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Climate Change and Other Catastrophes: A Minerals Industry Perspective

Good morning and thank you to Schneider Electric for the invitation to come and speak with you today.

If *Climate Change and Other Catastrophes* sounds a little melodramatic, I confess that it's a little tongue in cheek.

I do stress only a little, because the way in which we, both as an industry and as a nation, respond to challenges like climate change will largely determine just how catastrophic such dilemmas may turn out to be.

For those of you who recognise the reference to the Australian film, unfortunately this is no romantic comedy. It's an epic drama with many unexpected and unpleasant twists and turns and an ending which might define our generation.

Given the recent tumult around the minerals industry, particularly here in NSW, about everything from land access to the proposed new super tax, the once greatest moral challenge of our time that is climate change could seem all but a distant memory... at least politically.

In the mining industry however, climate change is still at the very front of our thinking, as indeed it has been for more than a decade.

What sets climate change apart from any other issue on our plate is its absolute omnipotence. Not just a major challenge for industry, but one which science tells us has the potential to change our way of life in almost every way imaginable.

I will touch on one of the *other* catastrophes in the latter part of my address to you today, but for the first part of the next 45 minutes climate change will be the only game in town.

First though, a shameless plug.

The NSW Minerals Council represents the State's \$23 billion minerals industry. We are a not-for-profit industry association whose members include producers, operators, explorers and associated service providers. Many of our members operate across multiple Australian jurisdictions, as well as internationally. We work closely with state and federal governments, industry groups, Unions and the community to foster a dynamic, efficient and sustainable mining industry in NSW.

Of course there is more to the NSW mining industry than coal, even if the black stuff does account for 85% of total production value. Metallic minerals account for approximately 12% of the total value of production and we have large reserves of industrial minerals. Whilst these commodities comprise just 1% of total mineral production value, they are used to make important products like bricks, cement, glass, ceramics, pavers, pipes, paints and plastics.

Whilst the subject of mining taxation and royalties has become almost as popular as Masterchef in water cooler conversations over the past couple of weeks, the fact is that in NSW we've been making an ever increasing contribution to the welfare of the State - exploding in the last three years.

Payments to the NSW Government from royalties alone increased from \$489 million in '06-07 to \$1.3 billion in '08-09. That's a 261% increase in the space of three years. It's a contribution which last year effectively halved the State budget deficit.

The NSW mining industry is also a major employer in NSW with over 34,000 direct jobs and some 120,000 indirectly. If you include minerals processing then some 18% of NSW employment is directly or indirectly related to mining: 75% of which is in regional and rural NSW.

In addition to taxes, royalties and jobs, the industry is also injecting real wealth into the NSW economy. The value of coal exports in 2008-09 was an estimated \$17 billion; up from \$8.2 billion the previous year. Including our other minerals and metals exports, the value blossomed to more than \$20 billion.

Typically, the industry spends than \$1.5 billion a year on local and regional suppliers and contributes more than \$10 million a year towards local community projects and amenities.

These are just some examples that illustrate the point that a strong minerals industry means a strong NSW.

The NSW mining industry accepts the science of climate change and recognises it as a challenge that must be addressed.

We also accept that man made carbon dioxide is a contributor to climate change, and that emissions from coal fired power generation across the globe are a significant contributor to greenhouse gas levels in the atmosphere.

But while the problem seems simple when set out in these terms, the solutions are of course far more complex. Projections for growth in global energy demand are in direct conflict with the requirement to reduce emissions globally.

Most of this growth will come from developing economies, following the path and aspirations set for them by Western nations. Issues of basic human rights are happily rolled out by campaigners for action on climate change to highlight the impacts, but conveniently forgotten or ignored when the discussion turns to the more difficult task of how to balance the environmental with the economic and social needs of humanity.

As the Copenhagen Climate Change Conference demonstrated in December last year, these complex issues amplify national and sectoral interests, preventing the type of “breakthrough” international agreement that was hoped for.

It is for these reasons that we believe that low emission technologies, including carbon capture and storage, must be part of a global solution to climate change.

If it's not animal or vegetable, it's mineral. Despite the myth, Australia didn't in fact grow on the sheep's back. It grew, as ABC journalist Quentin Dempster once remarked, “on the coal conveyor belt”.

