Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 213

Topic: Resource Super Profits Tax – Article in *the Australian*

Hansard Page: Written

Senator ABETZ asked:

1. Does the Department agree with the report of Jennifer Hewett in the Australian of May 13 (full article attachment A) namely:

FEDERAL Treasury is wedded to the design of its resource rent tax, including the definition of a super profit and the low threshold at which the 40 per cent tax kicks in.

- *Treasury believes the link to the long-term bond rate is absolutely crucial to the design of the tax.*
- *It understands this will disadvantage some of the most successful and profitable mining projects and resources companies.*
- *It also knows this will disadvantage domestic shareholders in resources companies.*

2. Did the Secretary issue two statements on May 13?

If so, can a copy be provided?

ATTACHMENT A

Treasury firm on super-profits levy

- *Jennifer Hewett, National affairs correspondent*
- *From: The Australian*
- *May 13, 2010 12:00AM*

FEDERAL Treasury is wedded to the design of its resource rent tax, including the definition of a super profit and the low threshold at which the 40 per cent tax kicks in.

It also deliberately set out to favour small, marginal projects at the expense of the large, profitable ones mostly run by the big resources companies.

Treasury did not consult with the mining industry about the design of its new tax, which is not in place anywhere else in the world.

Its plan is for a world-first arrangement under which the government takes 40 per cent of a project's risk by guaranteeing 40 per cent of the cost should it fail.

This has no attraction for the large miners such as BHP Billiton and Rio Tinto, because they are confident the projects they commit to will not fail.

Treasury is not concerned that this might require more foreign investment and ownership to fund development, as miners such as Andrew Forrest have warned.

Treasury thinking is that ownership is irrelevant to the return to the community on non-renewable resources.

Treasury is supremely confident the resources super-profits tax is a more economically pure refinement and an improvement on the petroleum resource rent tax introduced in 1987 for the offshore oil and gas industry.

The miners were expecting a version of this tax, including a grandfathering of existing investments and a similar and much higher threshold before the tax took effect.

The petroleum tax begins after the return to shareholders exceeds the long-term bond rate plus 5 per cent. but the new tax applies to existing projects and kicks in at the long-term bond rate, currently almost 6 per cent after expenses are grossed up, also at the long-term bond rate. Unlike the petroleum tax, however, these expenses cannot be written off immediately against the tax.

The government gave an initial indication it was prepared to negotiate on the threshold rate -- known as the uplift factor -- to redefine the concept of super-profit.

Treasury believes the link to the long-term bond rate is absolutely crucial to the design of the tax.

It understands this will disadvantage some of the most successful and profitable mining projects and resources companies.

It also knows this will disadvantage domestic shareholders in resources companies.

ENDS

Answer:

1.

The RSPT is no longer Government policy.

2.
Yes.

Statement 1 – sent to AAP, Bloomberg, Dow Jones and Reuters.
"It is the strong and clearly stated view of Treasury that the Resource Super Profit Tax will grow the mining sector and the economy. The tax was constructed on that basis, and the modelling released with the tax package clearly demonstrates it."

Statement 2 – sent to the press gallery.
"It is the strong and clearly stated view of Treasury that the Resource Super Profit Tax will grow the mining sector and the economy. The tax was constructed on that basis, and the modelling released with the tax package clearly demonstrates it. I therefore reject the premise of those reports."

The difference between the statements was clarified in a statement sent to Dennis Shanahan of The Australian on 14 May.

"Thanks for your questions. The difference in the two statements was an editing error. This was rectified in the second version. As stated in the original email, the statement was provided by Dr Henry."