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Transcript
PM Agenda with David Speers
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E&OE

Subjects: Resource Super Profit Tax; Budget Reply.

SPEERS: Joining me now is the Minister for Small Business, Craig Emerson.

Dr Emerson, thank you for joining us. The...

EMERSON: My pleasure.

SPEERS: ...Opposition Leader tonight, in his Budget reply, will no doubt rail against this mining tax and argue as he did earlier today that it won't just hurt miners but the rest of the economy as well.

How can the Government be so confident that this new tax will actually help the economy?

EMERSON: Well, it does have incentives for exploration and development, and particularly compared with the existing royalty regime which is based either on the volume or the value of production, and therefore is completely insensitivity - insensitive, I'm sorry, to the profitability of a project.

So this allows projects to be profitable and then the tax kicks in.

It's conceptually really the brother to the Petroleum Resource Rent Tax. It is also a tax based on profits that I helped develop 25 years ago in this parliament. It's stood the test of time. We had the same fear campaign, the scaremongering. The Opposition from the Coalition in those days, from Andrew

Peacock and John Howard - and you know what happened when they got into government, that is John Howard, he didn't get rid of this Petroleum Resource Rent Tax, which they say is iniquitous and there shouldn't be such a profits tax on the mining and petroleum sector. They let it sit there for 12 years and collected \$16 billion.

Now, if they were so opposed to it, philosophically and in every possible way, why didn't they repeal that tax and therefore refund the \$16 billion that it collected? And the answer is they're just being complete opportunists about this. This is a tax – the Petroleum Resource Rent Tax – that has stood the test of time and given the Australian people a fair share of the benefits of petroleum development in this country.

SPEERS: Of course this tax is somewhat different in that it will also be retrospective. And the concern isn't just coming from the Opposition here, it is coming from the mining companies as well. Last night Rio Tinto's chief, Tom Albanese, made it clear that all projects may have to be reviewed as a result of this tax. So the sector is worried about this.

EMERSON: Well, in fact, the Petroleum Resource Rent Tax did apply to Bass Strait, and the reason that it applied is that Esso and BHP said, well, we quite like this tax, we quite like this tax, can we move on to the Petroleum Resource Rent Tax, and we allowed them to do that. And they've been on that Petroleum Resource Rent Tax, set at what rate? Forty per cent ever since. And the life of Bass Strait has been extended by about 30 years under the Petroleum Resource Rent Tax. So that helps answer the question...

SPEERS: Yes, but you must acknowledge that...

EMERSON: That helps answer the question you asked...

SPEERS: ...for the big mining projects...

EMERSON: ...though.

SPEERS: But the big mining projects will face a higher tax under this new reform, won't they?

EMERSON: Well, indeed, and that's part of the rationale for it, that the Australian people own the mineral resources and petroleum and gas resources of this country, and are entitled to a fair share of the returns on the extraction and development of those resources. That's exactly what happened with the PRRT.

And so this is answering the question that you asked at the outset: how can this tax actually encourage further development.

Well, it did at Bass Strait. You see, in Bass Strait they were going to shut in those oilfields under the pre-existing regime that was based on the value of production. And when they got a profits based tax, actually at their request, the life of Bass Strait has been extended by three decades. There are gas fields and oilfields that are now producing that either would never have produced or would have been shut in, in the case of oilfields, back in the 1980s if it were not for the Petroleum Resource Rent Tax.

SPEERS: Now, what about the question that the Opposition puts, and that is how serious is the Government really about negotiating with the mining industry on this tax when it has made it very clear in the Budget that it still - the Government still expects to reap \$9 billion and eventually \$12 billion a year from this? You're not changing the revenue assumption so what really is being negotiated?

EMERSON: Well, I would encourage the mining industry to take up the offer - and many mining companies are, by the way - take up the offer that's set out in the response to the Henry review of consultation with the Government on this. Yes, we will introduce a resource super profits tax, and we've set out the basic design features of that. But we're very happy and keen for the mining industry to engage. And that's actually underway right now.

So all right, we understand that there's a lot of public statements about this from the mining industry. They're not very different to the public statements that were made by oil and gas explorers in the mid-1980s when the Petroleum Resource Rent Tax was being introduced. They said then that it would be devastating, that exploration in this country would stop in its tracks. Well, how come the Gorgon gas field, a huge project, has gone ahead under the Petroleum Resource Rent Tax? How come Pluto, another huge gas project, has gone ahead under the petroleum Resource Rent Tax?

SPEERS: Well, it - probably got a fair bit to do with the ballooning demand in China for that LNG in particular.

And the concern here is that other sources will come online, particularly in Brazil, particularly in Canada that may be cheaper than Australia for China and other customers to look at.

