

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 370

Topic: Effects on Financial Markets of the RSPT

Hansard Page: Written

Senator EGGLESTON asked:

1. I just want to explore some of the effects on financial markets of the RSPT.
 - a) My understanding is that, in general, the introduction of the RSPT will lower the return on capital for many mining projects. Is that correct?
 - b) Now, for these projects to still go ahead there must be a corresponding reduction in financing costs for a mining company? In theory such a reduction may occur if banks see the Australian Government's 40 per cent as a lower risk than the project itself.
 - c) Has Treasury consulted with the financial sector on whether banks will adjust finance costs to reflect the role of the Government as a silent partner?
 - d) If so, would the banks view the government's 40 per cent component as risk free and therefore charge a rate equivalent to the risk free bond rate on these cash flows?
 - e) Don't banks need to make a margin? Even if they assessed the risks of these cash flows at the risk free rate wouldn't they charge a higher rate so that they make money on providing the financial service?
 - f) Does the setting of the uplift factor at the long-term bond rate reflect this fact?
 - g) Do you view the risks associated with the government's word on its 40 per cent partnership at the risk free rate?
 - h) In a speech earlier in the year Dr Henry stated that:

These realities often create particular difficulties for private infrastructure investment...with the strategic behaviour of existing private providers in limiting new entry and sovereign risk that may accompany instability or uncertainty in the public institutions that are designed to support infrastructure investment...

If sovereign risk is an issue in regards to the regulation of infrastructure, why isn't it an issue in regards to the future settings of tax policy?

Answer:

The Government is no longer pursuing the introduction of the Resource Super Profits Tax.

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