

The Australian Workers' Union

Senate Select Committee on the Scrutiny of New Taxes Submission

29 October 2010

Executive Summary

The Australian economy is currently dealing with two major challenges:

- i) maximizing the dividend (while dealing with the stresses) being generated from mining boom mark II on the back of record terms of trade; and
- ii) responding appropriately to climate change while ensuring strong economic growth.

The challenges are not brand new but past policy neglect under previous Coalition Governments means that it has fallen to the Gillard Labor Government to implement in the national interest reforms needed to sustain prosperity over the long term.

And the policy responses are fundamental economic policy reforms driving higher and more sustainable standards of living for the Australian population.

At the same time, each of the reforms has its own set of issues and policy implications. The task as far as the AWU sees it is for the Government to maximize the opportunities in particular for Australian workers, industry and investment in making the reforms building on, rather than replacing progress made to-date.

This paper briefly outlines each set of issues from the AWU's standpoint.

The Mineral Resources Rent Tax (MRRT) returns to the nation some of the windfall gain enjoyed by iron ore and coal exporters so long as a profit above the long term bond rate plus 7 percentage points rate of return threshold being achieved.

Significantly, the bulk of those returns are recycled to fund infrastructure investment to support mining and related activities in Queensland and West Australia. The returns also underwrite other reforms in superannuation, company tax and small business concessions.

Responding to climate change in a responsible way and in the absence of an internationally agreed carbon price requires that any knock-on impacts on the competitiveness of emissions-intensive, trade-exposed industries (EITEs) is fully addressed whether a carbon price is applied through taxation or trading scheme. The AWU's clear preference is to build on the hard won consensus achieved under the Carbon Pollution Reduction Scheme (CPRS) legislation.

Fundamental to measuring the efficacy of these policy responses is how workers and their families throughout Australia are expected to benefit.

And on these measures, there is much to strive for while at the same time limiting the risks to workers and industry alike.

Australia gains when industry is benefiting from record commodity prices. Higher income from the investment, employment, and taxes derived from these activities, underwrites Australia's standard of living. It also offers the opportunity to use some of this dividend from the exploitation of Australia's non-renewable resources to invest in nation building infrastructure, encourage value adding opportunities and to make our regions thriving, more attractive places to live, work and raise a family.

Responding to climate change with a carbon price needs to be accompanied by supportive policies which among other goals, ensures the viability of Australia's EITE industries employing thousands of AWU members.

Introduction

This Submission responds to the invitation to the AWU by the Select Committee on New Taxes to comment on its Inquiry into Carbon Tax Pricing Mechanisms.¹

However, the Committee's inquiry has a wider brief than carbon tax pricing mechanisms and in the words of the Committee is including "new taxes proposed for Australia". Specifically, the committee is inquiring into the following matters:

- (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.

This submission responds to points (i) and (ii) above and addresses both the impacts of announced taxes arrangements pertaining to iron ore and coal and issues pertaining to placing a price on carbon at some point in the future.

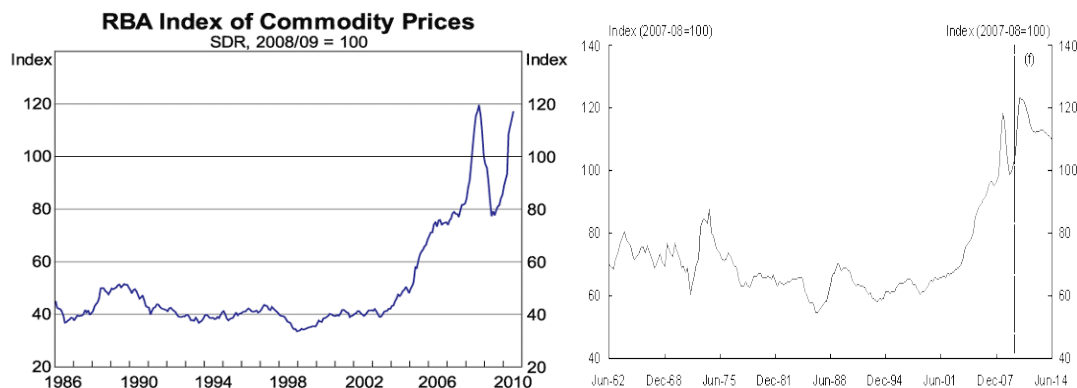
(i) Minerals Resource Rent Tax

The gradual global recovery, and in particular the strength of the Asian region, is expected to continue to generate strong demand for non-rural commodities, (with the exception of wheat) with further price increases expected for Australia's main commodities, iron ore and coal.