David Burchell once wrote in The Australian:

“Most modern economies – even America – were born vegetable, so to speak, and turned mineral later on. We were born mineral, and have had mineral in our nation’s veins ever since... It was coal that destroyed the ‘traditional organic economy’. With the development of a minerals based economy ... the productivity of agriculture was transformed. Local markets turned into national and international ones: through the marvels of the steam train. Coal powered industry dramatically reduced the cost of life’s essentials and ... turned the luxuries of one generation into the necessities of the next.”

The cold hard facts of the matter are that coal is the dominant source of electricity in the world. It holds that place for some very good reasons: the fact that it is available from over 100 countries globally means that it is not only highly price competitive, its diverse geography provides security of supply to consuming nations. And this is no trivial point in an era when we have hit “peak oil” and where 70% of world oil and gas reserves are located in the Middle East and Russia.

Furthermore, as the World Bank points out, electrification is inextricably linked to the alleviation of poverty. So, when you consider the increasing demand for power from developing nations, married with the desire of the 2 billion people on the planet that still don’t have access to a humble electric light bulb, to rise above subsistence, it’s easy to see why the International Energy Agency predicts that global net electricity consumption will more than double between now and 2030 leading to a growth in CO2 emissions of 55% over the same period. More than 70% of that growth will come from the emerging powerhouse economies of China and India. China is now the world’s largest greenhouse gas emitter yet more than 800 million of its 1.3 billion people are not connected to the electricity grid. 800 new coal fired power stations will be built around the world in the next 10 years: 500 of these in China alone. So if we don’t have an answer to coal use in China, we definitely don’t have a solution to climate change.

And for the purposes of further context, whilst CO2 emissions from the world’s coal fired power stations represent 30% of global CO2, 20% of CO2 emissions come from deforestation, 15% from transport and aviation, around 10% from households and the

rest from agriculture and other industry. Furthermore, there are an array of greenhouse gases and virtually all of them are much more radiatively potent than CO₂. Methane from the burning of natural gas, burping cows and rice paddy agriculture is just one example.

It would be true to say that the politics of climate change have been a damaging influence on debate here in Australia.

In late 2006, amidst the Australian release of Al Gore's film "An Inconvenient Truth" and the Stern Review, climate change became a mainstream issue in this country. Dominated by ideologically driven agendas and lacking any real leadership, the debate has swung wildly between hysteria and outright denial.

The Rudd Government rose to power on a platform which included action on climate change. Indeed, the Prime Minister's ratification of Kyoto was his first act in office, completed before he'd barely had time to move in to the Lodge.

The symbolism of Kyoto aside, the fact is that there wasn't a great deal of difference between the major parties on climate change when Australia went to the polls in November 2007.

Both parties were committed to a creating a carbon price signal using a market based emissions trading scheme.

Both pledged commitment to protecting Australian industries and investing in a broad range of low emissions technologies, including Carbon Capture and Storage for coal.

And deep down, given Australia's 1.5% contribution to global greenhouse gas emissions and the rapidly escalating emissions from industrialising nations, both knew that any real action hinged on an unlikely global agreement.

The Government's CPRS experience demonstrated just how difficult this issue really is. A proposal for a complex system, creating economic churn, threatening jobs and having the potential for enormous social dislocation was shown to have the prospect of little if any impact on projected emissions within the timeframes identified.

Still, with Copenhagen on the horizon, the Government valiantly pushed on, dogmatic in the purity of its policy conviction but failing completely to explain or sell the CPRS to the Australian public.

The debate brought about the Armageddon of the Liberal leadership spill in the shadows of 2009, a low ebb in the saga which has since changed the course of Australian politics. And, in the last fortnight, the Rudd Government has confirmed the dwindling political expediency of climate change, deferring action on the greatest moral and economic challenge of our time to 2013 at the earliest.

Despite the opposition of my industry to the proposed CPRS, this is no great victory.

What we need now, more than ever on climate change, is genuine leadership, political courage and perhaps most of all, **bi-partisanship**.

