some other state we considered that to be a real policy issue. We took the view that it would be better in public policy terms for there to be a national regime rather than a state-based regime that exposes governments to intimidation by mining companies. I stress that the evidence presented to our review panel was informal and it was not in writing. But one can imagine that this could be a serious issue—if not today, it could at some stage in the future be a serious issue—and we considered that it would be better to have a tax regime that was robust to that sort of behaviour.

Senator CAMERON—The other argument we have heard consistently is this issue of sovereign risk. Professor Garnaut in his paper outlines the argument from mining companies that if they have to pay an extra tax they will go elsewhere. But he says there is a finite resource available internationally and that the economic theory means that the accessible resources will be mined first and then the market will deliver a proper approach on exploiting the mining resources internationally. So the taxes are an issue but they are not an overriding issue. Is that your view? Sorry, Dr Henry I am not quoting—

Dr Henry—I understand. The point that you are making is that taxation arrangements are one consideration but only one consideration among many. And if taxation was the extent of sovereign risk that was of concern to a mining venture, it would be of a lesser order of magnitude in risk terms than many other forms of sovereign risk that one could find around the world in places that are well endowed with mineral resources. Without actually sitting around the board table oneself, it is very difficult to make an assessment of the extent to which concerns about sovereign risk actually affect individual investment decisions. Certainly we heard a lot about it, and no doubt we will continue to hear a fair bit about it, but the evidence in the investment intentions of mining companies in Australia points to the fact that the mining companies see Australia as a source of very low sovereign risk, I would suggest.

Senator CAMERON—I have to wind up now but the last question I would ask is: Professor Garnaut, who you recognised as an expert in this area, actually quotes you or draws attention to your view that Australian resources belong to all Australians. This brings us into this area of horizontal equal fiscal equalisation and the need for nationally based skills, infrastructure, education, health and welfare—it is a huge issue. I get quite depressed at times when you hear some of the argument that becomes a states rights argument as distinct from the national interest. Has that been a debate that has been taking place in your deliberations on this in the tax review?

Dr Henry—Not so much in the tax review, though a debate about horizontal fiscal equalisation is a debate that has been going on for maybe almost as long as the Federation. In the tax review we took the view that this Federation would hold together only for as long as there was a system of horizontal fiscal equalisation. That is partly a political judgment—I do not mean party political judgment—partly a political judgment but it is also an economic judgment. I think there is evidence in the Euro zone right now of the difficulties of a managing a common currency union without a comprehensive system of horizontal fiscal equalisation. There are other issues at play there as well, but the absence of a system of horizontal fiscal equalisation is one issue that is at play in the Euro zone and you would not want to see those sorts of tensions play out in the Australian Federation. The fact that we have had a system of horizontal fiscal equalisation for as long as we have is what has at least in part, and particularly in periods of large structural adjustment, allowed the Australian economy to hold together as well as it has. So it is not just a political point; it is also a point about national economic performance in a vast land area that happens to share the same currency.

Senator CAMERON—Thank you.

CHAIR—Just to clarify again, given some of the questions asked by government senators: which tax creates less distortion on investment and production decisions, the RSPT or the MRRT?

Dr Henry—In theory, in concept of course, the RSPT is a less distorting tax—

CHAIR—So the MRRT is more distorting in its tax design than the RSPT?

Dr Henry—Yes, that is correct.

CHAIR—There have been various arguments put and you have been asked to explain in detail, and you did, the benefits of profit-based taxes as a replacement of output-based taxes like royalties. But of course the MRRT is not a replacement profit tax of an output-based tax, we end up with a profit-based tax on top of the output-based tax in the way it is currently designed, don't we?

Dr Henry—Well we do, although, as I mentioned earlier, in those cases where the MRRT liability is at least as large as the royalty liability, then the economic impact is determined by the MRRT. The royalties cease to have any—

CHAIR—But that is only in those specific circumstances.

Dr Henry—Correct.

CHAIR—So in the circumstances where you are either below the MRRT threshold or you are on your way to winding your project down, getting towards the end of your mine—like at the most vulnerable stages of your development which is where the reduction in distortion is the most important—you will actually continue to be subject to the distortion of state royalties to the extent that they are there.

Dr Henry—Yes, that is correct.