Over the past year iron ore prices have more than doubled and there have been substantial increases in coal prices. The terms of trade are forecast to increase by 17 per cent in 2010-11 - to around their highest levels on record before declining somewhat as additional global supply moderates commodity price pressures.

¹ http://www.aph.gov.au/Senate/committee/scrutinynewtaxes_ctte/carbontax/info.htm

Terms of trade



Sources: RBA and ABS cat. no. 5206.0 and Treasury.

The higher terms of trade will flow through to higher incomes via profits, taxes and investment expansion in mining projects and engineering construction. Nominal GDP is forecast to grow by 9.25 per cent in 2010-11, which is stronger than at Budget, and by 5.25 per cent in 2011-12.

Despite the upgrade, some commentators say the forecast still looks relatively conservative and leaves more upside on commodity prices.

On 2 July 2010, the Government announced improved resource tax arrangements under the Minerals Resource Rent Tax (MRRT) which will apply from 1 July 2012 to Australia's most highly profitable non-renewable resources. The Economic Statement on 14 July provided further details of the agreement on resource taxation reached between the major miners and with the Prime Minister.

As part of this agenda the Government is implementing an ambitious tax reform program to make the tax system fairer, simpler and more competitive. This includes ensuring Australia's resource wealth contributes to the nation's long-term prosperity.

The new resource tax arrangements will provide \$10.5 billion which will fund an historic boost to superannuation, further investment in world-class infrastructure, business tax cuts including a \$5000 up-front tax break per item for small businesses, less red-tape and personal tax simplification.

The company tax rate is being reduced to 29 per cent from 2013-14, with a head start for small businesses from 2012-13, and small businesses will also enjoy an instant write-off for assets costing less than \$5,000. This will boost competitiveness, expand investment, increase real wages and create new job opportunities.

The AWU warmly welcomed the MRRT announcement with the following press release:

Mine workers will want to see important tax reform benefiting their communities

02 July 2010

The Australian Workers' Union welcomes the fact that we can now take this first step on this extremely important tax reform, Paul Howes, AWU National Secretary, said today.

Mine workers will want tax reform to benefit their communities

"Our membership play a major role in the hard work of the mining industry across Australia and they will want to see that this tax reform has benefits for their communities.

"We believe in a profits based taxation system for the resources sector, we believe that the sections of industry can return a fairer share of their profits to the Australian people and the announcement today by the Prime Minister and the Treasurer delivers that," Paul Howes said.

Plan will improve national retirements savings

"We are pleased to see that the Government's plans to improve our nation's retirement savings through the **increase in the Superannuation Guarantee remains a core part of the Governments reform plan.**

"Over the coming days, weeks and months the AWU will continue to educate our members in the resources sector on the importance of this taxation reform.

"We know that this reform will **play an important role in keeping our mining sector productive and competitive** on the international stage.

Reform provides investment certainty and ensures companies pay fair share

"We also know that the reforms announced today will **give greater protection to the more marginal non-Coal and non-Iron Ore mines across the country.**

"We know that our members in the industry want to see their companies pay a fair share, but they also want certainty in future investment into the sector – this reform delivers that. Today's announcement also shows that Julia Gillard can get things done," Paul Howes said.

Source: http://www.awu.net.au/176749_5.html

The MRRT replaced the proposed Resource Super Profits Tax (RSPT) from 1 July 2012.² The MRRT differs from the RSPT in several significant ways:

Main features of the tax include:

Tax rate

The MRRT will be levied at a rate of 30 per cent on above-normal profits, rather than 40 per cent as had been proposed under the RSPT.

A generous 25 per cent extraction allowance reduces taxable profits further and the effective tax rate falls to around 22.5 per cent.

Threshold for payment of rent tax

The MRRT will only apply to returns in excess of the 10-year Australian Government bond rate plus 7 per cent. Based on the current bond rate, the MRRT will therefore only apply to returns above 12 per cent.

The RSPT would have applied to all returns that exceeded the 10-year bond rate (5 per cent).

Refundability of losses

The RSPT would have allowed companies to claim a rebate for 40 per cent of the value of losses. Losses will not be refundable under the MRRT system. However, this is subject to ongoing discussion with the Policy Transition Group (PTG) (see comments below).

Minerals taxed

The MRRT will only apply to iron ore and coal. Since the beginning of the mining boom, prices for iron ore have increased by over 400 per cent and prices for black coal have increased over 200 per cent.