Australia's response to the challenge of climate change requires a suite of policy measures that balance the need to ensure energy security, ongoing economic growth, international competitiveness **and** actual reductions in global emissions. This includes: A clear and predictable long-term price signal; Investment and incentives for accelerated research, development and demonstration of all low emission technologies including low and zero emission coal technologies and renewable technologies; Comprehensive demand management policies; Adaptation policies to enable Australian society to adjust to the changes from climate change; and Systematic and coordinated programs that secure energy efficiency savings across the economy from households to major businesses and industries.

I am going to limit my comments to just two of those elements: the carbon price signal and the research and development of low emission technologies.

Most of you know that the coal industry was one of the more strident critics of the Rudd Government's proposed CPRS. It's worth detailing the reasons for that opposition - as the principles will remain when the debate resumes.

The introduction of an emissions trading scheme will be the most significant economic revolution in the Australian economy for a generation. As a significantly trade exposed sector, the industry believes that there must be alignment between an Australian system and international action to reduce emissions and developments in low emission technologies. More recent comments from the Rudd Government appear to now support this position.

We believe that there must be a measured start to any scheme, with appropriate transition arrangements that contain the impact on the Australian economy and community living standards. We must maintain the international competitiveness of Australian industry.

Transition arrangements must be transparent. The omission of the coal industry from Emissions Intensive Trade Exposed assistance measures in the CPRS, even though the industry qualified against to the criteria set out, was illogical, driven purely by the fear of alienating the green vote.

Without such transition arrangements, the competitiveness of emissions intensive trade exposed industries - such as mining - will be reduced. This will lead to a decline in investment and the relocation of activity to countries that don't the same environmental requirements as Australia.

In other words, economic dislocation with no environmental benefit.

The impacts of these outcomes will only be felt by business. They will reach current and future employees, their families and the regional economies and communities which depend on those industries.

It's why we campaigned to 'Cut Emissions. Not Jobs.'

There needs to be strong investment in all low emission technologies, as these technologies will be critical to lowering the costs of abatement. The investment is urgently needed given the significant lead time of wide scale commercial deployment of these technologies. The industry does not hide from the scale of this challenge.

Australia has an opportunity to be a leader in the development, and export, of low emission technologies. This is critically important given that developing countries, in particular China and India, will continue to be reliant on fossil fuels for their economic development.

Whilst the NSW Minerals Council has long advocated the need for a suite of technology solutions, including advanced renewables, one such technology closely linked to coal-fired power generation deserves specific attention. Carbon capture and storage technology (CCS) is the only technology that can significantly reduce greenhouse gas emissions from fossil fuel generation. CCS technologies could contribute up to 55% of global cumulative mitigation. Experts such as the International Energy Agency, the UN's Intergovernmental Panel on Climate Change, Al Gore, Sir Nicholas Stern and Professor Ross Garnaut all agree that the response to climate change must include the deployment of carbon capture and storage.

The commercialisation of CCS will of course need money, and lots of it. As Anthony White from Climate Change Capital – an investment bank focussed on low carbon emissions has said: "The renewable industry has had billions spent on it and technologies like wind power are now becoming mature. CCS hasn't had its billions yet".

I recently heard a presentation from Richard Wagner, Head of Investment Banking (Australia) at Morgan Stanley, in which he outlined the financing challenge for electricity generation in a post-GFC, carbon constrained world.

He estimated the capital expenditure requirement for electricity generation to be between \$40 to \$50 billion to 2020, with transmission and distribution infrastructure requiring another \$47 to \$65 billion. All up then, somewhere north of \$90 billion in an environment full of uncertainty and wavering market confidence.

It is in this context that I believe we need political leadership to commit public monies on a scale that signifies a genuine effort to achieve technological breakthroughs.

A practical response from the Australian coal industry is the Coal21 Fund – a world first voluntary industry levy and partnership between coal producers, State and Federal

Governments, the research community and electricity generators. The \$1 billion fund is being spent on fast-tracking development of low emission technologies for coal fired power generation. The Coal21 Fund also leverages several billion dollars more in funding already committed by governments and individual companies for such projects.

I should point out that the Fund was established well before climate change became a mainstream issue in Australia – before Al Gore’s film and before the Stern Review. It is worth taking some time to provide an outline on a number of the exciting projects here in Australia which form part of the industry’s armada on climate change.

