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PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

PROOF

Main Committee

APPROPRIATION BILL (NO. 1) 2010-2011

APPROPRIATION BILL (NO. 2) 2010-2011

**APPROPRIATION (PARLIAMENTARY
DEPARTMENTS) BILL (NO. 1) 2010-2011**

Second Reading

SPEECH

Monday, 31 May 2010

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

<p>Date Monday, 31 May 2010 Page 105 Questioner Speaker Sidebottom, Sid, MP</p>	<p>Source House Proof Yes Responder Question No.</p>
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Mr SIDEBOTTOM (Braddon) (5.36 pm)—The message of the budget was twofold. Firstly, responsible management of the economy has seen Australia weather the global financial crisis better than most other comparable economies—a fact almost totally ignored by those opposite. The savings and policies identified in this budget are targeted to get the budget back into surplus in 2012, three years ahead of schedule. The second message is that the proceeds from the resource super profits tax will go straight back into building a stronger, broader economy by cutting business taxes, especially for small business, boosting retirement savings and investing in vital economic infrastructure.

Let us just remind ourselves about how Australia has travelled in these difficult economic times. I sometimes think that we in Australia appear somewhat isolated from the impact the world economic crisis has had, and continues to have, throughout the world, most particularly in the USA and Europe. It is not because Australia is economically isolated from the rest of the world—indeed, to the contrary. The reason Australia has performed so strongly compared to many other comparable economies is largely because the Rudd Labor government acted so decisively to stimulate our economy as private capital evaporated. The stimulus strategy sought to inject spending and investment into the economy as retail spending and private infrastructure investment began to decline significantly. The stimulus worked and kept our economy out of recession. Significantly, in partnership with Australia's employers, employees and unions, it kept Australians in work. But do not just take my word on this, immensely proud though I am of the government's record with the stimulus matters that we introduced.

The OECD's latest economic forecasts are a timely reminder that our decisive action during the global recession has put our economy in a position of strength, from which we can reform the tax system and boost competition in the mortgage market for the benefit of families, workers and small business. The OECD has revised upwards its growth forecast for Australia and now expects GDP to grow by 3.2 per cent in 2010 and 3.6 per cent in 2011, one of the strongest growth outlooks of all OECD economies and well above the growth forecast for the OECD area as a whole. I know it might sound a little bland to listen to those figures, but they are comparably very impressive. I congratulate this government and our community on being able to achieve these forecasts.

On the employment front, the OECD expects Australia's unemployment rate to fall by 4.8 per cent by the end of 2011, dramatically lower than the eight per cent unemployment rate expected for the OECD area as a whole. The OECD also welcomed the government's disciplined budget, stating:

... in view of the stronger economy and fiscal restraint, the Government now expects to balance its budget by 2012-13, three years earlier than previously anticipated.

The national accounts for the March quarter will be out soon—on Wednesday of this week, I believe. It was this same release last year that revealed Australia had avoided a technical recession, one of only two advanced economies in the world to do so. This achievement sparked a revival in confidence which underpinned a recovery in private demand which would see Australia go on to record growth of 1.4 per cent in 2009 in year average terms and become the envy of the developed world.

So what of the resource super profits tax announced in the budget and now the source of so much shrill commentary by the big end of the mining industry? A whole host of dire scenarios is being presented by the big mining companies, ranging from allegations that they will be the most heavily taxed of all mining concerns in the world to being forced to put projects on hold, the loss of thousands of jobs, and declining returns to shareholders and superannuation recipients. Of course, any evidence that is contrary to these dire predictions is dismissed as untruths. Surely, there could not be a lot of self-interest at play here—surely not!

A local example surfaced in my own daily newspaper today when the editorial writer for the day had this to say in reaction to some negative comments from a mining company and an opposition media release about the RSPT. He said:

I must admit I was initially sold on the whole ‘they take the resources which belong to all of us’ argument, but have soured on it following the reaction from local industry players.

Well, blow me down! Because some industry players do not like the prospect of increased taxes, the government’s rationale for the tax and the Treasury modelled benefits from it do not seem to carry the same weight. Why is this? Laurie Oakes, on 29 May in the Hobart *Mercury*, put it incisively when he wrote:

The mining industry campaign is certainly over the top, and difficult to counter. When mining companies devalue their own shares by forecasting dire consequences from the tax, people tend to believe them.