The current Petroleum Resource Rent Tax (PRRT) regime will be extended to all Australian onshore and offshore oil and gas projects, including the North West Shelf. This will provide certainty for oil and gas projects and ensure all oil and gas projects are treated equitably.

Together, these represent three-quarters of the value of our exports and resource operating profits and account for an even greater share of resource rents in the mining industry.

² <http://www.futuretax.gov.au/pages/default.aspx>

The RSPT would have applied to a much broader range of minerals, including uranium, base metals, including copper, lead/zinc, nickel and gold and mineral sands.

The exemption of all minerals other than iron ore and coal under the MRRT will reduce the number of affected companies from 2500 to around 320.

Taxpayers with small amounts of MRRT assessable profits (i.e. \$50 million per annum) will be excluded from the MRRT.

Transitional arrangements and treatment of existing projects

The MRRT package makes it clear that existing investment in mining projects will be treated generously in the transition to the new rent tax. New depreciation arrangements and options for valuing project assets are included in the package.

The MRRT will broadly adopt the same category of non-deductible expenditure that currently applies to the PRRT. The MRRT will also carry forward unutilised losses at the long term government bond rate plus 7 per cent.

Firms will be able to immediately write off investment made post-1 July 2012. This means that projects will not pay any MRRT until they have made enough profit to pay off the initial up-front investment.

Next steps

To ensure the smooth implementation of the new arrangements the Government is establishing a Policy Transition Group (PTG) led by Resources Minister Martin Ferguson AM and Mr Don Argus AC, and supported by Treasury and the Department of Resources, Energy and Tourism. The PTG is consulting with industry and advise the Government on the implementation of the new MRRT and PRRT arrangements.

The PTG is convening to hold further negotiations with affected parties and may recommend further amendments aimed at reducing any further cost impacts on AWU industries, including to junior miners, explorers and manufacturers. This will be followed by:

- Public release of the Exposure Draft Legislation by June 2011 for public comment;
- Introduction of legislation into Parliament in the latter half of 2011; and
- Passage of the legislation in early 2012.

Revenue derived from MRRT

The RSPT was expected to yield \$12 billion in revenue over the forward estimates. The MRRT is expected to yield \$10.5 billion. The lost revenue is offset by the cancellation of the Resource Exploration Rebate (RER) refundable tax offset and the moderation of the proposed reduction in company income tax, such that the tax will be cut to 29 per cent rather than 28 per cent.

What it means for AWU members

The amended package retains the features that the AWU strongly supported, including:

- a profits-based tax that will deliver a fairer share of revenue from the sale of nonrenewable resources to all Australians;
- fund cuts in company tax;
- be accompanied by an increase in the superannuation guarantee rate from 9 per cent to 12 per cent worth around \$110,000 extra in retirement to a 30 year old worker today;
- increase in the Government superannuation contribution for low income earners and other initiatives including raising the SG age limit; and
- a \$6 billion Regional Infrastructure Fund that will invest in nation building projects, with a focus on the resource-rich States of WA and Qld.³

What it means for AWU industries

All AWU industries - previously subject to the RSPT - will either be exempt from the MRRT or retain greater revenues and pay less tax:

- In fact, all AWU mining industries apart from iron ore will be exempt from the MRRT which, together with the agreement reached with the major miners, provides certainty to current and future planned project expansions. For example, the changes resulted in Xstrata lifting its suspension of copper expansion and exploration activity in Queensland;
- Loss of the proposed RER will affect junior explorers and should be the subject of ongoing negotiations with the PTG. However, in the meantime, this loss will be offset to some extent, by increases in commodity prices making activities more prospective over time in conjunction with implied improved future operational profitability under the MRRT;
- In the case of iron ore, the one major AWU company with a direct stake in the impact of the MRRT is OneSteel which sources at cost its own iron ore (magnetite) for local steel production;
- However, OneSteel is currently consulting closely with the PTG on its particular circumstances which, as a local manufacturer, differ from those of

³ http://www.futuretax.gov.au/documents/attachments/archived/Fact_Sheet_infrastructure_fund.pdf

magnetite exporters elsewhere and whose manufacturing inputs should in principle be eligible for exemption under the MRRT.

The PTG has now released an MRRT Issues Paper.⁴ The AWU reiterates its interests in ensuring no unintended impacts on manufacturing (ie, OneSteel) and that we expect to see most of the returns flow back to the regions by way of infrastructure investment in new cities and skills development.