In NSW, CSIRO is working with Delta Electricity to test post-combustion CO2 capture at a pilot plant at Munmorah Power Station on the Central Coast, less than two hours north of where we are today. CO2 capture using began in February 2009 and the research program will continue until 2013.

CSIRO aims to prove up the post-combustion concept, evaluate various CO2 absorbents, define what will be needed to scale up to commercial plant, and provide the science underpinnings for future policy options for CO2 capture.

Industry & Investment NSW has commenced a drilling program in NSW targeting sites identified as having geological storage potential.

The aim is for the Munmorah project to inform the technology selection for a large scale post-combustion capture and storage project in NSW, planned for operation by 2015, capturing up to 100,000 tonnes of CO2 each year.

The ZeroGen project in Queensland will be one of the world’s first commercial-scale power plants producing low-emission baseload electricity using Integrated Gasification Combined Cycle technology with carbon capture and storage.

The Callide Oxyfuel Project is an international low-emissions coal demonstration project also in Queensland. This world-leading project is designed to demonstrate oxyfuel combustion capture technology, retrofitted to an existing Australian coal-fired power station, and to research how it might be applied to new power stations.

The project aims to capture 90% of the CO₂ emissions from coal combustion, and will begin Oxyfuel demonstration in late-2011. Construction is underway with the Denison Trough, a geological area situated 300km from Callide A, identified as an ideal site to store the CO₂ emissions.

Australian Coal Association Low Emission Technologies Ltd (ACALET) and the Commonwealth, Queensland and Japanese governments are providing major financial support for the Callide Oxyfuel Project, and it is a flagship project for the Asia-Pacific Partnership on Clean Development and Climate.

The CO₂CRC Otway Project, located in south-western Victoria, is the first operational CO₂ storage pilot project in Australia. Launched in April 2008, the project involves the extraction, compression, transport and storage of naturally occurring CO₂. The CO₂ is stored in a depleted natural gas reservoir two kilometres below the Earth's surface.

A key project feature is its world-leading CO₂ monitoring program. Designed, developed and implemented by CO₂CRC researchers from Australia, New Zealand, the USA and Canada, this comprehensive monitoring program will contribute to the development of new monitoring technologies for safe CO₂ storage.

The first stage of the project has now been successfully completed after the safe injection and storage of over 65,000 tonnes of CO₂. It has demonstrated advanced monitoring techniques that can be used for commercial scale CO₂ storage operations in the future.

A new phase of this research is now underway. The project has been financially supported by the Australian Federal Government, the Victorian State Government, and the US Department of Energy, as well as CO₂CRC members including the Australian Coal Association Research Program.

The Gorgon Project demonstrates that carbon capture storage is suitable not only for coal and gas-fired power plants, but also for industrial facilities that emit CO₂ such as natural gas processing.

Located on Barrow Island off the coast of Western Australia, the Gorgon Project will produce Liquefied Natural Gas (LNG) and domestic gas from the largest gas resource discovered in Australia. The Gorgon gas field is thought to contain 40 trillion cubic feet of gas, is Australia's biggest ever resource project which will also feature the largest carbon geosequestration project in the world.

When raw natural gas is extracted from underground reservoirs, it contains naturally occurring carbon dioxide (CO₂), which must be removed before the gas can be transported and used. Normally this CO₂ would be released into the atmosphere during processing contributing to climate change. CCS can be used to capture this CO₂ and re-inject it back underground. This process has been occurring at the Sleipner in Norway since 1996.

At the Gorgon Project the natural gas will be extracted from the reservoir and transported by pipeline to an LNG processing plant. The CO₂ will be captured and injected into a saline formation 2.5km under Barrow Island. Every year, 3.5 million tonnes of CO₂ will be captured and stored – over 120 million tonnes over the lifetime of the Project.

And finally, located in Queensland's Surat Basin, the Wandoan Power Project will use Integrated Gasification Combined Cycle (IGCC) pre-combustion carbon capture and storage technologies. GE Energy, and partners Stanwell and Xstrata Coal, are proposing to build a 400MW IGCC power plant with CCS capable of capturing 90% of CO₂ emissions.