In other words, they talked their own share prices down by this ridiculous scaremongering campaign that they have unleashed.

I think Ross Gittins’s piece in the *Sydney Morning Herald* of 26 May, headed ‘Let’s mine bright ideas and stop being shrinking violets’, goes some way to identifying what the real issue is with regard to the RSPT and the big mining companies’ misinformation campaign against it. Mr Gittins, no favourite or favourer of the Rudd government, argues that the traditional Australian cringe factor lies at the heart of their attack and the hope that Australians and the government will accept this. If the RSPT goes ahead, they argue, they will cancel their projects and take their money somewhere else. Mr Gittins says:

Oh dear, don’t desert us. Please!

Know what their—

that is, the big mining companies—

problem is? Australia, being one of the world’s leading mining nations, is a world leader in designing taxes that increase the public’s take without discouraging mining activity or otherwise damaging the economy.

He goes on:

The resource super-profits tax is a state-of-the-art tax, designed by our leading economists not to do all the bad things it’s being accused of. It’s a close relative of an earlier Australian invention, the resource rent tax, developed by Professor Ross Garnaut and others ...

Mr Gittins further goes on:

The big international mining companies are fighting it partly because they fear that, once its success has been demonstrated, it will be copied by other countries. And they’re fighting it by trying to press our cringe button: if no one else is doing it, it must be a dumb thing to do.

As Ross Gittins goes on to show, in so many areas Australia has led the world. And that was no dumb thing to do.

Last week saw some of Australia’s foremost economic authorities endorsing the resource super profits tax and destroying key planks of the scare campaign being run against this important reform. Remember, it is a reform—a reform of the tax system that is long needed. Even the mining industry recognises this. Twenty leading economists published an open letter. They are quite happy to have their names in the newspaper publicly endorsing this scheme, this tax proposal. They described it as a more efficient and equitable system of sharing the value of exploration and mining rights.

Mr Katter interjecting—

Mr SIDEBOTTOM—The member for Kennedy would remember that I am assisting him in the House by speaking now. I know he will listen to what I have to say. He regards me, I hope, as a considerate person. He will consider what I have got to say and take it on its merits. The 20 economists, who include former ACCC chief Professor Alan Fels, made it clear:

There is no reason to expect a net contraction in mining over the longer term as a result of replacing royalties with the proposed resource rent tax. This is because a tax on economic rent of non-renewable resources is a more efficient way of raising revenue than taxing mining production (royalties).

It makes sense. But it does not seem that those opposite are prepared to use sense in their arguments. Last week we also saw thoroughly debunked the myth that the RSPT would push up consumer prices. When asked about that particular part of the scare campaign, another of the 20 economists, Professor John Quiggan, said:

I think that's about the least defensible. The reason that there are super profits to be taxed is because of high world prices for these minerals that are set on world markets. So there's no reason at all to think that the tax is going to affect the world price of these minerals, and therefore that that's going to feed in any way into Australian consumer prices.

This was the point made by Treasury Secretary Dr Ken Henry, whom those opposite want to vilify, at Senate estimates last week, when he said that a profits based tax would not impact on consumer prices, although cutting the company tax would have a beneficial impact for consumers. Of course this has not been recognised by the big mining companies, who will benefit from the lower company tax rate.

By the way, I would like to add that those opposite, in their non-tax plan, will penalise the mining companies because they will not support a decline or a reduction in the company tax rate. Indeed, Treasury figures based on modelling from independent firm KPMG Econtech show the impact of the government's tax plan on prices as follows—

The DEPUTY SPEAKER (Mr AJ Schultz)—Order! Is the member for Braddon willing to accept a question from the member for Kalgoorlie?

Mr SIDEBOTTOM—No. I need the time. I do not need to be interrupted by the member for Kalgoorlie. As I was saying, the Treasury figures, based on modelling from independent firm KPMG Econtech, show the impact of the government's tax plan on prices as follows: food, lower by 0.9 per cent; clothing and footwear, lower by 1.3 per cent; housing, lower by 1.1 per cent; transportation—member for Kalgoorlie—lower by 1.7 per cent; and communications, lower by 1.4 per cent.

Mr Haase—Substantiate that.