Can I ask you, as Small Business Minister, the point Tony Abbott has been making today is about the flow-on effect here for farmers, for other small business as well. Are you worried at all about the impact, the cost this may mean for small business?

EMERSON: Well, again, let's just - to go to the first part of your question, those prophecies about gas exploration were made in the mid-

1980s, the same sorts of arguments that are being put now; and that is that exploration and development would go offshore because other countries did not have a PRRT. Well, if that's the case how did Gorgon get developed, how did Pluto get developed?

In respect of the impact on small business, we are saying that this tax, in concept and in general design, is perfectly consistent with an increase in overall exploration and mineral development in this country. And we're happy to sit down with the mining industry and go through the very specific details of all of that, and have that proper and constructive engagement.

So there's no inevitable or even necessary adverse impact on small business.

But I'll tell you where the big adverse impact on small business would be, and that is the blocking of the resource super profits tax which Tony Abbott has said he will try to use his numbers in the Senate to do. Because revenue from the resource super profits tax is being used to fund tax breaks for every one of Australia's 2.4 million small businesses.

They should be concerned about that. They should question Tony Abbott's commitment to small business when he's saying he's quite happy to sacrifice them, quite happy to sacrifice a tax break for every one of them, just so that he can block the resource super profits tax.

SPEERS: But just back on the question, Tony Abbott today specifically talking about the cost of phosphate going up, what that will mean for farmers. Are you denying that the price of phosphate will increase as a result of this tax?

EMERSON: Generally what I'm saying is that these products that are being the subject of resource taxation, their prices in general, in general, are set on the international market. Now, next thing you know, Tony Abbott will be saying the price of iron ore will go up. Now - you know, and this is going to feed through to the cost of kids' underpants.

Just let's evaluate these weird proposals or propositions from the Coalition.

SPEERS: But you're an economist, Dr Emerson...

EMERSON: I am, and that's - exactly...

SPEERS: You know that the resources boom, if prices do go up, the whole economy may be affected.

EMERSON: Well, what are we saying: the price of iron ore will go up as a result of the resource super profits tax, the price of natural gas will go up as a result this tax, the price of coal will go...

SPEERS: Are you saying it won't? Are you saying it won't?

EMERSON: I'm saying these are commodities whose prices are set on the international market. Now, in general, that is the truth.

And I can tell you these sorts of proposals, again, were going around in 1985. I've got a letter from Wilson Tuckey and he said, oh, you're going to put up the price of petrol in Australia through a Petroleum Resource Rent Tax, when he should have known that the price of oil is set on the international market.

But, again, this is the sort of Tuckey-economics that Tony Abbott is now embracing. I mean, Tuckey must be - Wilson Tuckey must be Tony Abbott's chief economic adviser, and that's enough to put the fear of God into every small business in this country.

SPEERS: Now, you and your ministerial colleagues today were trying to set the bar pretty high for Tony Abbott during Question Time, saying tonight he has to meet all these various tests.

In Opposition though, Labor never laid out a complete alternative Budget with a line by line description of how they would fund every policy in the Budget reply, did they?

EMERSON: Well, Tony Abbott has set his own test, in effect, because he said that he will bring the Budget into surplus earlier than Labor has done, earlier than Labor has done.

You can't then bring down a Budget reply and say, don't you worry about that, don't worry about that, I'll tell you later, maybe after the election.

It's time now for Tony Abbott to put up or shut up. He parades himself as this really tough guy, a really tough guy in cutting spending, yet he starts with a \$16 billion credibility gap, a \$16 billion credibility gap because he's presided over increases in funding - in spending and also tax breaks, a number of tax breaks that he said that he would put in.

Now, they add up to \$16 billion. Now, he has either to fund them or repudiate them. He has to fund them or repudiate them.

And this is what we said to John Howard in the Hawke years. John Howard allowed this to happen: people going around making promises left right and centre. We added it up. Interestingly, you know what the size of that credibility gap was

back there in the mid-1980s? Sixteen billion dollars; the same as Tony Abbott's now.

SPEERS: [Laughs]

EMERSON: Right now Tony Abbott has to do what John Howard was told to do, and that is fund them or repudiate them.

And you know what, John Howard actually did that. He walked into the chamber in the Old Parliament House and he said I'm putting a line through all of these spending commitments, because he responded to our calls to do exactly that.

Tony Abbott is an admirer of John Howard. John Howard was Tony Abbott's mentor.

Tony, do what John Howard did. He walked into the parliament and said, right, I will repudiate these spending commitments.

That's what he's got to do. He's got to explain exactly when he will bring this Budget into surplus because he's been running around talking about Labor spending too much and taxing too much. He's got to put up or shut up.

SPEERS: Alright. Craig Emerson, I know you'll be watching very closely tonight, as will we all.

Thank you for joining us this afternoon.

EMERSON: Rightio, thanks a lot.