The Wandoan location, in the centre of the Surat Basin, is within about 200 kilometres of promising CO₂ sinks, many of which have naturally stored CO₂ for thousands of years. Identification of suitable storage sites is being undertaken by the consortium, with the plant expected to be operational by 2015-2016.

Ladies and Gentlemen, I hope that provides you with a sense, and some confidence, of the Australian mining industry's determination to be a part of the solution to the climate change challenge.

While it might be off the political agenda today, we in the mining industry remain committed to the work which has been underway for more than a decade to fast track the demonstration and commercialisation of low emissions coal technologies.

It would be remiss of me not to preface my comments on the Resource Super Profits Tax without sharing with you the safety warning helpfully issued by the AWU last week by way of a campaign targeting its members.

“DANGER! WARNING! Big mine bosses running jobs scare campaign.

Suits in New York and London spreading outright lies!

The head honchos in the mining companies are running scare campaigns to protect their massive pay packets.

They will say that your job is at risk because of the new Resources Super Profits Tax – that is an outright lie.”

Far be it for me to judge, but this looks like an attempt to find a populist issue to rebuild relevance in an election year. While it’s not unusual for the Unions to work hand in glove with an ALP Government, this - quite frankly - borders on the ridiculous.

When the government announced the Henry Review they published a paper entitled *Architecture of Australia’s Tax and Transfer System*. Under section 4.1 *Historical Trends in Tax* we find this headline “Improving efficiency, equity and simplicity”. It sights the Asprey Report written in the mid 1970’s which argued the need to broaden the tax base. In 1985, the Hawke government released a White Paper which also recommended a broadening of the tax base. This, of course, came into effect with the GST in the year 2000.

Why am I citing all this history? Because the government’s super tax announcement reverses the momentum of broadening the tax base by effectively centralising the tax base on one industry.

Clearly, the strength of the resources industry over recent years has been largely driven by exports to India and China. What the Prime Minister has done is hand the reins of the Australian Budget over to the middle classes of these emerging economies, hoping - as he has done it - that they remain stable and continue to prosper. God forbid China sneezes - because Australia could catch pneumonia!

The minerals industry is supportive of tax reform, subject to five core principles:

1. Mining investment is long-term and high risk. Major tax reform impacting on these investments must be prospective, that is, applying to new projects only. Retrospective changes raise the issue of sovereign risk and skewer our reputation as a safe investment destination.
2. Changes must take into account the international competitiveness of Australian industries. Mining competes in a global marketplace for capital which is highly mobile.
3. It must be differentiated, recognising that not all mineral commodities are the same.
4. It must focus on the mineral resource, rather than the downstream process or the value-add.
5. It must be equitable and efficient, promoting economic activity and investment, achieving greater efficiency and transparency.

In the interest of efficiency, we believe that the introduction of a resources Rent tax should facilitate the abolition of production based royalty schemes which operate at State level.

I would point out however, that as the head of the NSW Minerals Council, I am concerned that State Governments must continue to receive appropriate revenues from any new regime. For the NSW mining industry, the vast majority of legislation and regulation, of which there is plenty, is administered by the NSW Government. There is no greater incentive for the necessary reform of regulatory overburden than the

resulting growth in revenue. This is in addition to the broader issues associated with Australia's vertical fiscal imbalance.

Finally, as an industry we have been arguing for some time for the Government to introduce a version of "Flow Through Shares". This would allow the explorer's 'unused' deductions to flow to shareholders in the form of an exploration tax credit, encouraging capital flows to a sector where improvements in this area are critical.

What we have ended up with as proposed by the Government in its response to the Henry Tax Review is a Resource Super Profits Tax; a resource exploration rebate – irrelevant if you can't sustain a mining industry; a State Infrastructure Fund and a reduction in the company tax rate.

While there are some elements of the package which have been welcomed by industry, we believe that the overall package fails the core principles I set out earlier in a number of areas.

The Resource Super Profits Tax will commence on 1 July 2012 and apply to the extraction of all Australian mineral resources and to both existing and future projects.

The Resource Rent Super Profits Tax will be applied at 40% of assessable resource profits. The current proposal in fact represents a tax on all profits: be they *super* or otherwise.