CHAIR—We were told that, before the change in Prime Minister, there was a process going on—it involved FMG, among others—talking through some of the options on how to revise the RSPT and that there was going to be a discussion paper to pursue some of these policy issues that were raised by the announcement of the RSPT. Is that correct? Were you in the process of putting together a discussion paper for public discussion on how to progress the RSPT proposal before the change in Prime Minister?

Mr Parker—Let me take that question in two parts. Of course there was a consultation process which was launched by the government on the announcement. This was the so-called resource tax consultation panel, which met a very large number of companies and which produced a report to government. Now that became overtaken by the course of events—

CHAIR—Sorry, I have to rush you here because I am going to be running out of time. So in the event, rather than having an orderly process within which various issues that have been raised on the RSPT could be discussed in the public domain, we then ended up with a negotiated deal around the MRRT involving the three companies. That is right, isn't it, that replaced—

Dr Henry—I am a bit worried about where this is going. Seriously, what you described as 'an orderly event' was an event that was characterised by a campaign of misinformation from the mining industry.

CHAIR—Okay, well that leads me to another question: you made the observation earlier that the MRRT in its design is more distorting on investment and production decisions than the RSPT; yet the impact of the RSPT announcement was significantly more spectacular. Is that because of the way it was put into the marketplace as much as the features of the tax?

Dr Henry—It is an interesting question. Actually I do not think it is appropriate for me to comment on it publicly. I could have my own views; I am sure you have your views. Earlier in this hearing we were discussing some of what you regarded as key selling points of the RSPT—

CHAIR—From the government's point of view.

Dr Henry—Yes, sure. I am sorry, I was not wanting to put words in your mouth. It is an interesting question: why it did not sell as well as one might have imagined with those strong selling points.

CHAIR—We talked to Professor Garnaut on Friday about the process that was followed and maybe you can comment about it this way: what would be the world's best practice process to progress a public policy proposal of this nature in order to minimise the risk of the sorts of spectacular fallout that we have experienced? What would be the best practice way of going about this?

Dr Henry—That is an excellent question. Again, I do not think it is appropriate for me to comment publicly on this, although you would not be surprised to hear that a lot of people around Australia have been asking me that sort of question in recent months. But maybe I could put it this way: at some stage in the first half of next year we are going to have a tax forum and I think one of the questions that the participants in that tax forum should ask themselves is precisely the question that you have just put to me.

CHAIR—But of course the mining tax proposal has been excluded from that tax forum, hasn't it?

Dr Henry—Well, of course it has. The mining tax proposal is on a schedule for legislation which, as Mr Parker indicated earlier, means that draft legislation will be made publicly available in perhaps May of next year.

CHAIR—Just following on with this whole argument around the MRRT being more distorting of investment and production decisions than the RSPT: in the context of the RSPT, Treasury commissioned KPMG Econtech to assess the impact on investment jobs and also on GDP over the long run, and the conclusion was it would be good for investment, good for jobs and over the long run would result in an increase of around 0.3 per cent of GDP. Have you done equivalent modelling on the impact of the MRRT since we last met?

Dr Henry—I don't believe we have, no.

CHAIR—Given it is more distorting, if you are looking for less distortions of investment and production decisions and it is not as good a resource rent tax as the RSPT tax was, wouldn't it be of value to do that sort of modelling on the impact of this MRRT on the economy and jobs?

Dr Henry—Well, yes, it would be good. There are a lot of things that would be good but that we do not do because of resource constraints and other reasons.

CHAIR—But it was done for the RSPT. The impact of the MRRT is going to be worse than the RSPT, but we do not know how much worse the impact is going to be because we have not really looked at it.

Dr Henry—We have not done the work. I can confirm that we have not done the work.

CHAIR—We know it is going to be worse because it is more distorting on investment and production decisions, but we do not know how much worse.

Dr Henry—It is going to be less beneficial than the RSPT because—and you have raised these issues right through this hearing—the royalty regimes will continue to have some effect so there will still be some distortion there from the existing royalty regimes. The reason that the RSPT had those beneficial effects that you referred to is because it is a pure profits-based tax which removes the distortions associated with the royalty regime. So to the extent that the MRRT does not remove all of those distortions associated with the existing royalty regimes, then of course the MRRT will be less beneficial—that is true, but we have not quantified the size of difference.

