The Australian Workers' Union

Submission to

Senate Select Committee on Fuel and Energy

Australia's future tax system: Report to the Treasurer (the Henry Tax Review)

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Executive Summary

The Australian Workers Union (AWU)

It is exactly because the AWU supports mining and our hard-rock mining membership that we support the Resources Super Profits Tax (RSPT). It is a carefully designed tax which allows all Australians to have a share in the super-normal profits that the mining companies are reaping in at the moment because of high prices for our resources coming from overseas.

The way the tax is designed will have a lot of benefits for AWU members employed at the smaller, less profitable mines – compensation for royalty payments and the cut in the company tax rate will be particularly good for the smaller players.

Everyone is focused on the big players who are very profitable and can therefore afford to pay this tax.

But, by and large, the sector is made up of small players with low profit margins. They will be big winners – and so deliver more job security for AWU members.

The AWU is joining the scare campaign mounted by some threatening to exit Australia. Our iron ore, coal, bauxite or uranium will stay in Australia.

And Australia offers huge advantages to the miners. There is an abundance of resources which are relatively easy to dig up. We've got great freight links and an educated, skilled workforce. We've got a stable economy, stable government and good climate. Africa, South America, SouthEast Asia just do not match our advantages. Canada is already developed.

And mining companies accept the idea of a profits based tax. The Minerals Council has argued for a profits tax. What they are arguing about in reality is the design of this tax.

The AWU has said to the Government and the mining companies the AWU wants to get everyone to a position where they are comfortable with how we plan to implement a profit based tax.

Mining communities in regional and remote Australia have rarely seen the results of the profits they have made for the nation re-invested in their regions, their communities.

We've sat down with the Government and said we want a large part of the rewards reaped from this tax put back into regional infrastructure – ports, rail and roads, as well as affordable housing, hospitals, schools and community facilities.

That will not only create new jobs in regional Australia but will help improve productivity and promote opportunities for new profitable export-focused industries to establish roots in the region.

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If we build quality hospitals, schools and community facilities and deliver affordable housing we can re-build regional communities and end the family destroying fly-in fly-out culture which now dominates the resource sector.

The Government has agreed to put aside for infrastructure spending $5.6 billion over the next decade. This will assist to secure the future of our industries and create new job opportunities in regional Australia.

Company tax will be cut to 28 per cent and small business boosted through more generous deductions.

The ageing of Australia's population will mean big challenges for the nation to pay for the health care and pensions of our elderly.

The super industry sees the RSPT as a major plus for our members – and they all say there is little or no negative for Australia from this important change.

A big part of the resource tax will be used to improve the retirement packages available for all Australians by assisting business pay for the increase in the superannuation guarantee from 9 to 12 per cent, through lower corporate taxes and more generous deductions, as well as financing the much-needed tax refund for super contributions for low-income earners – and most importantly for the AWU allowing our over-50s to make catch-up super contributions.

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Introduction

The Australian Workers' Union (AWU) welcomes the opportunity to provide this submission to the Senate Select Committee on Fuel and Energy concerning elements of the Henry Tax Review and the Rudd Government's response.

There are 4 main announcements in the Government's response to the Henry Tax Review, relevant to the AWU:

1) Introduction of a Resource Super Profits Tax (RSPT) which will tax mining (super) profits rather than output;
2) Increase in assistance to junior miners and explorers who are not yet profitable;
3) Increase in the superannuation guarantee to 12 per cent from the current 9 per cent rate; and
4) Reduction in the company tax rate to 28 per cent from the current 30 per cent.

This submission addresses the specific issues raised by the Committee outlined in the letter of invitation from the Chair of the Committee dated 13 May 2010 which deal mainly with the RSPT[1]:

1. What is your assessment of the impact of the proposed Resource Super Profits Tax (RSPT) on your field?

Positive. Because it is only a super profits tax, the RSPT will enable miners to make a profit and thereby retain incentives to produce at prevailing world prices which constitute the highest terms of trade in Australia for 60 years.

So until global demand for commodities falls there are super normal returns available to the limited number of world producers of these commodities. Many of these producers are here in Australia. Why? Because we have what the rest of the world wants - our iron ore, our bauxite, our gold, our copper, our uranium, our nickel and our coal.

Recent trends indicate that iron ore and coking coal price increases have been particularly strong reflecting the growing demand for steel in China.

Therefore, it is reasonable to tax these supernormal returns on production because it will not - repeat will not - affect normal production because profits are still being made. In other words, there is nothing to fear from this tax for our exports. Good profits can still be made and will be made. In fact, it is a more efficient tax because unlike royalty payments it does not tax production regardless of returns.

[1] Resources Super Profits Tax A Fair Return to the Nation, Commonwealth of Australia, 2010

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The Government in formulating the new tax is looking for a fair return for the exploitation of these non-renewable resources to be shared with the rest of the country, rather than have these super returns for our resources appropriated by shareholders and the executives of these companies alone.

