RESOURCE SUPER PROFITS TAX — RESOURCES SECTOR

166. Mrs L.M. HARVEY to the Premier:

Western Australia is the world —

Mr D.A. Templeman interjected.

The SPEAKER: I would like to hear the question from the member for Scarborough. I will give the member for Mandurah an opportunity to ask questions in this place any time, as he knows.

Mrs L.M. HARVEY: Western Australia is the world's leading mining economy. Indeed, it has helped the nation through one of the worst economic downturns that the world has seen in decades. Given the significance of our mining industry to the Australian economy, could the Premier please outline to the house the effect that the federal government's latest great big tax could have on the state and the nation?

Mr C.J. BARNETT replied:

It is a good question and I thank the member for Scarborough for drawing the house's attention to an important issue—a big issue. As members would be aware, the Henry report or review of taxation was publicly released on Sunday and the Prime Minister gave the federal government's response. In that response there were some positive features. I do not deny that for a moment. However, the one big negative feature was the Labor government's announcement of a resource super profits tax. Any new tax by definition will have a negative effect on the industries that are subject to it. A major new tax on the mining industry amounts to a major new tax on Western Australia for the simple reason that 62 per cent of mineral production and about 70 per cent of petroleum production, both oil and gas, come out of this state. Therefore, the negative part of Sunday's decisions impacts very, very strongly on Western Australia. If members do not want to take my word for it, simply look at what happened in the stock market—more than $6 billion of capital value was wiped from resources stocks in Australia. The market very quickly judged the impact of Labor's resource super profits tax.

In 2008, with the global financial crisis, we saw how vulnerable and sensitive to change commodity prices in the mining industry are. A number of projects closed in this state and several thousand jobs were lost. That is the extent to which changes like this can impact on an industry that has to compete internationally and is subject to all the risk and all the vagaries. The resources industry is worth $70 billion in this state. It is a huge industry and there was, at least until the weekend, $170 billion worth of realistic development projects in line for Western Australia.

I want to make it very clear that the Western Australian government does not support the Prime Minister's proposal for a resource super profits tax. However, let me make this point: some might argue that in exceptional circumstances there is a case for a surcharge on company tax, which is what this is. But those exceptional circumstances by definition would need to be very exceptional—for example, the very dramatic doubling and trebling of oil prices in the 1970s. But we do not have that at the moment. We do not have that, and, indeed, parts of the industry—for example, some parts of the nickel, alumina and mineral sands industries—are still in fairly difficult circumstances. Therefore, we do not support it; in fact, we oppose it. However, let us just pursue the argument for a moment. I assume Labor supports it. I assume members opposite support Kevin Rudd's proposal; we do not on this side.

Several members interjected.

The SPEAKER: Members!

Mr C.J. BARNETT: Let us go beyond that and just for the moment take the time to look at the structure of what the Prime Minister is proposing. For a start, he calls it a super profits tax and he defines "super profits" as a return above the long-term bond rate, which is a 10-year bond rate currently at about six per cent.

Mr E.S. Ripper: What's your definition?

Mr C.J. BARNETT: I will tell the Leader of the Opposition what it is not. If six per cent were seen as a normal or reasonable rate of profit for the mining industry, then the whole industry might as well go out and buy treasury bonds. Why invest, why take risk, why employ people, why put in capital, why go through it?

Mr E.S. Ripper: So do you have a more reasonable —

Mr C.J. BARNETT: The Labor position is that six per cent is okay; that is defined in the proposal. If we look at even the petroleum resource rent tax—the existing tax for petroleum in commonwealth waters—that has a similar provision but it is the long-term bond rate plus five per cent. Therefore, the mining industry is not even getting a threshold equivalent to what the petroleum industry has today. Now I would suggest given that royalties are paid for minerals that any threshold should be indeed more than five per cent above the bond rate. Therefore, the first deficiency of this design is that super profits are defined basically as anything above six per cent. That is nonsense in both the mining and petroleum industries. The second point is that the rate is way too high—40 per cent of defined profits; almost half of retained earnings. That is far, far too much. That will have a devastating effect on marginal projects and prospective investments. The third point is that the application of the tax is far too wide, again. A resource rent tax is meant to apply in unique and exceptional circumstances—windfall profits, if we like.

That is not what this tax is. This is a tax right across all mining and petroleum projects. More than 500 mining and petroleum projects operate in this state. Every single one of them and every person working for those industries and on those projects will feel the effect of this tax. Its application is ridiculous.

Fourthly, I come to the royalty issue—that is, the royalty that the state applies to minerals. The royalty is the price that both Australian and overseas companies pay to purchase the mineral they are mining. Under the Prime Minister's proposal that will be rebated. In other words, if an iron ore company pays royalties to the state to buy the iron ore off the people of Western Australia, the federal government will give them the money back. In other words, the mining company will get the iron ore free. Australia will be the only country in the world giving away its natural resources. Under Labor's policy, which I presume members opposite support, Australia will be giving away its natural resources. Even the developing economies, such as in Africa, do not give away their natural resources.

The fifth point is that this tax applies another whole layer of regulation and administration across every mining project in Australia. To have a federal resources rent tax is not only a wrong policy decision, but also the design of it—to use the Prime Minister's words—is, frankly, absolutely hopeless. This is a hopelessly designed tax arrangement and it should be opposed.

I guess that my message to the federal government is to ask it to reconsider this whole proposal. This proposal will damage mining in this state, make marginal projects close, stop investments in marginal projects and cost current and future jobs. If the Prime Minister will not abandon it, I ask that, at least, he reconsider the structure of it, because, frankly, it is a nonsensical structure.