

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

Resources, Energy and Tourism Portfolio  
Supplementary Budget Senate Estimates  
20 October 2010

**Question:** SR17  
**Topic:** Energy White Paper and Mining Tax  
**Proof Hansard Page:** Written

**Senator Bushby asked:**

Energy White Paper

**Question**

What is the reason for the delay in release of this paper and when will it be released?

**Answer**

Release of an Energy Green Paper was delayed during the last term of Government due to uncertainty around climate change policy.

In a speech on 12 October 2010, Minister Ferguson said:

*“While it is difficult to finalise an Energy White Paper when significant climate change policy questions are yet to be resolved, I have asked my Department to continue work as part of the Energy White Paper process.”*

**Question**

Does the Department agree that the consensus among analysts and power industry observers that national electricity supply demand imbalance is looming with brown outs and blackouts of increasing frequency likely from around 2015 forward?

**Answer**

The Department is aware that the Government as a whole is conscious of the need to provide investors with certainty to enable investment in long lived and capital intensive electricity generation assets.

Investors need certainty going to the introduction of a price on carbon. The establishment of the Multi-Party Committee on Climate Change is designed to explore the introduction of a carbon price, which would provide certainty to investors in this capital intensive sector.

**Question**

Does the Department agree that this is the result of steady growth in demand and the industry's inability to commit to new capacity construction given the absence of energy policy certainty?

**Answer**

As stated above, resolving climate change policy issues that are currently outstanding, would provide greater certainty for investors in this sector.

**Question**

Has the Department formulated policies to address this situation?

**Answer**

The Government has established the Multi Party Committee on Climate Change to explore the introduction of a price on carbon to provide investors with certainty.

The Department will continue to monitor this situation and the reports of the market operator. It will also continue to promote efficient and transparent investment in the National Electricity Market (NEM), through the Commonwealth's involvement in the work of the Ministerial Council on Energy.

**Mining Tax****Question 1**

At the last estimates, we had an exchange that outlined why you were in no position whatsoever to provide any assessment of the impact of the RSPT as it might affect incentives for industry to invest in the development of mineral prospects in Australia.

Is the Department in the same position in respect to the MRRT, or has it played a greater role in the development of this new tax and its potential impact on mining investment?

**Answer**

The Department has been involved in the development of the MRRT through its representation on the Policy Transition Group Secretariat.

There is evidence of continued growth and confidence in the Australian resources sector since the new resources taxation arrangements were announced by the Australian Government on 2 July 2010.

The latest data from the Australian Bureau of Statistics show that mining companies are planning to increase their capital expenditure in 2010-11 to \$55 billion this year. This is almost 50% higher than the corresponding estimate for 2009-10.

ABARE-BRS expects Australian resources and energy production to continue to increase, underpinned by strong Asian demand, with mining production expected to rise by 12 per cent in 2011 and expected increases of over 10 per cent for coal and gas.

Since July 2010, over \$9 billion in new resources projects have been announced, including:

- Fortescue's \$8.5 billion expansion of its iron ore project in the Pilbara;
- BHP Billiton's \$784 million Mt Arthur project expansion;
- Rio Tinto's \$1.78 billion Hope Downs 4 iron ore project; and
- Xstrata Coal and Mitsubishi Development's \$1.1 billion Ulan West underground thermal coal mine.

### **Question 2**

You also stated that your preliminary work suggested the RSPT would not affect domestic prices for energy. Have you advanced that work any further with respect to the MRRT?

### **Answer**

The Department's work to date continues to suggest that the MRRT and extended PRRT will have no material impact on the cost of electricity produced by coal or gas fired power stations. Further, the operation of electricity markets suggests that this in turn equates to no impact on wholesale prices and hence no impact on retail electricity prices.

### **Question 3**

You also indicated that you had no idea how energy industry figures, including Grant King of Origin Energy, have come to the conclusion that the RSPT would increase prices and that you had not spoken to them in coming to your conclusion.

Have you now spoken to them to try to understand their perspective? Do you agree and if not, why not? Where is the flaw in their argument? Did you convince them?

### **Answer**

The Department has not entered into debate with specific stakeholders and the formerly proposed RSPT is no longer the Government's policy position.