In addition to the capacity of large miners with relatively larger profit margins, to absorb the profits tax, the RSPT is particularly advantageous to smaller miners with smaller margins.

It is only taxing super normal profits, and the features of the tax have a lot of benefits to smaller, less profitable mines, operating on narrower margins than the majors.

These smaller players constitute hundreds of companies employing thousands of members. These companies produce gold, uranium, copper, zinc among others.

Compensation for royalty payments and the cut in the company tax rate will be particularly beneficial to the smaller players.

It has been estimated that the benefits of the package will improve valuations of mining companies on lower margins, with limited mine lives and high capital costs which includes gold producers in particular.

For example, analysis by Credit Suisse of Newcrest[2] if the tax becomes law sees its market valuation improve by 7 per cent as it becomes better off in the early years of the tax as royalties that would otherwise cost the company $250 million each year are abolished, while deductable expenses on the company's $3.8 billion capital cost base result in no resource rent tax being payable until 2015.

Reports note that for mining companies with low profit margins, the new regime is a winner. For any project earning less than 10 per cent return on its investment, the Rudd government's new tax will collect less in total.[3]

2. Specifically, what is your assessment of the impact of the RSPT on fuel and energy security in your field;

None. The RSPT has no impact on fuel and energy security as it does not impinge upon the supply of fuel and energy. Even if production were for reasons other than price and profit abandoned or curtailed, because the RSPT is aimed at super profits and not profits, competitors would move quickly to take advantage of market demand.

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[2] **Resource rent tax could add glitter for some, DAVID SYMONS,** *May 21, 2010*

[3] Mining the figures uncovers deception, George Megalagenos, The Australian, 25 May 2010

So long as the world demand for our commodities is strong, there will be investment in Australian resources sector because we have the resources which are in most demand and supernormal profits are to be made. When demand falls, we retain the resources.

The price of these commodities will not rise because of the imposition of the RSPT. Because it is only a tax on super profits, there is an incentive for other producers to step in to make these profits where production to fall. This competition caps price increases overall. It is global demand - led by China - setting the pace for world prices for our commodities.

The tax setting is one factor in doing the math on the size of returns on investment here versus another jurisdiction but will not of itself make the decision to invest or not because a profit will still be made. Other factors are more important such as political stability, available infrastructure, skills in the workforce.

3. Specifically, what is your assessment of the impact of the RSPT on jobs in your field?

Positive. As noted above, because the profit margins of smaller players will be improved as a result of the refunding of state royalties in addition to the cut in the corporate tax rate, there is an opportunity for the exploitation of more marginal resource deposits, advantageous to more investment and jobs. The Resource Exploration Rebate will also promote more jobs prior to businesses actually becoming profitable.

We have heard the comments by Treasury Secretary Ken Henry on the response of the mining sector to the GFC.[4] Mining employment declined sharply following the GFC down 8.7% between November 2008 and May 2009. This compares with a decline in total employment of 0.2% over the same period.

Mining accounts for less than 7 per cent of GDP and 1.6 per cent of total employment. To shield us from recession its performance would have to have been miraculous. It was not of course.

Mining contracted more than most, during the year to September 2009, employment fell by 5.6 per cent and capital expenditure by 13 per cent in 2009. Over the same periods, total employment in Australia fell by only 0.3 per cent.

In the first 6 months of 2009 mining shed 27,000 workers, Had all industries done this unemployment would have rocketed from 4.6 per cent to 19 per cent over this period.

[4] Senate Economics Committee, 27 May

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It was therefore the stimulus spending not mining that saved us from the GFC. Overall, mining employment's share of total employment remains small increasing from 1.3 per cent in February 2007 to 1.6 per cent in February 2010

Commentators have noted this huge volatility in the mining sector indicates how much better off they would be with royalties covered as they are under the RSPT.[5]

We forget how much the Government did to stave off a recession in Australia savings thousands of businesses and jobs. The OECD's latest Economic Outlook[6] report is a reminder of the strong economic management that has seen Australia fight off the global recession and which is returning the Budget to surplus three years early and halving peak debt.

The OECD has revised up its growth forecasts for Australia and expects GDP to grow by 3.2 per cent in 2010 and 3.6 per cent in 2011. This growth outlook is one of the strongest amongst all OECD economies and is well above the growth forecast for the OECD area as a whole of 2.7 per cent in 2010 and 2.8 per cent in 2011. World growth will be over 4 per cent in this period.

The OECD expects Australia's unemployment rate to fall to 4.8 per cent by the end of 2011. This is much lower than the 8 per cent unemployment rate expected for the OECD area as a whole.

The RSPT is therefore coming into force at just the right time in terms of world recovery to take full advantage of the historic terms of trade based on our commodity exports.

Benefits to mining communities supporting jobs

Mining communities in regional and remote Australia have rarely seen the results of the profits they have made for the nation re-invested in their regions, their communities.

