Australia: Mining magnates ramp up demands on Gillard government

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Against a backdrop of deepening global slump and financial turmoil, the world's biggest mining companies are bluntly demanding far greater concessions from the newly-installed Australian prime minister, Julia Gillard, on the proposed Resource Super Profits Tax (RSPT) than those offered by her predecessor Kevin Rudd.

In a stunning revelation, Australian mining magnate, Fortescue Metals Group chief Andrew Forrest, yesterday told the media "It would be a great shame if the finalised outcome of any negotiations between the Gillard government and the mining industry were anything less than what was achieved while Mr Rudd was PM, otherwise his departure will be recognised as futile."

Forrest's extraordinary comment makes clear that not only did he and the big three mining transnationals—BHP Billiton, Rio Tinto and Xstrata—have a direct hand in the coup that ousted Rudd, but just days later, they are threatening to destabilise the new government unless all their demands are met.

Addressing a Perth business conference, Forrest ominously declared: "The previous prime minister was cut off from bringing a solution to the table. I would suggest that the new prime minister brings that solution to the table for a discussion with the whole mining industry as soon as possible."

Forrest's threats speak volumes about the dictatorship of corporate wealth that lies behind the façade of parliamentary democracy. Gillard and her ministers are currently locked in talks with BHP, Rio Tinto and Xstrata in the cabinet suite of Parliament House in a desperate bid to meet their demands by the end of the week, barely a week after she was installed. Mining industry sources have threatened to resume their $100 million advertising campaign against the government if they do not obtain the concessions they seek by Friday.

Mining chiefs are insisting on nothing less than a substantial reduction of the 40 percent tax rate itself. "We want to start with a clean slate, not tinker around the edges," Association of Mining and Exploration Companies chief executive Simon Bennison, told the *Australian*. "The 40 percent tax rate still remains, which is a big issue." Rio Tinto iron ore chief executive Sam Walsh told the *Australian Financial Review*: "I think there is enormous pressure on the government to actually bring this to a head."

The new prime minister has publicly stated that reaching a pact with the miners is her most immediate and highest priority in getting the Labor government "back on track". Yesterday, Gillard reiterated that the negotiations with the big three were receiving her "personal attention and focus". Treasurer Wayne Swan went straight into the talks with the mining executives after arriving back from the G20 summit in Toronto yesterday.

Rudd's aborted deal with Forrest already contained substantial sweeteners. It would have dramatically lifted the threshold at which the "super profits" tax cut in, from 6 percent to as much as 15 percent. It would also have reduced the impact of the tax on existing projects, a key demand of the mining giants, by allowing an immediate write-off for new capital spending.

Further, the package would have moved the taxing point for projects to the point of mineral extraction rather than after value-adding via processing; and permitted full transferability of tax liabilities across a company's projects, opening the way for wholesale tax avoidance. The deal favoured the large transnationals at the expense of smaller and more marginal operators by abolishing the planned 40 percent government guarantee on project losses.

Gillard is expected to announce an initial instalment of her own package today—a scheme for major new coal-seam gas projects in Queensland to be covered by a modified, more generous, version of the existing Petroleum Resource Rent Tax (PRRT). The PRRT has a

40 percent rate on profits but does not apply to existing projects and only cuts in once profits effectively exceed 15 percent, after depreciation and capital allowances. Woodside Petroleum and other operators on the offshore North West Shelf oil and gas field—Australia's largest—have been exempt from the tax since the Hawke Labor government introduced it during the late 1980s.

The prime minister is set to announce the coal-seam deal, which is likely to include the North West Shelf as well, before a $5,500-a-head Labor Party election fundraising dinner for mining companies and other business leaders—which form one of Labor's key constituencies—in Brisbane tonight.

But the *Australian* newspaper today warned Gillard that finalising an agreement with Woodside and other gas exporters may not be enough to appease the big miners. Political editor Denis Shanahan wrote: "Just because some sections of the mining industry accept a deal and the government wants a quick settlement, there is no guarantee there will be ready acceptance from Australia's biggest miners."

Gillard, Swan and Resources Minister Martin Ferguson are so preoccupied with satisfying Rio, BHP and Xstrata that smaller companies, represented by the Association of Mineral Exploration Companies, have complained of being frozen out of the negotiations. They have given the government a deadline of next week before resuming their own, smaller-scale, radio advertising against the tax plan.

The three mining giants are operating in close concert, determined not to allow the Australian tax to set a benchmark that could affect their huge global operations. Their concerns have been reinforced by renewed plunges on global share and financial markets, upon which they depend heavily for borrowings to finance key projects.

Share markets fell by 2 to 4 percent on European and US markets last night, taking them to their lowest points for the year, after the US business research company, the Conference Board, substantially revised downwards its forecast for China's economic outlook and reported a slump in US consumer confidence due to continuing mass unemployment. There were also new concerns about the stability of European banks, which are heavily exposed to the European government debt crisis. These developments particularly threaten the major mining companies because of their reliance on China, which in turn depends on exports to the US and Europe.

The global convulsions threaten to engulf the entire Australian economy, given its exposure to China, and throw new doubt over the Labor government's May budget commitment to the financial markets to eliminate the budget deficit by 2013. Gillard has declared that any losses from the projected $12 billion annual revenue from the mining tax will not prevent it from meeting its pledge—which can be achieved only by slashing government spending in other areas, notably welfare, health, education and social infrastructure.

Having been installed undemocratically by a backroom coup, the Gillard government is rushing to make a deal with the mining giants in order to clear the way for a possible snap election, aimed at smothering discussion of her anti-democratic installation, the looming spending cuts and the worsening global situation.

Amid feverish media speculation, divisions have reportedly emerged, however, within the government over whether to call a federal election as early as August. Some party figures are advising Gillard to hold off until October, and reconvene parliament in the meantime, in order to reduce the stench of Rudd's political assassination. Their nervousness would no doubt have been heightened by the latest Newspoll, showing support for the state Labor government in New South Wales plunging to an historic low of just 25 percent.

While the polling, taken after Gillard's ascension, reflects the deep hostility felt toward the state government, it undercuts media claims that Rudd was ousted simply to boost Labor's polling, and that Gillard had already, miraculously, "saved" the party.