The industry is staring down the barrel of an effective tax rate for resource companies in Australia of around 57%. This equates to the second highest tax regimes on the mining industry in the world. Only Norway at 78% is higher but given that the Norwegian Government owns 30% of the country's publicly listed companies, including all those engaged in North Sea oil and gas production, tax paid is effectively coming out of one pocket and going into the other.

The super tax will not replace State royalties. Whilst Companies will be given a credit for the royalties paid, some obvious questions arise as to the efficiency of the new measures, not to mention fairness.

I'd say up front that I recognise that the mineral resources of Australia belong to all Australians. It is one of the enduring reasons we still deserve that famous moniker: *The Lucky Country*.

It follows then, that Australian citizens should get a fair share from the mineral and energy wealth of Australia. You would travel a long, long way across this land before you would find anyone bold enough to argue against notion of a fair share, or a fair go.

The implication from the federal government's selling of the Resource Super Profits Tax to date has been that citizens are not getting a fair share. It's a popular message in an election year, echoing the "we won't send a fair go out the back door" mantra of *Kevin07* ... but is it true?

The truth is that over the past decade, the mining industry alone – that's not including the oil and gas sector – has contributed almost 80 billion dollars to Treasuries around Australia through royalties and corporate taxes.

The Minerals Council of Australia has very powerfully spelt out the facts in its full page ads which began running in major papers last week.

The industry's tax contribution in 2008-09 alone was \$22 billion.

Mining companies alone paid around 18 per cent of company income tax even though the sector made up around 8 per cent of the national economy.

Australian Tax Office figures show that the overall average tax rate for the mining sector is already 13 per cent higher than the all industry average.

Not surprisingly, Australia's two largest taxpayers are mining companies.

Most people would agree that this represents more than a reasonable pulling of the collective weight by the mining industry.

That is why the federal government's Resource Super Profits Tax announced last Sunday is false advertising of the most brazen kind.

The proposed Resources Super Profit Tax doesn't even live up to its own name, given that it is in fact a tax on all profits.

The definition of a super profit is only achieved once a project has returned an amount in excess of the project's weighted average cost of capital.

So let's have a look.

The current weighted average cost of capital used for the offshore petroleum industry's resource rent tax – also levied by the federal government and trumpeted as proof positive of the fairness of our new tax – is approximately 11% and higher for exploration expenditure, recognising the high risks associated with this activity.

Yet the Prime Minister has indicated that the trigger in the case of the mining super tax is the long-term average government bond rate, currently around 6%. The conclusion is that any project returning over 6% on investment in the resources sector is deemed a 'super profit' by the federal Treasury, to be taxed at 40 cents in the dollar.

If the Resource Super Profits Tax sounds a bit clunky, could I suggest we could try calling it a Tall Poppy Tax: Robin Hood without the romance.

Having spent the earlier part of my address uncovering the flaws in the CPRS – which I'd summarise here as *an inefficient economic churn driving Government revenues to facilitate wealth distribution dressed up as climate change action* – you might start to see a pattern emerging with the Resource Super Profit Tax.

Without wishing to fulfil the Union's caricature of the industry as *Chicken Little*, you might instead conclude that the mining industry is seen as a cash cow which is there to be milked, whether by fair means or foul.

I have already touched on the relationship between the new Resource Super Profits tax and existing State royalties. While the proposed package looks to be a missed opportunity in terms of achieving a more efficient tax system, it does create considerable uncertainty and risk for miners in the event that State Government's move to increase royalties in the future.

On that front we welcomed last week's announcement by NSW Treasurer Eric Roozendaal that "there are no plans to increase royalties in the June 8 Budget".

This decision provides some certainty for investors, the industry and the towns in regional NSW that rely on mining. It's a far cry from the efforts of the Federal Government which, by imposing the highest tax rate on mining anywhere in the world, is jeopardising the benefits we all share from mining. The tax is already discouraging investment, affecting share prices and wiping some \$16 billion off the value of Australia's superannuation funds in its first 48 hours of life.

Robert Gottliebsen captured the risks to the Australian economy. He said:

"Just as the Rudd government had no idea about the chaos they were creating with the badly structured emissions trading scheme, the inexperienced Rudd team had not the slightest idea of what they are doing to resource projects when they drafted the new tax."

