The Daily Bludge Presents

FACTS AND MYTHS ABOUT THE MINING TAX

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Fact 1 – What is the mining tax?

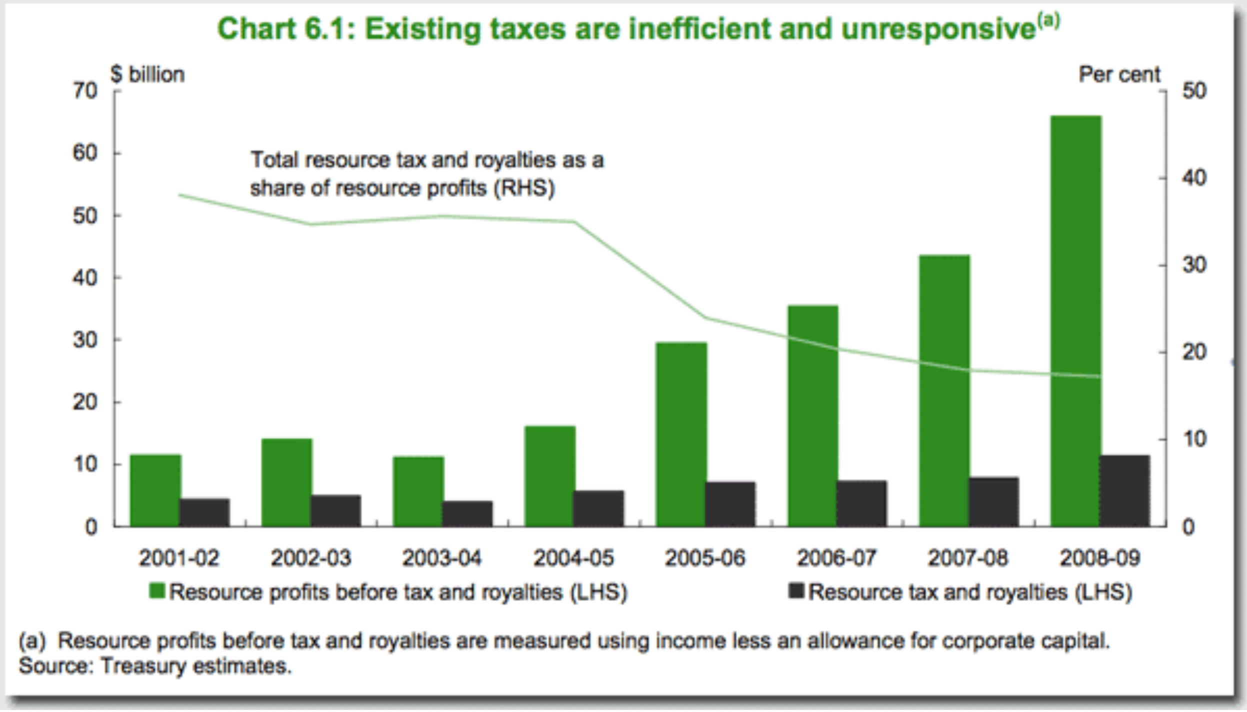
The mining tax is best known as the resource super profits tax, or RSPT. It is designed to replace the confusing array of royalties that mining companies presently pay to the states. Any profit made by mining companies that is above 6% of their capital investment would be taxed at 40%, and all royalties presently paid to the states would be rebated.

Fact 2 – Why are mining companies making "super profits"?

Senior economist, Dr John Perkins says that resource prices are increasing rapidly because there is not adequate global production capacity. This has led to a huge difference between the cost of getting minerals out of the ground and the price at which they are being sold. Contrary to popular belief, most of our mining companies are majority foreign-owned and are receiving a huge windfall at the Australian taxpayer's expense. Remember that these minerals are a finite resource - when they run out the money stops coming in.

Fact 3 – Why does the Government want to introduce the mining tax?

Presently, mining companies pay royalties to the states which vary depending on the mineral being mined. While the cost of minerals has skyrocketed on the world market, these royalty payments have not risen anywhere near as quickly. In 2001, mining companies paid approximately 40% of their profits as royalties to the state governments. Today they pay less than 20%. Clearly, there is a strong argument that the Australian people deserve to receive a greater share of today's profits and that's where the new mining tax comes in.



Fact 4 – What will the new tax be spent on and why?

While parts of the Australian economy have benefited from the resource boom, other parts have suffered. Strong demand for our resources has pushed the Australian dollar higher, hurting farmers and manufacturers who export Australian-made products as their products have become more expensive to foreign buyers. The higher dollar has also impacted tourism and our foreign-student education industries. As a result, we have what has been described as a two-speed economy. The miners and associated service industries are doing very well, while our exporters are suffering. Labor plans to spend the new mining tax by cutting the company tax rate from 30 percent to 28 percent, and by introducing tax breaks for small business. This would help address the imbalance in our economy, and ensure that the benefits on the mining boom flow through to all Australians.

Fact 5 – What would the mining tax mean for me?

Economic modelling by the Treasury as well as independent modelling by KPMG have found that the mining tax would see the average worker gain about $450 a year, due to the flow-on results of cuts in company tax and tax breaks for small businesses. The overall cost of food would drop by 0.9%, clothing and footwear by 1.3%, housing by 1.1%, transportation by 1.7% and communication by 1.4%. The inflation rate would drop by 1.1% which would, in turn, ease the pressure on interest rates and finally, Australia's gross domestic product (GDP) would rise by 0.7%.