### **Question 4**

The MRRT has a lower taxation rate than that proposed in the RSPT. Do you think this will limit some of the possible disincentive to invest that it was argued would flow from the RSPT?

### **Answer**

Please refer to the answer given for question one.

### **Question 5**

On balance, would the imposition of the MRRT render Australia's taxation regime as it applies to mining, more or less competitive?

### **Answer**

Please refer to the answer given for question one.

**Question 6**

Will you revise the *Minerals and Petroleum Exploration and Development in Australia: a guide for investors* if the MRRT becomes law to the extent that it notes 'Australia has competitive taxation and royalty payments' and noting that the net taxation burden out of all the changes is heavily in favour of the Government?

**Answer**

The *Minerals and Petroleum Exploration and Development Guide for Investors* was an initiative of the Department, Invest Australia, Geoscience Australia and the Ministerial Council on Mineral and Petroleum Resources (note that due to changes following the 2007 Federal Election, Invest Australia was disbanded and the majority of its functions were transferred to Austrade).

Austrade is responsible for updating and revising the *Minerals and Petroleum Exploration and Development Guide for Investors* and it is undertaken on an annual basis. The Department is consulted and engaged by Austrade as part of this annual process.

Questions relating to this publication are best directed to Austrade.

**Question 7**

Have you sought advice from Treasury (from whom you base your statement in the above publication) as to how the Australian taxation regime compares to competitor nations in respect to mining taxation and royalty payments, if the RSPT was passed into law? Have you asked the same thing in respect of the MRRT?

Have you received a response from Treasury in that regard? If so, on what date?

**Answer**

The Department has not sought such advice from Treasury with respect to the RSPT or MRRT.

**Question 8**

I refer to the statement by the then Prime Minister, Kevin Rudd, as reported in the Sydney Morning Herald on 25 July last year that, *as a capital importing country, we need to be mindful of the impact domestic tax laws have on global investment decisions and our ability to attract investment and international business.*

What did Mr Rudd mean by that statement? Do you think it has any application to attracting investment in the mining industry, in a global context where foreign investors have other opportunities for investment in places other than Australia?

**Answer**

The Department is not in a position to interpret what the former Prime Minister, Kevin Rudd, meant by this statement.

**Question 9**

You indicated at the last estimates that you monitor as par for the course, the reasons why mining companies put on hold potential projects. In respect of those possible developments you are aware of that are not currently proceeding, have any indicated to the department that this is because of the potential impact of the MRRT?

**Answer**

The Department is unaware of any mining companies that have put potential projects on hold because of the potential impact of the Minerals Resource Rent Tax.

Please refer to the answer given for question one.

**Question 10**

At the last estimates, in the context of industry objections to the RSPT, you stated that the opinions of industry are on the record and well canvassed and that you are hearing them. Do you accept what they have said – or do you reject it in part or whole? If so why?

**Answer**

Please refer to the answer given for question three.

**Question 11**

Ms Constable also acknowledged that the potential return is one of a range of factors that a financial institution would look at before deciding to finance an Australian mining project.

Would you agree that the imposition of the MRRT would be likely to lower the likely return on such a project?

**Answer**

Potential return is one of several factors that influence the competitiveness of Australia as a location for investment in resources exploration and development. Other factors include:

- prospectivity (the likelihood of finding a commercial discovery);
- access to supporting infrastructure;
- access to commercial markets;
- sovereign risk levels (political, policy and regulatory); and
- fiscal regime.

Questions relating to the policy and implementation of the Minerals Resource Rent Tax should be directed to The Treasury.

**Question 12**

As such, would you also agree that a lower potential return would make it less likely that such an institution would finance rather than more likely?

**Answer**

The Department is not able to comment on the investment decision making processes of a financial institution.

**Question 13**

You also acknowledged that you were actively involved in the policy debate, since finding out the final form of the RSPT, from your perspective of trying to grow the mining industry in Australia. Have you been similarly actively involved in the debate about the potential impact of the MRRT from that perspective?

**Answer**

The Australian Government's Policy Transition Group is consulting directly with affected companies, relevant government departments and stakeholders on the technical design and implementation of the new resource tax arrangements.

The Department has been involved in the development of the MRRT through its representation on the Policy Transition Group Secretariat.