The Australia Institute

Research that matters.

Pouring Fuel on the Fire

The nature and extent of Federal Government subsidies to the mining industry

Policy Brief No. 38
April 2012
ISSN 1836-9014

Matt Grudnoff

TAI

Policy Brief

About TAI

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals, memberships and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

Our philosophy

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

Our purpose—'Research that matters'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.tai.org.au or by calling the Institute on 02 6206 8700. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

LPO Box 5096
University of Canberra, Bruce ACT 2617
Tel: (02) 6206 8700 Fax: (02) 6206 8708
Email: mail@tai.org.au
Website: www.tai.org.au

Acknowledgement

This research paper was commissioned by GetUp.

Introduction

The mining industry is receiving substantial assistance from Australian taxpayers worth more than $4 billion per year in subsidies and concessions from the Federal Government alone. Amazingly, this is at a time when the industry is earning record profits. Significantly, the subsidies and tax concessions set out below do not even include the cost of providing the mining industry with infrastructure or the substantial State Government subsidies they also receive.

The mining industry is booming on the back of high mineral prices with many commodity prices having tripled since 2004. This has led to large profits. According to the Australian Bureau of Statistics (ABS) **total pre-tax profits earned by mining firms operating in Australia were more than $51 billion in 2009-10**. The high mineral prices are also feeding a frenzy of investment and expansion with Australian Bureau of Agricultural and Resource Economics (ABARE) estimating that energy and mineral projects worth $173.5 billion have been started or committed to.

With the resources boom in full swing it appears counterintuitive that the government is subsidising the mining industry. Government subsidies are often used as a way of supporting important industries at times when they are financially vulnerable. This is clearly not the case for the mining industry. In turn, there does not seem to be any reason why these subsidies are in the national interest. With the mining industry so profitable these subsidies are not supporting the industry, but instead are simply increasing the size of their profits and placing greater pressure on other industries such as manufacturing, tourism and education. Put simply, these subsidies represent a transfer of funds from taxpayers to the owners of mining companies operating in Australia – most of which are foreign owned.[1] The usual economic justifications for subsidising an industry do not seem to apply to the mining industry in Australia and there has been little justification for such large public generosity.

The form of subsidies

Both State and Federal Governments provide a wide range of direct financial assistance, tax concessions and public provision of infrastructure such as ports, rail, and road assets that mining requires to operate. The purpose of this paper is to identify specific subsidies provided by the Federal Government to the mining industry. Subsidies provided by the State and Territory Governments have been excluded from this analysis. Similarly, subsidies that go to a number of industries but cannot be broken down to show only those benefits that accrue to the mining industry have also been excluded. Infrastructure projects that are publically funded for the benefit of the mining industry but where figures for individual years are unavailable have also been excluded. The result of such exclusions is that the total of the subsidies provided below represents a significant underestimate of the total taxpayer largesse to the most profitable industry in Australia in the middle of a profit and output boom.

The Institute has found that $4 billion in subsidies are given to the mining industry each year. These subsidies are outlined in Table 1. The $4 billion sum includes:

- $1,900 million in fuel subsidies
- $550 million in reduced tax payments for the gas industry's production of condensate
- $368 million on tax write-offs for capital works
- $330 million on deductions for exploration and prospecting
- $312 million in accelerated depreciation write-offs

[1] Edwards, N 2011. *Foreign ownership of Australian mining profits*. The Australian Greens.

Table 1 – Federal Government subsidies to the mining industry

Subsidy	Year	Source	($ million)
Fuel tax credits - Mining	2009-10	Taxation statistics 2008-09 (p133)	1,891
Crude Oil Excise - Condensate	2011-12	Tax Expenditures Statement 2011 – G7 (p187)	550
Deduction for capital works expenditure	2011-12	Tax Expenditures Statement 2011 – B95 (p109) [2]	367.5
Exploration and prospecting deduction	2011-12	Tax Expenditures Statement 2011 – B92 (p108)	330
Statutory effective life caps	2011-12	Tax Expenditures Statement 2011 – B93 (p108) [3]	312
Capital expenditure deduction for mining, quarrying and petroleum operations	2011-12	Tax Expenditures Statement 2011 – B89 (p106)	2
Various budget outlays to mining	2009-10	Trade and Assistance Review 2009-10	549.1
Total			**4,001.6**

An underestimate

The subsidies outlined in Table 1 are almost certainly an underestimate of the full amount that the mining industry receives. These figures exclude State subsidies that are likely to be substantial. A report released by Trevor Berrill in March this year estimated that the Queensland Government alone is spending $1.4 billion each year in subsidies to the mining industry. Other states are also known to be subsidising their mining industries.

The mining industry also benefits from other Federal Government subsidies that are provided to a number of industries. For example the Federal Government exempts from fringe benefit tax such things as accommodation, household goods and work time meals where they are provided by the employer. This amounts to $490 million per year. With the mining industry's large reliance on fly-in fly-out workers, it is likely to be a big beneficiary of this exemption. There is no breakdown of how much each industry benefits from this subsidy so these figures have been excluded. If the government chose to provide such information then a better assessment of the subsidies made to the mining industry could be made.

The mining industry also benefits from publically funded infrastructure projects. For example the Hunter Valley Corridor Capacity Strategy will spend $854.8 million upgrading the rail

[2] Mining industry makes up just over 50% of Australian capital expenditure according to latest ABS figures. Deductions for capital works expenditure totals $735 million. Apportioned 50% of this to the mining industry.
[3] 30% of statutory life caps as per ACF methodology

networks in the Hunter Valley to remove bottlenecks that have slowed the transport of coal to the port of Newcastle. The Federal Government also provides support with mining exploration through Geoscience Australia at a cost of $118 million per year.

The mining industry will also receive substantial assistance under the carbon pricing mechanism which will begin in July 2012. The Coal Sector Jobs Package which will provide assistance to gassy coal mines will be worth almost $1,300 million over six years. Liquid Natural Gas (LNG) producers will also receive large subsidies from the Jobs and Competitiveness package. LNG producers are likely to get 66 per cent of the permits they require for free as well as an additional LNG supplementary allocation.

The full scale of subsidies to the mining industry in Australia is likely to be substantially higher. A comprehensive assessment of the full degree of taxpayer support for the mining industry will, however, require the Federal and State Governments to release further breakdowns of which industries are receiving the benefits of all of the subsidies they provide. Given the impact of the mining expansion on other industries, and the stated desire of State and Federal Governments to improve their budget position, it is difficult to imagine why governments would be reluctant to provide such scrutiny to the subsidies they are providing to a booming, and highly profitable industry.

Conclusion

With the Federal Government intent on bringing the budget back to surplus this year, decreasing the inefficient and inequitable subsidies to the booming mining industry presents a unique opportunity to help achieve that goal. Mining subsidies during a mining boom simply represents a transfer of money from taxpayers to mine owners. High commodity prices have made a large number of mining projects profitable. This is highlighted by the rush of capital expenditure that we are seeing at the moment in the mining industry. It is not in the national interest to continue these subsidies. Indeed, the faster the mining industry booms the higher the Reserve Bank of Australia will likely increase interest rates.