Australian Geoscience Council Inc.

The Council of Earth Science Societies in Australia

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YOU CAN CHANGE THE RULES OF THE GAME, BUT NOT DURING THE MATCH

Would the current proposed Resource Super Profits Tax (RSPT) be under consideration if we were not experiencing a commodities boom? The resources industry is notoriously cyclical and the irony is that the RSPT may well have missed a major part of the current boom by the time it comes into effect in July 2012.

A successful mineral resources industry has developed in Australia through the evolution over more than a century of a reward system that is seen to justify the very high level of risk that is intrinsic to this industry sector, and that at the same time has provided for a fair apportionment of wealth to the nation. Current rhetoric implies that the Australian public is missing out on the present buoyancy in the market as though state royalties as well as company and individual taxation were not already in place, and as if their quanta do not reflect current levels of volumes and profits respectively.

The proposed RSPT will at best cause significant delays in decisions affecting both hard and soft rock mining and onshore LNG production (particularly coal seam gas) with respect to capital raisings, capital investment, development and exploration. At worst, it will lead to mining, extraction and related processing activities being preferentially developed offshore. Probably the most important impact will arise from the retrospective nature of the tax which must inevitably lead to a loss of confidence in Australia as a stable jurisdiction for any level of substantial investment, and this re-assessment may not just apply to the resources industry.

As an adjunct to the RSPT, it is proposed by the federal government that 40% of the tax value of resource company losses on a project be returned to investors. The application of this, as with the Super Tax itself, is a complex taxation area but essentially, by supporting less competitive or marginal projects, it distorts the market to the long term detriment of the industry as a whole. This is absolutely not an appropriate area for government intervention and the use of public funds. Furthermore as we are seeing, Government policies change and investors will be acutely aware of the risk that the Government may not deliver on its promise to return losses at the proposed rate at an indeterminate point in the future, effectively negating any reassurance the 'risk sharing' arrangement may otherwise provide.

The Henry Tax Review has recommended a resource exploration cash rebate rather than a flow-through share scheme which was supported by the Federal Labor Party as a firm pre-election commitment. While this rebate would assist the small explorers to stretch their exploration dollar, it is the raising of the original equity finance that is the greater hurdle for these explorers. This will only be marginally affected, if at all, by an exploration rebate.

Mineral exploration is a high risk process. Most exploration projects fail and it is the relatively rare outstanding successes that encourage the risk taking inherent in the process. The high returns on substantial initial capital investment made by successful projects are seen to justify the overall expenditure on exploration and to encourage the effective planning and execution of exploration activities. If the prospect of high returns is to be neutralised by a new tax, it seems simplistic to offset this by refunding 40% of expenditure on failed projects. We wish to see encouragement of effective exploration by rewarding success, not simply subsidising activity.

Systems, in this case the taxation system, can always be improved. If reform of the resources portion of the tax system is to be undertaken, it should have commenced through a comprehensive process of consultation and debate rather than a policy decision delivered with neither adequate communication of the details nor full consideration of the ramifications of this approach. These particularly include, we would suggest, the perception of a marked increase in Australia's sovereign risk. The final form of the complex details of the tax is at least a year away, but whatever the form much damage has been done to the image of Australia as a sound and predictable place in which to invest.

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