Myth 1 – The tax will hurt the Australian economy

Many analysts and business groups have come out in support of the mining tax. A group of twenty economists led by the former ACCC Chairman, Professor Alan Fels, have put to bed claims that this tax will hurt the Australian economy, saying that there is "no substance to claims that it could lead to a rise in the cost of living." Furthermore, they say that "mining is different from other industries. It exploits our natural resources. The Australian public should share in that benefit.." and the present taxation system does not adequately capture the "excess profits" that are presently being made by the mining industry.

As addressed in Fact No. 5, economic modelling has found that the mining tax would result in about $450 more in the pocket of the average worker each year. The price of various products would drop, inflationary pressure on interest rates would be lower and Australia's GDP would rise by 0.7%.

Myth 2 – The tax will hurt the mining industry

Recent update: Clive Palmer, the self-declared spokesman for the mining industry, has recently retracted his claims that he had scrapped mining projects due to the resource tax. He now says that he exaggerated his claims.

If one listens to the mining CEOs and the Liberal party then this tax will spell the end of mining in Australia. However, according to just about everyone else, the tax will not hurt the mining industry at all; it may even benefit it. A group of twenty economists led by former ACCC Chairman, Professor Alan Fels, have released a statement in support of the new tax. They argue that the current system of royalties actually deters production, as it means that the miners must pay the states whether they are turning a profit or not. Whereas, if we tax the profits which return above 6% on the initial investment, projects which would otherwise be too expensive become profitable. The table below illustrates this, showing that projects which return up to 10% on the initial investment make more money under the new system.

Rate of return	Effective tax rate under royalties plus 30% company tax	Effective tax rate under RSPT plus 28% company tax
6%	45.40%	28.00%
10%	40.90%	39.50%
15%	38.70%	45.30%
20%	37.60%	48.20%
25%	36.90%	49.90%
50%	35.50%	53.30%

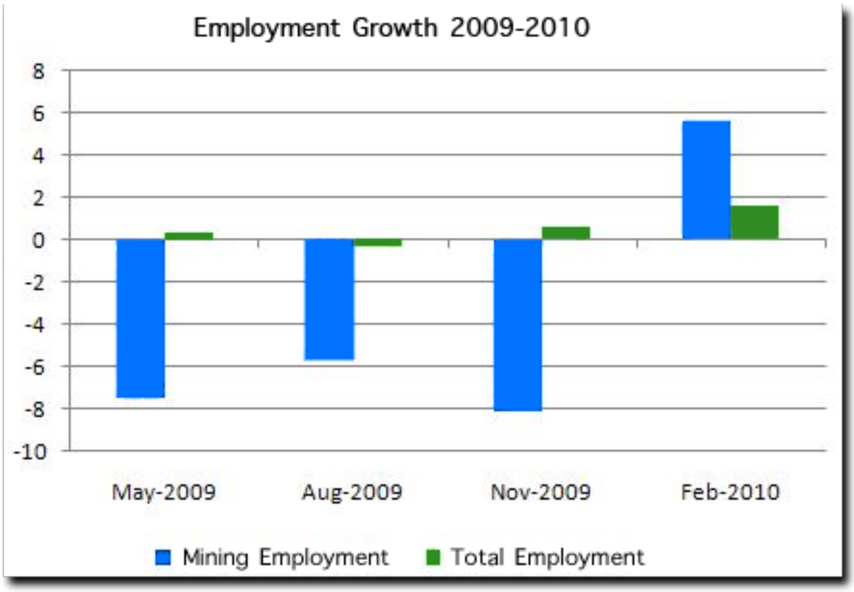
The economist, Chris Murphy has put forward a similar point, saying that because the resource tax only taxed profits and "not the first dollar of production" it was a better deal for miners. He also pointed out that the mining industry had even originally supported the idea.

The Organisation of Economic Cooperation and Development (OECD) has also come out in support of the tax, asserting that "'what drives investors is not necessarily that they are going to pay higher or lower tax but the availability of raw materials... If you look at these things strategically rather than with your sights on the profit of next year or next quarter, of course [it will continue to be] a wise thing to take the plunge, to take the risk and invest in Australia.''

Finally, the association of superannuation funds, known as the Industry Super Network, has called on the big miners, including BHP Billiton, Rio Tinto and Fortescue Metals to drop their fear campaigns. Chief Executive, David Whitely, has said that "I think in recent days it's become increasingly difficult to separate the truth from myth. What we're having on almost every morning now and every day are increasingly hyperbolic statements being made by the Minerals Council and the mining sector itself about the potential effects of the tax." In regards to the impact of the tax on miners' share prices, he said "Our assessment is that the announcement has had to date a negligible effect on the share prices of the resources sector."

Myth 3 – The mining industry saved Australia from recession

Over the course of 2009, 15 percent of people working in the mining industry lost their jobs. Treasury Secretary Ken Henry has said that "Had every industry in Australia behaved in the same way, our unemployment rate would have increased from 4.6 per cent to 19 per cent in six months." Therefore, it is misleading to argue that the industry saved us from recession. The table clearly illustrates this.



Myth 4 – The big mining companies are majority Australian-owned

The true level of foreign ownership of our mining companies can be hard to quantify. Who better to look to than Rio Tinto's own Global Head of Strategy, Doug Ritchie. In a keynote address to CEDA on the 7th of May 2009 he said "The major mining companies - BHPB, Rio Tinto, Anglo, Xstrata - are now majority foreign owned, and that ownership has allowed Australia access to the global capital it needs to develop its resources. The stock of foreign investment in Australia at 31 December 2007 totalled $1.6 trillion. And mining companies, most of which are foreign owned or controlled, produced 8 per cent of our national GDP in 2008."

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