



Australian Academy of Technological Sciences and Engineering (ATSE)
Level 1, 1 Bowen Crescent, Melbourne, Victoria 3004
GPO Box 4055, Melbourne Vic 3001, Australia
T + 61 3 9864 0900 F + 61 3 9864 0930 www.atse.org.au
Australian Academy of Technological Sciences and Engineering Limited – Incorporated ACT
ACN 008 520 394 ABN 58 008 520 394

Vice-President
Mr Peter Laver AM FTSE

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Senator Mathias Corman
Chair Senate Select Committee on Fuel and Energy
Australian Senate
Parliament House
CANBERRA ACT 2600

Dear Senator Corman

Australia's future tax system: Report to the Treasurer (the 'Henry Tax Review')

Thank you for the invitation to the Australian Academy of Technological Sciences (ATSE) to provide advice and feedback about the impact of the recommendations of the Henry Tax Review and the impact of the proposed 'Resource Super Profits Tax'.

The Academy does not profess to have expertise on taxation matters so our comments will be confined to the following observations –

- As mentioned at the Adelaide hearing of your Committee, ATSE is becoming increasingly concerned at the lack of investment in new electricity generating capacity which has to a significant extent been caused by uncertainty about carbon pricing. This uncertainty is compounded by changing policies on renewable energy targets, support for renewables and for research. Investors have made it clear that even before the *RSPT* proposal, Australia had moved from being regarded as a low return/low risk investment prospect to a low return/high risk environment. With the potential for higher domestic costs for coal and gas under a new tax regime, appetite for investment will be further reduced.
- Application of the new tax on existing operations will further scare overseas investors as they will see it as a potential precedent which could expand to industries using Australian resources in the event they are perceived as making more than bond rate returns on capital. International energy companies have many alternatives for investing their capital, particularly in higher growth markets in Asia where governments are prepared to make long term agreements guaranteeing not to vary taxation and other conditions for the lifetime of the project. It is sobering to be told by an international energy company that they view Vietnam as a having less sovereign risk for investment than Australia.
- The bridge between coal based power and new low emission technologies in the next decade or more will be gas. The *RSPT* could well reduce exploration for new gas resources and therefore the potential domestic supply, at least on the east coast, so increasing power prices by more than would have otherwise been the case.

In summary, ATSE has considerable concerns about the proposed change in taxation arrangements for resources due to the heightened sovereign risk it implies and the consequent reduction in potential investment in badly needed new energy infrastructure.

Yours sincerely

Peter Laver
Vice President

