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Pouring more fuel on the fire

The nature and extent of federal government subsidies to the mining industry

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TAI

Policy Brief

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Summary

The mining industry receives substantial assistance from Australian taxpayers, worth $4.5 billion per year in the form of subsidies and tax concessions from the federal government. Surprisingly, this support comes at a time when the industry is earning record profits and undertaking record levels of new investment.

While commodity prices have fallen slightly in recent times they are still substantially higher than they were before the mining boom. These high prices have 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 $84 billion in 2011-12**. To put this in context, that represents six per cent of GDP, or, for every $100 of income earned in Australia, $6 went to the owners of mining companies. With Australia in its biggest ever resources boom it appears counterintuitive that the government should be subsidising the mining industry.

With the mining industry so profitable these subsidies are not supporting the industry, but instead are simply increasing the size of its 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 – 83 per cent of which are foreign owned.

In 2012 The Australia Institute released an estimate of the subsidies the federal government was giving to the mining industry. That paper found that subsidies to the mining industry amounted to $4 billion. Reporting a year later, with the mining industry still enjoying large profits, total subsides have increased half a billion dollars to $4.5 billion.

One of the main differences from last year was that Crude Oil Condensate is now going to be taxed under the Petroleum Resources Rent Tax (PRRT). This removes a $550 million subsidy to the mining industry. While the removal of this subsidy is welcome news it has been dwarfed by other increases. By far the biggest increase in mining subsidies comes from the rise in the cost of the fuel tax credits by $458 million. Another large increase came from exploration and prospecting deductions which have increased by $220 million. Deductions for capital works expenditure has also increased by $127.5 million as the mining industry goes through a massive investment boom.

A new inclusion to the list is the coal sector jobs package which sees $219 million go to coal mines with the highest fugitive emissions of greenhouse gases. With the coal industry facing a widespread skills shortage, there is no economic justification for the federal government granting hundreds of millions of dollars in subsidies to try and prop up coal sector employment.

The ability of the mining industry to appropriate additional taxpayer support when company tax revenue is falling would seem to highlight the political strength of the mining industry rather than the strength of the economic arguments underpinning its taxpayer subsidies.

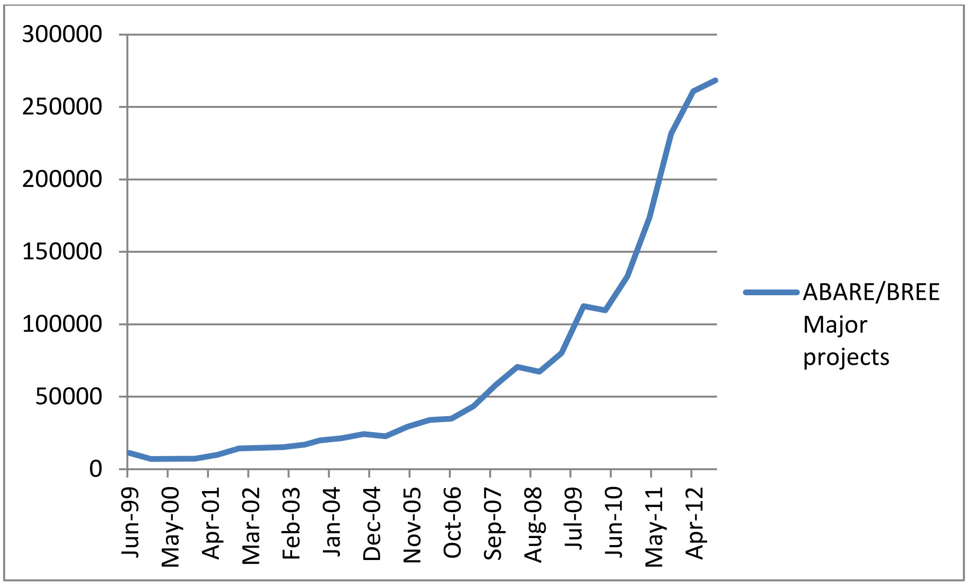
With the federal government trying to bring the budget back into surplus and fund new programs such as DisabilityCare and the Gonski education reforms, decreasing the inefficient and inequitable subsidies to the mining industry presents a unique opportunity to help achieve that goal. Mining subsidies during a time when Australia is in the biggest ever resources boom simply represent 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 continuing 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, these subsidies simply exacerbate skills shortages and other bottlenecks that the industry is facing.

Introduction

The mining industry receives substantial assistance from Australian taxpayers, worth $4.5 billion per year in the form of subsidies and tax concessions from the federal government. Surprisingly, this support comes at a time when the industry is earning record profits and undertaking record levels of new investment. Significantly, the subsidies and tax concessions set out below do not include the cost of providing the mining industry with infrastructure or the substantial state government subsidies it also receives.