CHAIR—So we do not know. I am just going to go through a series of issues quickly because we are running out of time. Auction rates—

Senator HUTCHINS—Chair, can I just ask the secretary a quick question on those distortions: am I right, Dr Henry, that companies that pay net MRRT will not face the distortions of royalties?

Dr Henry—Yes, that is correct; I have been saying that all morning.

Senator HUTCHINS—Will face the lower distortions created by the MRRT?

Dr Henry—Yes, that is correct.

Mr Parker—That is the point we have made all throughout the morning.

Dr Henry—That is agreed.

CHAIR—There are three areas of distortions, and I am happy to explain them to you at a later stage over coffee—three that we have been able to identify so far. Just going back to paragraph 189 of the Policy Transition Group issues paper, doesn't the price of auctions include the anticipated value of profits, including what the government might describe as super profits?

Dr Henry—Which paragraph did you refer to?

CHAIR—I am looking at paragraph 189, but that is just broadly around the issue:

> Under this approach, all amounts payable directly to government as consideration for a mining right and any in-kind payments negotiated with government as a condition for proceeding with a project should be non-deductible. In both cases, the payments (cash or in-kind) should be considered part of the consideration for the right to mine.

The value of those auctions is going to be impacted by the MRRT moving forward, isn't it?

Mr Parker—I just want to refresh my memory of what the paper says, Senator. I have now read it. If you could put the question again.

CHAIR—The question is this: this consideration for the mining right, such as through auctions, the value achieved at these auctions includes the anticipated value of future profit, doesn't it?

Mr Parker—If there were a cash bidding arrangement that would be the case, but of course we do not have that in Australia.

CHAIR—But there is an implicit recognition of that value, isn't there, through the bid of work program and things of that nature?

Mr Parker—I mean, the—

CHAIR—I will tell you what the question is because we are running out of time. Essentially what I am getting at is: I am wondering whether there is further transfer of income from the state to the Commonwealth because the value of the consideration for mining right will reduce as a result of the Commonwealth imposing a national resource rent tax, and of course the states are currently receiving the benefit from those auctions.

Mr Parker—Presently they do not auction—maybe the best way would be to take that question on notice.

CHAIR—What do you mean ‘presently they do not auction’?

Mr Parker—At the moment there is not a cash bidding arrangement for mining licences or for petroleum licences; there is a work bidding arrangement.

CHAIR—Work bidding, which is an implicit sort of auctioning arrangement.

Mr Parker—And expenditure on such things as exploration and development would form deductible amounts under the MRRT or PRRT.

CHAIR—But the value that a state can derive from it is going to be lower as a result of the tax on profits being imposed moving forward, isn’t it?

Mr Parker—That would depend on how the two systems interact. But, as a general observation, to the extent that mining rights are made less valuable because of a higher tax which is applied by the MRRT, then what you have said would follow.

CHAIR—What I have said would apply. So for existing projects essentially people might be in effect charged twice because they have paid a higher price in the past and will still have to pay the tax moving forward, and for new projects it will have an impact on state revenue.

Mr Parker—For old projects there is the tax shield set up by the market value as at the starting period; and for entirely new projects—this goes back to the issue that we discussed before about the incidence of the tax.

CHAIR—Sure. What is the status of royalty payments to native titleholders?

Mr Parker—That is a matter which is being looked at by the PTG. It is a matter of ongoing decision, and the PTG will make a recommendation to the government about it.

CHAIR—So you have not decided yet how you are going to treat royalty payments to native titleholders?

Mr Parker—There are a number of options which are put in the paper. They are being consulted on, and the PTG is presently working. I have to go to a meeting straight after this on it—

CHAIR—How can you assess revenue when these sorts of issues are not concluded?

Mr Parker—Well, it is a question of degree.

CHAIR—Which gets me to the more general question: how can the PTG be expected to make revenue neutral recommendations when it doesn't really know how much revenue the tax will raise? It keeps moving around.

Mr Parker—As has been said at the PTG meetings, the role of the PTG in making its recommendations is not to make a set of recommendations which raises a particular amount of revenue. It is not to make a recommendation which raises the $10.5 billion or the $7.4 billion. The role of the PTG is to make a set of recommendations which are revenue neutral whatever the assumptions which drive a particular revenue estimate at a particular point in time. Its essential job is to say, 'We will look at the design of this thing. We will start with the heads of agreement. There needs to be interpretation of that. There may be some things that can be done to make the tax simpler and to apply more easily which cost money, but that then ought to come at a balance with something which raises additional revenue.'

