Australia: Clean sweep for mining giants as Labor government capitulates on tax

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In the 109-year history of the Australian federation it is doubtful there has been any clearer revelation of the real nature of so-called parliamentary democracy than the past week's events, which have culminated in a complete capitulation by the Labor government to the demands of the giant transnational mining companies.

Just eight days after the ousting of former Prime Minister Kevin Rudd in a coup sparked by furious opposition from the mining giants to a proposed super profits tax, the newly-installed Prime Minister Julia Gillard has met all the main demands of BHP Billiton, Rio Tinto and Xstrata. It can be said, without fear of exaggeration, that this is a government of, for and by the mining giants.

If some left-wing playwright or movie screenwriter had devised a plot where the prime minister in a supposed democracy was deposed in a parliamentary coup, following a multi-million dollar campaign by mining companies, and then a week later the new government acceded to their demands, it would have been dismissed as an absurd Marxist parody. But this is precisely what has happened.

Gillard and her ministers spent most of the week locked in marathon talks with the three companies' most senior representatives, BHP Billiton chief executive Marius Kloppers, Rio Tinto Australia CEO David Peever and Xstrata chief executive Peter Freyberg, to meet their deadline of striking a deal by today or face the resumption of their $100 million advertising campaign against the government. "It looks as if the new PM has met the deadline," Malcolm Maiden noted in the *Age*.

Under the deal, announced by Prime Minister Julia Gillard at a press conference this morning, the government has dropped its plan for a resource super profits tax (RSPT) and replaced it with a minerals resource rent tax (MRRT). Previously, the 40 percent super profit tax rate had been declared "non-negotiable." Under the MRRT it will apply only to iron ore and coal projects, with nickel, gold and copper excluded, and be set at just 30 percent.

Under the RSPT, the new tax would have kicked in once the profit rate exceeded the long term bond rate—at around 6 percent. Under the MRRT it will start at the long-term bond rate plus 7 percent.

One of the features of the RSPT most vociferously opposed by the mining companies was that the new tax would apply to existing ventures. This meant that projects established many years ago, and enjoying a high rate of return, would attract a greater tax because their book value is lower than their current market value. Under the MRRT, companies will be able to value established projects at current market value for the purposes of the tax, thereby lowering the rate of return. The difference is substantial. According to Rio Tinto, the depreciated book value of its operations in the north-western Pilbara region is $US11.2 billion. But the market value is calculated to be $US64 billion.

Treasurer Wayne Swan declared this morning that the government's concessions would bring a reduction in expected revenue of $1.5 billion. Accordingly, the overall company tax rate will be reduced from 30 percent to 29 percent, instead of 28 percent, as initially planned. These figures are rubbery at best, given the volatility of global markets. Moreover, the deal is not yet finalised. As one commentator noted, the figure of $1.5 billion was probably plucked out of the air by some Treasury official. If the shortfall is higher, the difference will likely be met through cuts to government spending.

The tax legislation is not expected to be finalised until some time next year, with the tax due to start in July 2012. Gillard announced that the process would be overseen by a Policy Transition Group under the leadership of former BHP Billiton chairman Don Argus and Resources Minister Martin Ferguson. The prime minister stressed that she was "delighted" that the former BHP boss had accepted her invitation to consult with industry and advise the government.

The establishment of this new body means that, having dictated the broad parameters of the government's tax policy, the mining companies will now determine the complex details of its implementation. And in matters of taxation legislation, where corporations devote massive resources to devising schemes to minimise or completely avoid payments, the devil will, most certainly, lie in the detail.

Preliminary calculations indicate that the mining industry, which is expected to pull in $60 billion in profits this year, with iron ore and coal prices rising by over 500 percent and up to 400 percent, respectively, since 2004, will be paying significantly less tax under the MRRT than under the original proposal. One initial calculation estimates that, under the proposed new regime, BHP may even end up paying no more tax than it does at present.

As soon as markets opened this morning, the share price of BHP and Rio went up by 1.5 to 2 percent, despite continuing global falls.

Not surprisingly, BHP Billiton chief executive Marius Kloppers declared that the company was "encouraged" by the agreement. "As we have previously stated, BHP Billiton believes that tax reform that is prospective, competitive, differentiated and resource-based will ensure that the Australian mining sector continues to grow through investment in the industry which benefits all Australians."

He said the MRRT design was "closer to our frequently stated principles of sound tax reform."

Rio Tinto Australian managing director David Peever said the recognition of market value for existing mines and the reduction in the headline rate "represent significant progress in achieving Rio Tinto's fundamental principles of tax reform."

In a joint statement, the three giant companies involved in the direct talks with the government said the MRRT represented "very significant progress" and that they would "continue to work constructively with the government to ensure that the detailed design of minerals taxation maintains the international competitiveness of the Australian resources industry into the future."

Gillard's remarks at her press conference underscored that the speed of the government's changes was determined entirely by the mining companies. While the tax plan was only announced two months ago, Gillard said that "we've been stuck on this question as a nation for too long." It was "essential that we have a stable and coherent government and a positive basis for trust." The only instability was that created by the mining companies, which had threatened to resume their multi-million advertising campaign next week. At the same time, the mining magnates made crystal clear that the only "positive basis for trust" was the government meeting all their demands.

Gillard also took the opportunity to send a message to big business and financial interests that her government was more than ready to accede to their requirements as well. She took pains to emphasise her own role in achieving so-called "reform", pointing to her implementation of a national school curriculum, her establishment of MySchool—the publication of league tables to compare schools—and her reactionary Fair Work Australia industrial relations legislation.

Answering a question on when the federal election would be called, she replied she had some more "governing" to do, and indicated her next priority would be to deal with "anxieties" in the "community" over asylum seekers and border protection. Having been the architect of Labor's post-2001 policy, which aligned itself with the Howard government's inhuman anti-refugee measures, Gillard's comments point to the development of an even more reactionary agenda.

The meaning of the well-known aphorism that a week is a long time in politics is that processes that might, in another period, have taken decades to be revealed, emerge to the surface of political life in just a few days. The working class must draw two vital lessons from the events of the past week:

First, that parliamentary democracy is nothing but a facade behind which powerful financial and corporate interests, backed by the forces of the state, determine the economic and political agenda.

Second, that the Labor government will stop at nothing to implement their dictates.

Speaking on the agreement with the mining companies, Swan claimed it was aimed at preparing for the next "mining boom." The truth is otherwise. As the second anniversary of the eruption of the global financial crisis approaches, the world economy is moving towards another depression.

The theme of the G20 economic summit held in Toronto last weekend was not "recovery" but the imposition of deep budget cuts and austerity measures the like of which have not been seen since the 1930s. The massive police operation against protestors outside the summit provides a stark demonstration of the kind of methods that will be used to implement such an agenda against workers in every country.

The Australian working class is set to enter major social and political struggles, which will bring it into direct confrontation with the Labor government. The preparation for these struggles is the theme of the conferences being convened by the Socialist Equality Party titled "The World Economic Crisis, the Failure of Capitalism and the Case for Socialism", to be held in Sydney (July 4) and Melbourne (July 11). We urge all *World Socialist Web Site* readers to attend.