

Big producers face lion's share of tax

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The federal government has warned that the big coal and iron ore producers will carry the burden of a major revamp of the controversial resource super profits tax.

Making a last-ditch bid for mining companies to engage with Labor to influence the nature of the modified package, Resources Minister Martin Ferguson confirmed the government was in "constructive" negotiations with mining companies on the tax.

The concessions the government is considering could divide the miners. The established players are expected to bear the brunt of the increased tax burden and it could take years for new entrants — which would be future direct competitors — to begin paying the RSPPT.

The Business Council is stepping up calls for greater consultation about the tax. Its president, Graham Bradley, is expected today to urge all sides of politics to raise the quality of public policy debate and include reform in election policies.

A possible move to levy the tax closer to the point at which minerals are extracted was welcomed yesterday by some miners, but many said determining the value of commodities would be a complicated process.

Emerging miners were privately supportive of news the government could allow them to accelerate the rate of capital expenditure depreciation, which would reduce the risks to their projects and attract funding.

The government is expected to announce the reshaped tax within days,



Prepared for a hold-out, but persevering... Prime Minister Kevin Rudd in question time yesterday.

Photo: STEPHAN POSTLIS

possibly as early as tomorrow. But Prime Minister Kevin Rudd and Treasurer Wayne Swan told Parliament they were prepared for some of the big miners to hold out against paying more tax, no matter what concessions the government made.

The mining industry generally wants the 40 per cent headline tax rate lowered and companies such as BHP Billiton and Rio Tinto do not want it applied to existing projects — two principles on which the government has said it will not shift.

Mr Rudd was confident about the outcome but warned: "If we reach

this balanced and sensible outcome, I can fully predict that a number of the major mining companies will still not be happy with it. But that does not preclude us from engaging those companies who wish to be substantively engaged in negotiations."

The government's case for the tax was strengthened by Philip Daniel, the deputy head of the International Monetary Fund's fiscal affairs department, who said the agency's staff welcomed the tax in principle because "it shifts the whole Australian resource tax system strongly in the direction of neutrality".

Australia insures companies doing business in emerging markets such as PNG, Indonesia, and Nigeria — "places where there may be political instability", Mr Vollbehr explained.

Only under extraordinary

conditions do legal or regulatory changes in a democracy become a sovereign risk issue.

Mr Vollbehr pointed to the

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Argentinian crisis of 1999-2002 as an example. There, foreign investors suffered, he said, "as they were unable to transfer any funds out of the country after assets were frozen by decree of the Government".

Adil Hussain, president of Emerging Asia, a political risk consultancy in Shanghai, said sovereign risk applied "in states with conflict, security problems or real

Mr Daniel agreed it may have been difficult to exempt existing projects from the tax but noted the importance of making sure it was applied fairly "so that future cash flows and not past investments are taxed".

Mr Ferguson said some iron ore prices had risen by more than 500 per cent since 2004 and some coal prices had gone up 300 to 400 per cent. He pointed to a growth in world demand for petroleum and heightened natural gas products, which are covered by the petroleum resource rent tax but could be switched to the RSPPT regime if companies

fiscal problems that may jeopardise a state's ability to honour their debt". He said the tax "isn't really sovereign risk or political risk in the classical sense".

In Australia policy changes sometimes rock the boat and other times help business. The cuts to corporate tax were part of the same package of proposals as the RSPPT. Melbourne University's Head of Economics, Professor Nils Olekalns, said: "What people mean by sovereign risk [are] really extreme exogenous events. I don't think a resource rents tax, because it is on the super-normal profits, really qualifies as one of those."

Some mining industry insiders insist that the RSPPT proposal creates sovereign risk, but concede that it will not be an enduring characteristic. The sovereign risk of investing in Australia will last only until the proposal is passed into law. At that point the profits tax moves from an uncertain cost to a certain cost. That is unless the tax, which UNSW professor of banking and

chose. "These commodities will deliver the vast bulk of the revenue under the RSPPT and also the PRRT," he said. His comments lent weight to industry expectations that a handful of companies — BHP, Rio and Xstrata in particular — would provide most of the mining tax revenue.

