Hon Tim Nicholls MP
Member for Clayfield
Treasurer and Minister for Trade

TOQ-01998

31 OCT 2012

The Secretary
Senate Economics Legislation Committee
PO Box 6100, Parliament House
CANBERRA ACT 2600

Dear Senator Bishop

Thank you for your letter of 12 October 2012 inviting submissions to the Senate Economics Legislation Committee (the Committee) regarding the Minerals Resource Rent Tax Amendment (Protecting Revenue) Bill 2012. I note that the Bill intends to amend the *Minerals Resource Rent Tax Act 2011* so that any increase in mining royalties after 1 July 2011 will be disregarded when calculating royalty credits for the purposes of assessing liability for the Mineral Resource Rent Tax (MRRT). I have set out the Queensland Government's position on this issue below, and submit it for consideration by the Committee.

The Queensland Government has been, and will continue to be, opposed to the MRRT. The MRRT is a federal incursion into an area that is traditionally a State responsibility. It adds another unnecessary layer of taxation to the mining industry, increasing the cost, risk and complexity of investing in Australia.

States own the mineral and petroleum resources within their jurisdictions and have the right to levy what they consider to be an appropriate charge for them. The minerals located in Queensland belong to the people of Queensland, who are entitled to a fair return from the commercial exploitation of those minerals. By implementing the MRRT, the Commonwealth Government has constrained the ability of the Queensland Government to levy appropriate charges for resources on behalf of Queenslanders.

It is crucial that the revenue raising capacity of States and Territories is preserved, so that States and Territories can continue to meet their expenditure responsibilities. Continual encroachment by the Commonwealth Government into revenue bases traditionally held by the States is not sustainable, particularly where, as in this case, inadequate compensation is made available to the resource States.

The Commonwealth Government has threatened to penalise States that increase their royalties. The best way to reduce the need for the resource States to increase royalty rates is to ensure that resource States retain a fair share of the government revenue from the commercial exploitation of their finite resources. This outcome is easily achieved by guaranteeing resource States a fairer share of revenue from the MRRT and reducing the punitive levels of redistribution of mining royalty revenue effected through the Goods and Services Tax (GST) distribution system. The Queensland Government hopes the GST Distribution Review, whose final report is to be released soon, strongly recommends that the redistribution of GST associated with the mining assessment be significantly reduced.

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The amendment envisioned by the Minerals Resource Rent Tax Amendment (Protecting Revenue) Bill 2012 essentially proposes an extension of the MRRT. Therefore, it makes a bad tax worse. A more onerous MRRT will place additional pressure on both the mining industry and on State and Territory governments, particularly in mining states like Queensland.

Further, the proposed amendment will intensify the sovereign risk issues associated with the introduction of the MRRT. The confused policy development process underlying the introduction of the Commonwealth's resource rent taxes has undoubtedly damaged Australia's international reputation in the mining industry. It has arguably created uncertainty for current and potential investors, and has increased the perceived risk of investing in Australia.

The Bill proposes that the Australian Government renege on the agreement it struck with the major mining companies. The Queensland Government is concerned that amendment of the legislation in the way proposed will achieve little other than further damage Australia's reputation as an investment destination.

The Queensland Government is committed to encouraging and promoting mining investment, as evidenced by our commitment to fast tracking approvals processes for major projects, establishing a Cabinet sub-committee tasked with examining strategies to ease the regulatory burden on industry, and creating certainty for the industry by freezing mining royalty rates in Queensland for the next 10 years. The Queensland Government considers that the actions of the Commonwealth Government with regard to the MRRT serve to undermine efforts by resource States and Territories to alleviate the sovereign risk associated with investing in Australia.

Thank you for the opportunity to submit the Queensland Government's position to the Committee.

Yours sincerely

Tim Nicholls
Treasurer and Minister for Trade