(ii) Carbon price

The AWU agrees with the Government that the introduction of a carbon price will reshape our economy.⁵

The debate on the introduction of a carbon price has now had a long road. The AWU has been at the forefront of the debate on the development of the Carbon Pollution Reduction Scheme (CPRS) over the last 2 and a half years. The AWU had negotiated with the Government and other stakeholders to achieve a balanced outcome which provided wins for both the environment and economy.

The AWU was urging a bipartisan position on this issue before the election of Tony Abbott as Opposition Leader in late 2009. In the week of the debate on the legislation the AWU issued the statement below.

However, the bipartisan consensus on the CPRS changed when the Opposition decided to dump its leader Malcolm Turnbull, and along with him, their support for the CPRS.

What has followed has been a partisan display tearing up the consensus around so much of the progress made on these issues. It is in this environment that the Gillard Government has begun rebuilding of the national consensus on climate change.

⁴ http://www.futuretax.gov.au/pages/resourcetax_PTG_consult.aspx

⁵ <http://www.climatechange.gov.au/minister/greg-combet/2010/media-releases/October/mr20101018a.aspx>

AWU wants CPRS laws passed this week to protect jobs and the environment

25 November 2009

The Federal Government's proposed CPRS legislation will be good for the economy and good for the Australian environment, The Australian Workers' Union, said today.

" The AWU has been active in the national debate over emissions trading because many of our members are employed in front line industries affected by new CPRS laws," Paul Howes, the National Secretary of The Australian Workers' Union said today.

Pass the legislation this week

" Early in the this process, when the White Paper was released, the AWU expressed some concerns, but we are now **comfortable that workers in the emissions intensive and trade exposed industries will be protected.**"

Federal parliamentarians should ensure that the CPRS legislation is passed this week, Mr Howes said.

" Our members want to know that our political leaders are ready to **provide the economic certainty needed to protect Australian jobs** in a still uncertain economic environment, " Paul Howes said.

Opportunities to protect environment and promote local jobs and industry

" The AWU's initial analysis of the package negotiated between the Federal Government and the Opposition indicates there are **significant opportunities here to push ahead with ambitious plans to drive down carbon emissions**, protect our environment and promote local jobs and industry."

The overwhelming majority of the 135,000 members of The Australian Workers' Union are employed in industries on the front line of the environmental debate.

Pass these laws to end uncertainty

" In the next 48 hours our members **want to hear that the turmoil in the Federal Opposition has come to an end.**

" We must now take these first important legislative steps for the good of the environment and for the good for our economy," Paul Howes said.

" Listening to our members, listening to the employers of our members, and talking with the wider community it is obvious that **everyone wants an end to uncertainty** - and a plan to take us up to Copenhagen and beyond.

Politics is the art of the possible - we all have to compromise

" Democratic politics is always the art of the possible.

" The Federal Government has been ready to listen and to compromise . We haven't got a winner takes all outcome.

Worst result would be for CPRS to be defeated in parliament

" Let's do what we can now to support the research and development needed to **find new and improved ways to deliver carbon-neutral industries.**

" The very worst result would be if these proposed CPRS changes were defeated in parliament in the next few days," Paul Howes warned.

Source: http://www.awu.net.au/937010_5.html

On 27 September 2010, the Government announced the membership and terms of reference for the new Multi-Party Climate Change Committee.⁶

Points 3 and 4 of the Committee's terms of reference note that:

3. The Committee is established on the basis that a carbon price is an economic reform that is required to reduce carbon pollution, to encourage investment in low emissions technologies and complement other measures including renewable energy and energy efficiency.

4. The Committee will consider mechanisms for introducing a carbon price (including a broad-based emissions trading scheme, a broad-based carbon levy, a hybrid of both, and economy-wide and sector-based approaches) and will consider issues such as coverage, international linking, implementation issues, assistance measures for households and businesses (including emissions-intensive trade-exposed businesses) and review provisions.

The work of the Committee, independent experts and supporting agencies will be complemented by two Roundtables established to engage the business community and non-government organisations on the Government's climate change policies.⁷ These Roundtables aim to ensure that the views of the community and business are taken into account as the Government makes progress towards the introduction of a carbon price.

On 18 October, the Government announced the membership of 2 the new Roundtables. The roundtables will meet monthly, or as required, until the end of 2011.

The AWU is participating in the NGO Roundtable along with leaders from across the community sector, including unions, social services, environment groups and local government.⁸

⁶ <http://www.climatechange.gov.au/government/initiatives/multi-party-committee.aspx>

⁷ <http://www.climatechange.gov.au/media/whats-new/roundtables-on-climate-change.aspx>

The business roundtable includes business leaders from across the economy and will play a critical role in providing advice to the Government on the economic and business issues surrounding climate change.

