Australia: Mining giants post record profits, on top of tax victory

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Three of the largest global mining companies—BHP Billiton, Rio Tinto and Xstrata—this month reported record profits, equivalent to a combined total of almost $43 billion annually. Their announcements came as previously suppressed Australian Treasury documents revealed that the Labor government's surrender to the "big three" last July, when it dropped a proposed resources super profits tax, would cost it at least $60.5 billion in income over eight years.

Figures released by the Treasury, following a freedom of information application, showed that the original resources super profits tax, as proposed by former Prime Minister Kevin Rudd, would have generated $99 billion in revenue between 2012-13, when it was due to start, and 2020-21. The revised minerals resources rent tax, which Julia Gillard, Rudd's replacement, negotiated with the mining chiefs, was forecast to earn $38.5 billion during that period.

The $60.5 billion shortfall is far more than claimed by Gillard and Treasurer Wayne Swan when they signed their deal with the mining giants last year, just days after Gillard had deposed Rudd. Gillard then claimed that the miners would pay $10.5 billion in the first two years—only $1.5 billion less than the original tax.

Even the Treasury estimates are likely to understate the cost of the Labor government's subservience to the mining industry. In fact, the "big three" expect to pay little or no extra tax as the result of further concessions that they extracted last December. Not only was the tax rate slashed from 40 to 22.5 percent, and confined to iron ore and coal. The government has agreed to compensate the mining companies for any increases in state government royalties (see: "Australian government completes cave-in on mining tax").

BHP Billiton last week announced a $10.5 billion profit for the final six months of last year, a 71.5 per cent increase on the previous year. At the same time, its effective tax rate fell from 30.2 to 24.4 percent, a far lower rate than that paid by working people in Australia, most of whom pay 30 or 37 percent in income tax.

Earlier, Rio Tinto reported that its annual net profit almost tripled from nearly $5 billion in 2009 to $14.2 billion last year. Xstrata posted a 75 percent rise in full-year profits to $7.7 billion.

Each enjoyed a windfall from soaring commodity prices, particularly for iron ore. BHP Billiton noted that 57 percent of its $14.8 billion in earnings before interest and tax came from price increases, and $4.3 billion, or 30 percent, from iron ore prices alone. The company's earnings rate on iron ore (before interest and tax) was a staggering 62 percent, just higher than the 59 percent rate for petroleum.

The results also highlighted the reliance of the mining companies on continued growth in China and the rest of Asia. China is BHP Billiton's single biggest market, accounting for 29 percent of all purchases. Asia as a whole accounts for 65 percent of sales.

The Treasury estimates underscore how much was at stake financially last June when the mining companies were instrumental in triggering the backroom coup that ousted Rudd and installed Gillard. The mining industry spent an estimated $22 million on an advertising campaign against the mining tax, before the Labor Party's factional and trade union bosses—many with strong ties to the mining companies—orchestrated Rudd's removal (see: "Australia's political coup leaders and their big business connections").

Now the corporate media is exploiting the tax shortfall to demand deeper cuts to social spending in Labor's May budget. The *Australian Financial Review*

last week warned that Gillard's deal with the miners would produce a "big budget blowout" unless "money can be raised elsewhere or spending promises wound back". The newspaper said the revised tax would raise as little as $3 billion a year, but by 2020 it would cost $7.8 billion a year to pay for the measures promised by Gillard as part of the tax deal, including a company tax rate cut, an infrastructure fund and increased superannuation payments.

Gillard and Swan have already made clear their readiness to oblige. Despite the $60.5 billion black hole, the prime minister insisted that she would honour the deal with the mining companies in its entirety, while the treasurer reiterated the government's pledge to the financial markets to eliminate the budget deficit by 2013.

WikiLeaks cables have since shown that a considerable number of the Gillard coup plotters—including government minister Mark Arbib and Australian Workers Union national secretary Paul Howes—were secretly informing the US embassy of their every move (see "Australia: WikiLeaks cables reveal secret ties between Rudd coup plotters and US embassy").

Further US diplomatic cables obtained by WikiLeaks, and published in part by Fairfax newspapers, have revealed that BHP Billiton chief executive Marius Kloppers was also in close contact with US embassy officials in the year before Rudd's removal.

Kloppers boasted to the US consul general in Melbourne, Michael Thurston, that he had helped shape Australia's foreign policy by derailing Rio Tinto's proposed $19.5 billion investment agreement with the Chinese state-owned group Chinalco in 2009.

On June 4, 2009, Kloppers told Thurston that BHP Billiton had secured a "major victory" by getting Rio to scuttle the Chinalco deal, which would have involved the Chinese conglomerate doubling its stake in Rio from 9 to 18 percent and gaining stakes in key assets and seats on the Rio board. Kloppers said the Labor government would be relieved that it did not have to formally reject the Rio-Chinalco deal under foreign investment rules.

"Kloppers thinks the [Australian government] is drawing a line in the sand to keep Chinese state-owned forms from owning large mining companies such as Rio Tinto, BHP Billiton and Woodside," Thurston reported. "He also believes Chinese state-owned forms would encounter heavy resistance should they make overtures at Australia's telecommunications and banking giants." According to Kloppers, "Australia does not want to become an open pit in the southernmost province of China".

The BHP Billiton chief is reported to have offered to exchange intelligence information with the US. "[Kloppers] complained that Chinese and industrial [Rio Tinto] surveillance is abundant and went so far as to ask consul-general [Thurston] several times about his insights into Chinese intentions, offering to trade confidences."

After another meeting in November 2009, the consul-general reported that "Kloppers has a keen interest in learning everything he can about the Chinese and is not shy about asking us for our impressions".

The cables may point to a dovetailing of interests between the mining companies and Washington in moving against Rudd. The Obama administration regarded him as unacceptably seeking to balance between the US, on which the Australian establishment relies military and strategically, and China, now Australian capitalism's largest single market.

The material further exposes the Labor government, in both its foreign and domestic policies, as nothing but an instrument for the major corporations, particularly the miners.