CHAIR—Looking at the discussion paper, it looks to me as if the royalties to private owners—it is quite clear—are going to be treated as an expense for the project company and will be assessable income for the receiver of the royalty, so to speak. But with native title royalty payments the question is asked as to whether that should happen or whether it should not be assessable as income because it is too difficult to identify the recipient of native title—

Mr Parker—No, that is not actually the case.

CHAIR—So I am misunderstanding that, am I?

Mr Parker—Yes, you have misunderstood it.

CHAIR—I am reading here from 203 in the issues paper:

... it could be argued that the expense should be deductible for MRRT purposes—

this is payment of native title royalties—

but not assessable to the recipient native title owners.

Then below in the footnote it says:

In the case of native title, a payment will usually be made to the native title holders collectively, making it at best difficult to assign individual liability. Therefore, non-deductibility and non-assessability might be the easier approach.

Mr Parker—That is one of the options which has been put in the paper and which is being consulted on. You have drawn a distinction however in your question as between that and what is discussed in the prior pages beginning at paragraph 197 where it talks about private override royalties, and again that is being consulted upon. Under the PRRT private override royalties are not deductible and not assessable to people. There is a discussion in this paper which talks about how that arrangement, which is the correct arrangement for projects going forward, might be applied to historical projects. There is a discussion in there about the interaction of that arrangement with the starting market value, because the way private override royalties are treated obviously affects the market value of the resource. So the way that you characterised it as private override royalties would be deductible and assessable is not what is implicit in that paper.

CHAIR—Okay, I am pleased to hear it. To the extent that the MRRT distorts investment and production decisions, and if it distorts investment decisions obviously by definition it leads to supply reductions, that would then reduce competition and could lead to increased prices than would otherwise be the case, would it not?

Dr Henry—I do not think we have established that the MRRT is itself distorting.

CHAIR—The way it is currently structured it is distorting—

Dr Henry—No, what we were talking about earlier was that the MRRT does not offer all of the advantages because it does not remove all of the distortions created by the royalty regime in the way that the RSPT does. But that does not mean that the MRRT itself is distorting.

CHAIR—Well the MRRT in the way it is currently structured in terms of its interrelationship with state royalties continues some of the distortions there—

Dr Henry—No, provided the MRRT is only taxing pure profits—provided it is and that is a question of fact really—the MRRT itself is not distorting. We need to be clear about this: the MRRT, because it does not involve the refund or effective abolition of all royalties, does not remove all of the distortions in the existing tax regime in the same way that the RSPT would. But I repeat: that doesn't mean that the MRRT itself is a distorting tax.

CHAIR—Have you made a decision on the $50 million threshold, how it will operate—as to whether the MRRT will apply to $51 million or to the $1 million et cetera above $50 million?

Mr Parker—That is a matter that the PTG is consulting on. We will be making a recommendation to the government, and the government will make a decision.

CHAIR—Okay. If you have a low risk project which makes a loss, does the mining venture have a choice as to whether that will be offset against other projects or whether it carries them forward at the long-term bond rate plus seven per cent?

Mr Parker—So you have a low risk—

CHAIR—Essentially what I want to know is whether companies in relation to projects as they make losses they have an option to transfer losses between projects. But if you have a particularly low risk project it might well be more advantageous given the low cost of funds in that you can uplift it by 13 per cent to continue carry those losses forward—

Mr Parker—Right, now I understand your point. Yes, there is an issue, again which the PTG is consulting on, about whether loss transfer ought to be mandated or not.

CHAIR—So that is not decided. It would be a disincentive though, wouldn't it? That would provide an incentive to carry it forward if it is set too high, the uplift rate—

Mr Parker—Yes, sure. Obviously that depends on the cost of capital in the firm, but again it is a matter being consulted on.

CHAIR—Thank you very much for your contributions to the committee today. I still have a lot of questions which I might put on notice or pursue otherwise. I am sure we will hear from each other over the next few weeks. Thank you. The committee stands adjourned.

Committee adjourned at 12.09 pm