The [business roundtable](#) will be co-chaired by the Deputy Prime Minister and Treasurer, Wayne Swan, and the Minister for Climate Change and Energy Efficiency, Greg Combet. The Minister for Resources and Energy, Martin Ferguson, will also be a member.

⁸ <http://www.climatechange.gov.au/government/initiatives/roundtables-on-climatechange/ngo-roundtable.aspx>

This new Roundtable will provide advice to the Government on the introduction of a carbon price, including issues of household assistance, jobs growth and sustainability surrounding climate change.

Many of the arguments which will dominate the work of both the Multi-Party Committee and Roundtables have been rehearsed during the development of the CPRS legislation over the last 2 and a half years.

For the AWU, the guiding issues and principles relating to the imposition of a carbon price on the Australian economy have not changed and have been the subject of a number of our submissions on the subject.⁹ These are summarised below:

The overwhelming majority of the 135,000 members of The Australian Workers' Union are employed in industries on the front line of the environmental debate.

The AWU believes climate change is real and that Australia needs to be prepared to adjust to it in order to tackle its impacts along with the rest of the world. That is why the AWU is a strong supporter of the CPRS.

The AWU worked constructively with Government to ensure that the interests of the EITE industries were protected, including securing future investment and jobs during the transition to a lower carbon economy.

Ways the CPRS does this include a realistic domestic target of 5 per cent cut in emissions by 2020 in the absence of immediate global action, a fixed carbon price of \$10 per tonne during the first year and generous allowances in the form of free permits, concessions and grants to a host of affected industries through to 2020 and beyond as required.

The major benefit of the CPRS is that it provides certainty to industry on what the rules of the game are and on how the Government intends to assist them once the scheme is introduced. This allows industry to build a long term strategy around what they know and maximize their contribution to the Australian economy. This 'hardwires' adjustment to a lower carbon future at least cost into the national economy.

The AWU is therefore concerned to ensure that the benefits of the CPRS to Australian EITE industries and workers including aluminium, iron and steel, plastics, paper, LNG, food processing, glass and cement among others are not lost to the nation.

⁹ <http://www.awu.net.au/231466.html>

These capital-intensive industries are characterised by long term investment requiring lead times of 5-10 years. So the post 2020 operating environment is already on the radar of the major employers of the AWU. Board decisions are being made today to stay in Australia or go elsewhere and if they do stay on what terms.

Great progress was made on these matters under the CPRS including securing around \$6.5 billion in assistance and locking in assistance to up to 95 per cent of emissions until international agreement is reached on a carbon price, reducing the likelihood of leakage of investment and jobs and therefore the need for this assistance.

In these circumstances stability and certainty and a bipartisan approach to dealing with the climate change challenge locally is vital in the national interest for an economy still recovering from the GFC.

That is why the AWU has been at the forefront of efforts to ensure that our EITE industries have clear direction and certainty as we collectively face the climate change challenge. That is why we support the scheme design and implementation under the CPRS, including transitional arrangements and free permits. These are big wins for our industries and workers. We want to see them delivered.

The amended CPRS Bill agreed between the Government and the Turnbull-led Opposition last November is therefore a far better option for the nation. It has already achieved broad support among a range of business and community stakeholders.

Industry has the scope under the CPRS to minimise costs and optimize output using the market mechanism guided by a carbon price and trading emissions permits and other measures to meet the cost of liabilities.

Conclusion

Challenges ahead include managing the stresses that accompany a higher terms of trade (in particular the impacts on competitiveness of the manufacturing sector), building additional capacity in the workforce and infrastructure to allow the economy to grow sustainably, meeting the needs of an ageing population and responding effectively to climate change.

Opportunities ahead are spreading the benefits of mining boom Mark II to leave a lasting legacy on the productive capacity of the Australian economy and the living standards of the Australian population. The MRRT offers an effective mechanism to underwrite these opportunities.

Ensuring sustainable economic growth in a carbon constrained world will require implementation of a carbon price which offers incentives to the economy to transition to a lower carbon future but which accounts fully for the pace of progress in setting a global carbon price and trading regime.

The AWU has worked constructively toward a win-win outcome for both the economy and environment represented by the CPRS legislative framework. It is in the nation's interests that this framework remain on the table as the most cost-effective and timely response to climate change with existing broad stakeholder approval.