Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 341

Topic: **Sovereign Risk Rating & the Resource Super Profits Tax**

Hansard Page: Written

Senator EGGLESTON asked:

1. What is the current level of Australia's sovereign risk rating and credit risk rating? Is the introduction of the Resource Super Profit Tax likely to impact on either of these things?
2. How much are iron ore prices and other resources likely to change over the next 12 months?
3. Is it fair to suggest that the resources industry is the major driver of the Australian economy? Is it therefore appropriate to put the brakes on what is the main provider of income for the economy?

Answer:

1. *What is the current level of Australia's sovereign risk rating and credit risk rating? Is the introduction of the Resource Super Profit Tax likely to impact on either of these things?*

The Australian Government has the highest possible rating for both foreign and domestic currency denominated debt from Standard & Poor's (AAA) and Moody's (Aaa).

These ratings have not changed since the announcement of either the Resource Super Profits Tax (RSPT) or the Mineral Resources Rent Tax (MRRT). On 29 May 2010, *the Australian* reported that 'S&P's associate director Kyran Curry said the mining tax [referring to the Resource Super Profits Tax] would have no implications on Australia's credit rating, which is a barometer for a nation's sovereign risk. "We don't see the proposed tax on miners as having any material risk to Australia's sovereign risk outlook," Mr Curry said.' (*The Australian*, 'Miners go over the top on sovereign risk', 29 May 2010).

2. *How much are iron ore prices and other resources likely to change over the next 12 months?*

Over the past year, iron ore prices have more than doubled and there have been substantial price increases for other commodities. Notwithstanding the risks to global growth emanating from Europe and the uncertainty in the US, the strength of the Asian region is expected to continue to generate strong demand for non-rural commodities, with further price increases expected for Australia's main commodity exports (iron ore and coal) in the near term. As a result, the terms of trade are expected to rise by 15½ per cent in 2010-11. Anticipated increases in global commodity supply are expected to place downward pressure on prices in 2011-12, leading to a fall in the terms of trade of 4½ per cent.

In deriving these forecasts, Treasury consulted with the Australian Bureau of Resource and Agricultural Economics, market analysts and number of major mining companies.

3. *Is it fair to suggest that the resources industry is the major driver of the Australian economy? Is it therefore appropriate to put the brakes on what is the main provider of income for the economy?*

Over recent years, the mining sector has been one of the major drivers of the Australian economy.

The proposed MRRT will not stifle production, but rather, provide Australians with a better return from the extraction of our iron ore, coal, oil and gas resources when profits are high.