Citing "generous transition arrangements" the government was working on, Mr Ferguson said many companies would benefit from the RSPPT. "With respect to many other mineral resources... I simply remind the house that in a calm and measured way they should appreciate that many of them will actually be better off under the proposed RSPPT."

"The RSPPT involves a revenue loss for government and a tax cut for many companies mining less profitable commodities, because those companies would benefit from royalty refunds and the government's contribution to un-utilised losses."

Negotiations with the industry would not include a shift on the headline 40 per cent tax rate and its application to existing projects.

Minerals Council of Australia chief executive Mitch Hooke said the government must make major changes. "A political solution where a small change to the tax proposal is presented as a major compromise will not end this uncertainty or deliver the right result for Australia," he said.

The MCA has commissioned KPMG modelling that shows that if the RSPPT were made more like the PRRT it would still impose an effective tax rate above the global average, with John Kehoe

finance Peter Swan described as "expropriation", marks a turning point in investors' opinion of Australia.

BHP chief executive Martinus Kloppers was unavailable for comment, but earlier pleaded to the government on the RSPPT: "Don't break the trust... the basis on which past investments have been made."

His comments reflect a mining industry argument that Australia's reputation as a stable democracy that encourages investment risks being thrown out the door.

Mr Vollbehr said that Coface Australia had recently upgraded Australia's risk rating from A2 to A1. There would be no change to that rating due to the RSPPT.

Professor Olekalns also took a long view. "Australia doesn't have a history of introducing ad hoc measures or frequent changes to regulation," he said. "There are political checks and balances in the environment that make it actually quite difficult to implement tax reform."

Sovereign risk really a foreign concept

The term sovereign risk and its many implications are not really applicable to Australia, writes Jason Murphy.

Rio Tinto CEO Tom Albanese started it in late May. "This is my No. 1 sovereign risk issue on a global basis," he said, about the proposed resource super profits tax.

And so "sovereign risk" entered the echo chamber of Australian politics. It has been trotted out ad nauseum since, by BHP chief executive Martinus Kloppers, Xstrata CEO Mick Davis, and in countless protests and denials by Treasurer Wayne Swan.

The term is not historically associated with Australia. Research and advisory firm the Economist Intelligence Unit published a sovereign rating last month that describes Australia thus: "Capacity and commitment to honour obligations strong."

This places us near the top, above the United Kingdom and Taiwan.

Extraordinary scenes as people's PM ambushed

From page 1

No matter how bad the polls were for Labor and Kevin Rudd, the ugly side of the Labor Party has shown itself prepared to exert its power, and this must create massive damage for the ALP — and a feast for the Coalition.

The spectre of the 'faceless men' has reasserted itself in grand style, rolling over the Caucus, and with the same potentially disastrous long-term consequences.

This has been the modus operandi has brought the NSW Right to edge of catastrophe in state poli-

tics and it has now been brought to the federal sphere.

Kevin Rudd has called on a leadership spill for 9am today and is refusing to go quietly, appealing to the Caucus from the base which delivered them into power in 2007. That it was voters, rather than factional wardlords, who elected him prime minister.

The same sources in the party which were responsible for initiating Julia Gillard had the numbers to win the leadership ballot without even

canvassing for votes. Rudd believes he has the support of the catholic right among the unions — hence his pitch on asylum seekers last night.

If Julia Gillard wins this morning, she will have the benefit of a honeymoon enjoyed by any new leader, built on a personal popularity.

Speculation last night was that if she succeeds in today's party room ballot, Wayne Swan could become her deputy and Lindsay Tanner the Treasurer.

For the party, Gillard's appeal lies, like Rudd's once was, on nothing

more than personal popularity. It is not based, publicly at least, on any policy differentiation with the current prime minister.

In fact, the tightness of the joint team that Rudd and Gillard represented — and her role as part of the 'Gang of Four' — leaves her implicated in the government's policy triumphs and disasters.

But Gillard is seen as a much more competent manager of the workflow of government.

The fact that she has managed to get major reforms in industrial