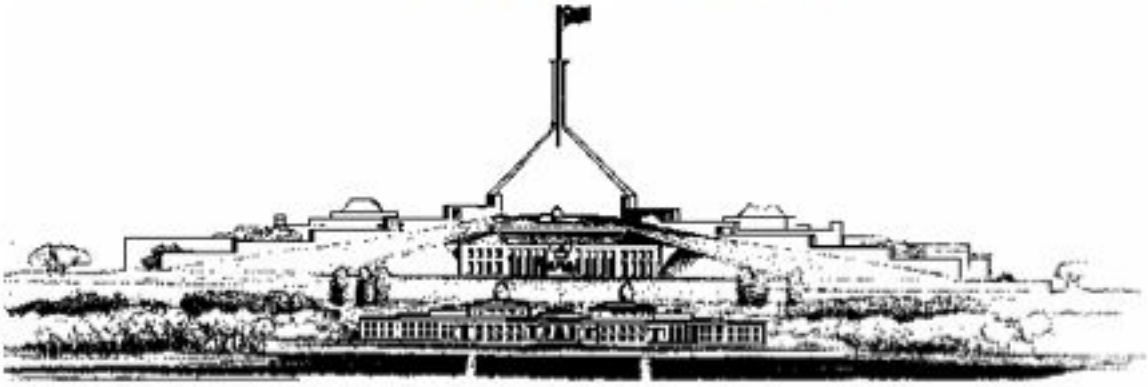
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

Main Committee

GRIEVANCE DEBATE

Budget

SPEECH

Monday, 21 June 2010

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Questioner		**Responder**	
Speaker	Owens, Julie, MP	**Question No.**	

Ms OWENS (Parramatta) (8.40 pm)—There certainly are a lot of myths and untruths out there about the resource super profits tax. We have just heard a few more in here tonight. I happen to believe that the resource super profits tax and reform of the tax regime for mining is good for Australia. I want to take this opportunity in this grievance debate to clear up some of the more ridiculous myths on the resource super profits tax. The first and the loudest one from the opposition—and we have heard it again tonight—is that it will reduce investment. At first glance, if you do not think about it or you are not particularly financially literate, it seems reasonable. How can a new tax increase investment? It can if one tax replaces an inefficient one, and that is essentially what is happening here.

Currently, mining companies pay for the use of resources that belong to us through royalties, effectively a tax on volume, payable whether they make a profit or not. The resource super profits tax replaces that with a tax on profit. The fact is that replacing an inefficient tax like royalties with an efficient tax like a super profits tax will drive investment, growth and jobs. Independent modelling supports that position. Remember that the Minerals Council, representing the mining companies, asked for a royalty system to be replaced by a profits based tax. There is general agreement that existing arbitrary and changing state royalty regimes result in less mining investment—and of course they do because they tax production and ignore the costs involved in generating that output.

In fact, mining companies pay a tax whether they make a profit or not. Because of that, many of our mines cannot get off the ground and others shut down too early, leaving good resources in the ground. As a consequence we leave far too many commercially viable resources in the ground, valuable resources that belong to the Australian people, purely because the current royalties regime makes them unviable. For low-value minerals and some less profitable mines, the outcome for the company of a new resource super profits tax is likely to be positive, not negative. If the threat of the mining tax was so real, you would expect mining stocks to be getting a bit of a beating at the moment. Yet in recent weeks, when markets around the world responded to the uncertainty in Europe, mining stocks in the Australian stock market performed better than other sectors, not worse. They also performed better than mining stocks in several of our competitor countries.

The Australian people own 100 per cent of Australia's natural resources and they are not getting their fair share. We do believe that some mining companies can pay more tax, but let us keep this in perspective. When you hear the opposition's claims that the sky will fall, remember that the government only wants to take the Australian people's share of mining profits closer to where it was under the Howard government in the early 2000s—about halfway through the last government's term and immediately before the last mining boom. Was the Howard government overtaxing the resources sector then? No, it was not, and nor will this government be. And nor did tax at that level prevent the mining boom which began around 2002. In fact, mining boomed with that tax load. But the Howard government took its eye off the ball. We enjoyed the boom but, arguably, we did not manage it to safeguard us for the future. The profits of mining companies rose but the Australian people's share of those profits fell. Before the last boom, they got $1 in every $3 of mining profits through royalties and charges but at the end of that boom it was down to just $1 in $7.