The mining industry is enjoying a time of very strong growth as the price it gets for the minerals it sells is at historically high levels. While commodity prices have fallen slightly in recent times they are still substantially higher than they were before the mining boom. These high prices have 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 $84 billion in 2011-12**.[1] To put this in context, that represents six per cent of GDP, or, for every $100 of income earned in Australia, $6 went to the owners of mining companies. The high mineral prices are also feeding a record level of investment and expansion, with the Bureau of Resource and Energy Economics (BREE) estimating that energy and mineral projects worth $268 billion have been started or committed to.[2] The rapid expansion of investment is shown in Figure 1.

Figure 1 – ABARE/BREE Major Projects ($million)



With Australia in its biggest ever resources boom it appears counterintuitive that the government should be subsidising the mining industry. Government subsidies are often used as a way of supporting important industries at times when they are financially vulnerable or seeking to establish themselves. 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 its 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 – 83 per cent of which are foreign owned.[3] The usual economic justifications for subsidising an

[1] ABS (2013)

[2] BREE (2012)

[3] Edwards (2011)

industry do not seem to apply to the mining industry in Australia and there has been little justification for such large public generosity.

In 2012 The Australia Institute released an estimate of the subsidies the federal government was giving to the mining industry.[4] That paper found that subsidies to the mining industry amounted to $4 billion. Reporting a year later, with the mining industry still enjoying large profits, total subsides have increased half a billion dollars to $4.5 billion.

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 but these too are likely to be significant. 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 similarly been excluded. The result of these 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.

The Institute has found that $4.5 billion in subsidies are given to the mining industry each year. These subsidies are outlined in Table 1. The $4.5 billion sum includes:

- $2,349 million in fuel subsidies
- $495 million in tax write-offs for capital works
- $550 million in deductions for exploration and prospecting
- $400 million in accelerated depreciation write-offs

[4] Grudnoff (2012)

Table 1 – Federal government subsidies to the mining industry

Subsidy	Year	Source	($ million)
Fuel tax credits – mining	2011-12	Taxation statistics 2010-11 (p121)	2,349
Deduction for capital works expenditure	2012-13	Tax Expenditures Statement 2012 B93 (p110) [5]	495
Exploration and prospecting deduction	2012-13	Tax Expenditures Statement 2012 B90 (p108)	550
Statutory effective life caps	2012-13	Tax Expenditures Statement 2012 B91 (p109) [6]	400.5
Capital expenditure deduction for mining, quarrying and petroleum operations	2012-13	Tax Expenditures Statement 2012 B88 (p107)	2
Coal Sector Jobs Package	2011-12	Trade and Assistance Review 2011-12	218.8
R&D tax concessions	2011-12	Trade and Assistance Review 2011-12	370.8
Various budget outlays to mining	2011-12	Trade and Assistance Review 2011-12	110.8
Total			**4,496.9**

Differences from last year

One of the main differences from last year was that Crude Oil Condensate is now going to be taxed under the Petroleum Resources Rent Tax (PRRT). This removes a $550 million subsidy to the mining industry. While the removal of this subsidy is welcome news it has been dwarfed by other increases. By far the biggest increase in mining subsidies comes from the rise in the cost of the fuel tax credits by $458 million. This subsidy makes much of the diesel fuel used by the mining industry far cheaper than elsewhere in Australia. Another large increase came from exploration and prospecting deductions which have increased by $220 million. Deductions for capital works expenditure has also increased by $127.5 million as the mining industry goes through a massive investment boom.

A new inclusion to the list is the coal sector jobs package which sees $219 million go to coal mines with the highest fugitive emissions of greenhouse gases. With the coal industry facing a widespread skills shortage, there is no economic justification for the federal government granting hundreds of millions of dollars in subsidies to try and prop up coal sector employment.

[5] Mining industry makes up just over 60% of Australian capital expenditure according to latest ABS figures. Deductions for capital works expenditure totals $825 million. Apportioned 60% of this to the mining industry.

[6] 30% of statutory life caps as per methodology in Berger (2011)

The ability of the mining industry to appropriate additional taxpayer support when company tax revenue is falling would seem to highlight the political strength of the mining industry rather than the strength of the economic arguments underpinning their taxpayer subsidies.

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 2012 estimated that the Queensland government alone is spending $1.4 billion each year in subsidies to the mining industry.[7] 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 and household goods where they are provided by the employer. This amounts to $330 million per year. With the mining industry's large reliance on fly-in fly-out workers, it is likely to be a major 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, a better assessment of the subsidies provided 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 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 began in July 2012. Liquid Natural Gas (LNG) producers will 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 than $4.5 billion. 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 of the subsidies they are providing to a booming and highly profitable industry.

Conclusion

With the federal government trying to bring the budget back into surplus and fund new programs such as DisabilityCare and the Gonski education reforms, decreasing the inefficient and inequitable subsidies to the mining industry presents a unique opportunity to help achieve that goal. Mining subsidies during a time when Australia is in the biggest ever resources boom simply represent 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 continuing rush of capital expenditure that we are seeing at the moment in the mining

[7] Berrill (2012)

industry. It is not in the national interest to continue these subsidies. Indeed, these subsidies simply exacerbate skills shortages and other bottlenecks that the industry is facing.

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