

Australian government completes cave-in on mining tax

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29 December 2010

Prime Minister Julia Gillard's Labor government has bowed, once again, to the dictates of Australia's mining giants by indicating its acceptance of an industry-dominated advisory group report that demands further sweeping concessions on the proposed Minerals Resource Rent Tax (MRRT). According to the *Australian Financial Review*, the "big three" mining companies—BHP Billiton, Rio Tinto and Xstrata—now expect to pay little or no MRRT.

The Labor government's capitulation was spelled out on Tuesday when Treasurer Wayne Swan welcomed the report of the so-called Policy Transition Group. "There is a lot of commonsense in this report," Swan declared at his joint media conference with Resources and Energy Minister Martin Ferguson, who co-chaired the PTG committee—consisting of mining, business and Treasury executives—with former BHP Billiton chairman Don Argus.

Swan said the cabinet would convene in the new year to consider the group's 94 recommendations. In reality, facing the threat of the resumption of the massive anti-tax advertising and media campaign that was orchestrated by the mining companies and helped precipitate the ousting of Kevin Rudd as prime minister in June, the government has committed itself to deliver on every last demand of the "big three".

At the media briefing, Swan repeatedly referred to the "bruising debate" that led to the scrapping of the Labor government's original 40 percent mining super profits tax and the installation of Gillard, who signed a "Heads of Agreement" with the CEOs of the three companies within days of toppling Rudd. In that backroom deal, full details of which remain hidden from the public, the government not only abandoned the super profits tax but replaced it with the much lower 22.5 percent MRRT, confined to iron ore and coal only. Gillard and

Swan also pledged to compensate the mining companies for any increases in state government mining royalties, and established the Ferguson-Argus group to advise on implementing the MRRT.

Until this week, Swan and outgoing Treasury Secretary Ken Henry had insisted that Gillard's deal with the three companies would not extend to covering all future state royalty hikes, only existing royalties. That pretence evaporated on Tuesday, leaving the Gillard government in the position of providing three of the world's biggest mining conglomerates with an open-ended commitment to reimburse them for royalties. The PTG report insisted that "all current and future state and territory royalties on coal and iron ore" had to "be credited".

Other major concessions laid down by the PTG included fixing the taxing point at the minehead stockpiling of coal and iron ore, rather than processing—thus considerably reducing the tax liability—and phasing in the tax for smaller companies earning profits of between \$50 million and \$100 million per year.

The full financial magnitude of the government's cave-in is not yet clear, but unnamed Treasury sources told the *Australian Financial Review* on December 23 that the revenue from the tax is now expected to be less than \$5 billion over the next two years—a far cry from the \$24 billion promised by the original super profits tax, and even the \$10.5 billion that Gillard and Swan claimed would result from their July deal with the big miners.

By some calculations, the revenue could be even less, particularly if mineral prices drop or state and territory governments raise their royalties. According to the *Review*, the mining companies themselves estimate that they will now pay "only marginally more tax in boom

years” and no extra tax at all “when commodity prices fall from their near-record levels”. For months, Swan has refused to release details of the government’s tax revenue projections, citing “commercial-in-confidence” in order to protect the mining companies.

The *Australian Financial Review* immediately called for deep cuts to government spending in order to overcome the resulting “multibillion-dollar black hole” and meet the Labor government’s commitment to eliminate the budget deficit by 2013. In other words, the tax handouts to the mining companies will now further propel the Gillard government into imposing on the working class the kind of austerity measures that are already being implemented in Europe, the UK and the US in the wake of the global financial crisis.

Labor’s previous claims that the mining tax would give ordinary Australians a “fair share” of the mining giants’ super profits have collapsed. This was, in fact, never the purpose of the tax. The government’s original scheme consisted of transferring a small slice of the billions being extracted by the major miners to other sections of business and finance, via a cut in the overall corporate tax rate, and to smaller miners through exploration incentives and the provision of infrastructure. Some of the funds were to underwrite an increase in the compulsory superannuation levy imposed on wages—in effect to boost the financial sector by accelerating the growth of superannuation funds.

The Gillard government now faces the possibility of a political and constitutional confrontation with the states, several of which have already declared they will not forgo their legal rights to increase mining royalties. Colin Barnett, premier of the largest mining state, Western Australia, has gone further, describing the tax as a “dog” and urging Gillard to “just get rid of it”. Smaller mining companies are also threatening to agitate against the government, primarily because the PTG report opposes their previously mooted exploration incentives.

As for the major mining companies, they have made it clear they will accept nothing less than the full delivery, via legislation in the new year, of their victory over the government. Minerals Council of Australia chief executive Mitch Hooke emphasised that the royalties pledge was “the deal breaker for our members”.

The mining tax debacle has further exposed the character of the Labor government, which is completely beholden to both the giant corporations, particularly the miners, and to Washington. The WikiLeaks cables have underscored the fact that the backroom coup that ousted Rudd on June 24 was orchestrated by factional and union bosses who were secretly informing US embassy officials of their every move. As the WSWS has previously documented, these same figures—including Bill Shorten, Mark Arbib, David Feeney, Paul Howes and Gary Gray—have strong trade union and political ties to the big mining companies (See: “Australia’s political coup leaders and their big business connections”).



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