Mr SIDEBOTTOM—I do not need to substantiate it. That is from the modelling not just of Treasury but also of KPMG Econtech, the independent modellers. But that would not mean anything to those opposite. They just need to promote hearsay and the nay-saying of the big mining companies and that is enough. Of course it is; it always is when you have a scare campaign running.

Under the government's tax proposals, the average worker—listen to this!—will be an extra \$450 a year better off. Under the opposition's tax plan, if that is how you can describe it, there will be no mining tax, no company tax cut and a 1.7 per cent tax increase for large companies. That would leave the same worker about \$100 a year worse off. Tut-tut! Further, Labor's tax plan will eventually boost GDP or economic output by 0.7 per cent whilst the Abbott plan would reduce GDP by 0.2 per cent. And there is more. I will throw some kitchen knives in for you as well. Investment is modelled to increase by 2.1 per cent under the government's plan but fall by 0.55 per cent under Abbott's. In addition, inflation will be affected. Consumer prices will be 1.1 per cent lower with the government's taxation mix but 0.25 per cent higher with the coalition's. Finally, average real after-tax wages are predicted to rise by 1.1 per cent under the government's plan but would fall by 0.25 per cent under the Abbott-Hockey-Robb plan. Of course, we do not hear this in this debate from those opposite. They cannot defend their so-called tax proposal, particularly the 1.7 per cent tax on large businesses to pay for their uncosted paid parental leave scheme.

Early last week the Treasurer delivered a ministerial statement to the parliament discussing, amongst other things, the truth behind some of the myths peddled by some in the mining industry, how we will invest the proceeds of the RSPT and the posturing we have seen from some industry figures since the announcement of this vital economic reform. There has been much comment from mining companies in recent weeks about the supposed retrospectivity of the RSPT. These claims are clearly misleading, as the RSPT will apply to mining profits from 1 July 2012. It does not apply to past profits. It would help a more informed public debate if companies clearly distinguished between retrospective taxation, which this proposal is not, and taxation of existing projects, which is their actual complaint. Let's make two points specifically related to this. The first is that complaints that the RSPT should not apply to existing projects are really an argument that governments should never change tax rates. That is not a sustainable proposition for any government any time but it is especially unsustainable when the tax share of the mining profits has fallen, regardless of what measure you use, so dramatically in recent years. As Macquarie Bank economist and interest-rate strategist Rory Robertson said last week:

... only the most naive investor could have imagined that the final prices the mining sector receives from world markets for publicly-owned resources could increase by multiples over a decade and yet governments effectively would keep selling those same resources to mining companies at the same old low prices.

Indeed, as Robertson points out, every city-based household knows that its local government rate payments will trend higher over time even if the home was bought many years earlier. Similarly, owners of rural property know that the government rates and rents are linked directly to the latest assessed value of the property and that if that value doubles then payments to the government will tend to rise in proportion.

The second point is that the report of the tax review recommended that existing projects be included, and for very good public policy reasons. To exclude existing projects would of course create significant distortion of investment, as prospective projects and existing projects would be on an uneven tax playing field. I quote from Mr Robertson:

Mining companies have also made the argument that the RSPT should be differentiated by commodity. They argue that different commodities have different revenue, cost and therefore profit profiles. Some require more investment to extract, some less.

Mining companies have used this to argue that the RSPT should apply at different rates for different commodities. But this analysis fails to grasp perhaps the most important design element of the RSPT. The fact is that, by design, an RSPT already differentiates by commodity. As a profits based tax the RSPT already takes account of the different revenue, cost and profit profiles of the different commodities. It also contains very generous treatment of investment. It therefore takes account of the different investment levels needed to develop different economies.

The government is using the proceeds of the RSPT to provide a much needed cut in the company tax rate from 30 per cent to 28 per cent for all Australian companies, with a head start for small business. This is a really important economic reform for Australia because it will help us stay competitive at a time when the company tax rates are falling in other countries, particularly in our region. It will also help boost growth and real wages over the long run. Independent modelling shows that together with the RSPT, the cut in the company rate will boost GDP by 0.7 per cent and lift investment by 2.1 per cent. By contrast, an alternative plan to lift the company tax rate by 1.7 per cent on taxable company incomes over \$5 million a year will actually reduce GDP by 0.2 per cent and cut investment by 0.5 per cent according to the Treasury and that means according to the so called tax plan of the opposition.