In fact, in the 5 years to 2003-04, royalty payments averaged 32 per cent of profits. By 2008-09, this figure had slipped to 14 per cent. So as world prices rose for commodities, royalty payments have fallen far short of profits.[7] Regional Australia along with the nation is being shortchanged.

[5] Miners dig up a load of bulldust, Ross Gittins, The Age, 29 May.

[6] OECD Economic Outlook No. 87, May 2010

[7] Miners dig up a load of bulldust, Ross Gittins, The Age, 29 May.

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We have indicated to the Government we would like a large part of the rewards reaped from this tax put back into long neglected regional infrastructure - ports, rail and roads, as well as affordable housing, hospitals, schools and community facilities.

That will not only create new jobs in regional Australia but will help improve productivity and promote opportunities for new profitable export-focused industries to establish roots in the region.

If we build quality hospitals, schools and community facilities and deliver affordable housing we can re-build regional communities and end the family destroying fly-in fly-out culture which now dominates the resource sector.

The Government has agreed to put aside for infrastructure spending $5.6 billion over the next decade. That's a major investment toward securing the future of our industries and creating new job opportunities in regional Australia.

4. How do you foresee the proposed resource exploration rebate impacting on your field?

The Government will implement a Resource Exploration Rebate (RER) to assist exploration in Australia from 1 July 2011. Tax rebates will assist small resource exploration companies and recognition for the first time of exploration by geothermal energy companies.

Small exploration companies currently do not get a tax benefit from their deductible exploration expenses until they become profitable. For many companies this means waiting for many years to receive a benefit – years in which a project may stall and jobs can be lost.

This disadvantages small companies compared to larger companies who can deduct exploration expenses immediately against other profits. The RER will mean that no exploration company will have to wait to use its deductions.

By providing the opportunity for immediate rebates for exploration spending, the RER will provide a boost to the competitiveness of smaller miners for whom existing tax arrangements preclude deductions until a profit is made.

For a company in a tax loss position that spends $1 million on exploration, the RER will provide a cash benefit of $300,000.

5. Do you have any other issues you wish to raise with the committee about the recommendations set out in the Henry Tax Review and/or the government's response to those recommendations.

The RSPT is a positive tax reform recommended by the Henry Report which will transform the way the mining sector contributes to the national economy.

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For the miners there are a range of direct benefits. These include improving the competiveness of the mining sector as a whole through reducing costs to less profitable miners, by compensating for royalty payments and company tax cuts, exploration rebates and investing in infrastructure of benefit to all in the sector.

For the country there is a once-in-a generation opportunity to lift living standards for the entire nation (including Western Australia and Queensland) by investing the proceeds of the RSPT in sustaining the mining boom for longer, investing in better superannuation for workers, improving competiveness of small business by more generous deductions and lower taxes. The net impact lifts national savings.

Without the tax, the mining boom risks pushing the rest of the economy into the slow lane, by driving up the dollar and thus making other industries - in particular manufacturing - less competitive, while outbidding them for scarce resources of skilled labour and capital.[8]

The RSPT can do this at the same time as lifting national savings, complementing the government's commitment to cap real growth in spending to 2 per cent of GDP per annum which gets more predictability and control over the economic cycle.

So the tax takes some of the competitive pressure off the rest of the economy while the government tightens the reins on spending which is bringing the budget back to surplus quicker.

This reduces the likelihood of the boom and bust cycle from capacity constraints under the resources boom leading to higher inflation leading to higher interest rates leading to higher unemployment accompanied by countercyclical spending by the government.

In the words of Michael Stutchbury, "Wayne Swan's resources super-profits tax and his budget spending cap are Canberra's first two substantial policy measures to turn Australia's great China boom into a blessing rather than a curse."[9]

Benefits of the tax also include boosting incentives for superannuation. Together these changes will add tens of thousands of dollars to your retirement savings – a 30 year old today stands to win about $110,000 extra in retirement savings.

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[8] Mining the mire of profits, payback and payouts, Tim Colebatch, The Age, May 29 2010

[9] The Australian, 18 May 2010

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Conclusion

The AWU welcomes the RSPT and congratulates the Rudd Government in undertaking this major tax reform in the national interest. The consultation timetable allows scope to adjust and fine tune design elements of the RSPT.

The AWU is participating actively in these consultations. The RSPT provides opportunity for nation building investment utlising some of the wind fall from our resources boom shared with the miners and their shareholders. It is imperative that the Government implement such a tax in order to ensure a fairer return to the nation from its mineral wealth.

The Rudd Government is inheriting resource tax reform responsibilities left undone under the Howard era. These reforms are now overdue. The Petroleum Resource Rent Tax (PRRT) implemented by the Hawke Labor Government demonstrates that a super profits resource tax is both desirable and practical in the national interest.

As a profits-based tax, the RSPT will complement on land, what the PRRT already achieves offshore. Together, these taxes will return a fairer share of returns to the nation from the extraction of non-renewable mineral and energy resources growing in demand from the rest of the world.

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