There is a myth that the resource super profits tax will harm existing projects. That is also not true. We are negotiating transitional arrangements and general recognition of past investments. We have also heard a lot of claims about projects closing down—claims that have turned out to be exaggerated or false. We know that the mining companies have cried wolf over and over again. When land rights were introduced, they claimed that would end mining as we know it. The resources rent tax would end development in the petroleum sector. Of course, when we abolished Work Choices, that was also going to bring an end to mining. In the last 15 years or so, we have seen the mining companies claim the end of the world at least three times, and we need to take their claims with a little grain of salt.

There is also a particularly mischievous claim by the opposition that the resource super profits tax will cause consumer prices to rise. Independent modelling by KPMG Econtech shows that that is not the case. After all, the vast majority of the minerals subject to the resource super profits tax like iron ore in the Pilbara are shipped

overseas at prices set on world markets. For those resources that are sold on domestic markets, Treasury analysis confirms that the super profits tax should not affect the price of gas and coal and, therefore, electricity. The Department of Resources, Energy and Tourism has also advised that it expects there will be no significant effect on electricity prices from the changed tax arrangements under current contracts between coalminers and electricity generators.

Then there is the most ridiculous myth that the RSPT is a triple tax on mining, coming on top of royalties and company tax. But let us make this really clear: resource companies will not pay the new resource super profits tax on top of royalties; they will pay the new tax instead of royalties. All companies in Australia are required to pay company tax but a few businesses receive as their primary input the non-renewable resources that belong to the Australian people, as mining companies do. Most companies pay for their inputs. The purpose of the resource super profits tax is to ensure Australians receive fair value for these non-renewable resources that miners extract from our country. No other business would try to argue that they should get their primary inputs for free, courtesy of the Australian people, just because they pay company tax and neither should Australia's largest mining companies. The commonsense reality is reflected in the fact that the miners have always had to pay royalties to reflect the value they are receiving from our national resources.

The government will use about a third of the resource super profits tax revenue directly to assist the resources sector. The revenue from the resource super profits tax will well and truly be put to good use. A new infrastructure fund will make infrastructure spending a permanent feature of Commonwealth and state budgets for the first time. It will deliver $700 million in 2012-13 and more than $5.6 billion in the next decade. Without infrastructure funding, capacity constraints will hold back resource sector expansion and push up inflation and interest rates for us all. Roughly a third of the package will promote growth across the economy, addressing the risk of a two-speed economy by taking the brakes off the slower lane. The Howard government presided over the development of a two-speed economy where the non-mining related parts of the economy found it difficult to attract and retain workers and investment. Manufacturers in Parramatta tell me the same thing over and over again: the success of our resources sector drives up the exchange rate, making it hard for other Australian industries to compete on the global stage. In Parramatta, the two-speed imbalance affects the ability of smart new industries to start up and grow and for families it drives up inflation and interest rates.

A phased cut to the company tax rate to 28 per cent will assist the competitiveness of all Australian industries. The government will also seek to cut the company tax rate further as revenue allows. Small businesses will get a head start on the company tax cut with a 28 per cent rate applying from 2012-13. Small businesses will benefit from a new instant write-off for assets worth up to $5,000. Depreciation for other assets will be simplified, reducing complexity, cutting red tape and providing upfront tax relief. It is a good idea, a sensible idea, in a boom to put some of the returns aside for the future, and our plan does that. When you sell something that is non-renewable to pay for something that reoccurs every year, there is a strong case to save some of the revenues for the future. The final third of the revenue will do just that by going into national savings through superannuation.

Superannuation will gradually be increased from nine per cent to 12 per cent. Around 3.5 million lower paid Australians will receive a concession on their superannuation guarantee contributions for the first time. People aged over 50 with lower super balances will be given a more generous contribution cap to allow them to make catch-up contributions. Revenue from the resource super profits tax will cover revenue forgone from the lower tax rate of super contributions. This is a very good policy.

We know that a resources super profit tax will work in Australia because we have had one for over 20 years. The sky did not fall when we introduced it. Twenty years later the petroleum sector is still booming. The 40 per cent petroleum resource rent tax has operated on offshore petroleum projects since 1987 and, under it, petroleum production has remained strong. Indeed, Australia's largest single investment, the Gorgon project, which was approved late last year, is to be developed under the 40 per cent petroleum resource rent tax. I am not going to deny the obvious—the most profitable mines in this country will pay more tax under the resources super profit tax. I am also not for a minute going to deny that owners of those mines will object. But this is good policy. It is in the national interest, and I am prosecuting for the interests of Parramatta families and singles who deserve a fairer share through higher retirement savings, more roads, more rail, more ports—*(Time expired)*