

A BETTER PRICE FOR OUR RESOURCES

Everyone who contributes something to a business project needs to get a proper return. Shareholders who contribute equity capital get dividends and capital gains. Lenders who contribute debt capital get interest payments. Workers who contribute labour get wages and super. With a mining project, the Australian people contribute the actual mineral deposits on which the project relies. They should get a proper return on their contribution too.

That is not happening at the moment. At the beginning of the last resources boom, the Australian people got about one dollar in three of mining profits in royalties and other resource charges. Now that's down to one dollar in seven. So this is hardly a tax grab. All we are trying to do is restore the situation to where it was before resources prices went through the roof.

Some mining companies have been making a fuss about the amount of company tax they pay, but that is simply not the point. For a start, most company tax is refunded to Australian shareholders through 'franking credits' attached to their dividends. But more important, every company, in every industry, pays company tax. That is no reason to sell non-renewable public resources at giveaway prices to companies that use them in their projects.

I should also say that the RSPT will not be imposed on top of state royalties and company tax. Companies will be refunded for state royalties they pay. And, like the cost of other resources that a company uses, payments of RSPT will be deductible for the purposes of company tax.

There have been lots of dire predictions about the consequences of the tax. One of these is that it will push up consumer prices. This just does not make sense. The whole reason some mining projects are making very high profits is high world prices, set on world markets. The Australian tax system does not set the world price for iron ore. There is no way the tax can push up the price of these minerals and therefore Australian consumer prices.

The big question, of course, is what impact the RSPT will have on investment, and therefore employment in the mining sector. We've seen some pretty extreme statements from some quarters, including that investment in Australian resources will dry up completely and the money will go to Africa instead.

More moderate statements have included a number of mining companies saying that they will review their plans in light of the announced changes. I hope they are. The RSPT will be a big change in the way we charge for our natural resources and any responsible company will work out what that means for its operations.

In fact, though, we can be confident that the RSPT will increase investment and employment in the mining sector, even though it will, in time, collect more revenue than the state royalties it is replacing. How? Because state royalties tax every tonne of production — whether prices are high or low, whether costs are going up or

down. They do not recognise the heavy investment and production costs that a mining project bears, especially when prices are lower.

By contrast, the RSPT cuts in only when profits are high. Highly profitable projects will pay more tax than they do now but many projects will pay less and some about the same. It is also important to remember that the government will take on downside risk with the new tax. If a project goes gangbusters, the government will take 40 per cent of the cream, but if it does not, the government will still give a tax deduction for every dollar the project spends.

I should also make it very clear that the RSPT is not some sort of attack on mining companies. Mining companies should be making big profits for their shareholders: that is a signal they are efficiently producing the raw materials we all need. And the government is well aware of how crucial the mining industry is to the Australian economy. That is all the more reason to make sure that we charge proper prices for the resources that we contribute to mining projects.

Despite all the heat and drama of the media debate, the government is determined to get the design of the tax right. While we will not give up on charging better prices for Australia's natural resources, we understand that there are a lot of important details to be worked out — and in a business like mining an important detail can make millions of dollars worth of difference. We are working on the details with the industry right now. We are determined to improve the way we charge for Australia's natural resources but we are just as determined that, in doing so, we will not jeopardise the mining industry or mining jobs.