"Less than a decade ago resource projects were struggling. They will struggle again some time in the future. The Rudd plan assumes a ridiculous 6 per cent return and then lumps a 40 per cent extra tax on earnings above that, which takes the tax rate to the vicinity of 58 per cent and in some cases it can be higher. If a miner is well into the construction of a new project they will have to keep going, but if they have not started, the rewards now do not match the risk. Even if a resource company was prepared to take a punt it is unlikely that a banker would back it."

The Prime Minister need look no further than NSW for poor tax thinking. In May 2004 the NSW Government introduced the vendor tax.

This seemed to be a masterstroke, a 2.25% tax on the sale price of investment and commercially owned properties, levied on sellers rather than buyers. Like the introduction of the super tax, this tax wasn't an idea stolen from another jurisdiction. It was a new tax cooked up by the then NSW Treasurer Michael Egan and his advisers.

The tax was hugely unpopular, slowing the sale of properties so dramatically that in an effort to squeeze a little bit more out of a booming sector the government lost significant revenue by way of stamp duty. The vendor tax was scrapped the following year as the government realised it had killed the goose that laid that golden egg. In this case of poor tax thinking, investment shifted out of NSW. Likewise, the new super tax will be an encouragement to shift investment out of Australia.

For those who don't know who to listen to amongst the noise, can I suggest we turn to Canada for a bit of external perspective.

Canadian MP Brad Trost from Saskatchewan told ABC radio last week:

"We won't get all the business. We know that. Australia will still have some of the business. But if we can get a percentage, an extra percentage, a little bit more because of this blunder by the Australian Government, we're willing to help ourselves."

Quite... but wait, there's more.

"There's going to be competition. The big companies are going to diversify their funds around the world. But you ask yourself this question: If you're a mining executive where would you sooner put your investment?"

The collective rubbing together of hands from other mining jurisdictions around the world fighting for mining capital sounds is in stark contrast to the noises coming from the Australian mining industry.

One of the more sage comments I've read "post –Henry" is that "capital will go where it's welcome". It's food for thought.

Back home, and Ernst & Young's Head of Tax, Graham Frank, had this to say last week:

"In our view, the RSPT is a cause of concern for the resources sector. The Government's response pits the resources sector against other industries and may slow investment in a very successful part of our economy. Furthermore, the decision by

Government to amend the resources taxation regime potentially raises issues of project certainty and sovereign risk.”

“By placing a super tax on the resources sector, the Government is making some brave assumptions that it will not adversely affect our international competitiveness. If this is not the case we are at risk of killing the goose that laid the golden egg.”

While the mineral wealth of Australia belongs to Australians, it remains all but worthless for as long as it stays in the earth.

Foregone investment will result in significant opportunity costs – that is socio-economic benefits - salaries, wealth creation, investment in towns and regional communities.

We’ve seen some troubling examples of this in just over a week since the Government’s announcement.

Peabody lowering its offer for Macarthur from \$16 a share down to \$15, wiping around \$250 million from their valuation. Peabody was quoted in the Australian Financial Review saying that “the revised proposal took into account the findings of a due diligence process and the federal government’s proposed introduction of a 40% tax on resources super profits”.

Or Incitec Pivot Chief Executive James Fazzino, announcing that “Incitec Pivot had stopped a drilling program at its Phosphate Hill mine until it had greater clarity on how the tax would affect the fertiliser and explosives maker”. Or Xstrata Copper’s decision to stop exploration in Queensland ... the list goes on.

But it was **these** comments which illustrated the potential impacts flowing from this decision:

“This has to force investment offshore. We will follow that. The jobs that we create and the investment will also follow that, which I don’t think is a great outcome for Australia.”

In NSW, the direct impacts could reach almost 35,000 working families. We currently have capital expenditure of more than \$5.2 billion in projects either under construction

or committed. Additional projects worth almost \$12 billion are categorised as 'less advanced'.

The percentage of these projects which will proceed to the advanced stage will depend on a wide range of factors including global demand and access to capital.

In April the 2009/10 edition of The Fraser Institute Survey ranked Australian states on a ladder of 72 mining jurisdictions around the world. The survey assesses how mineral endowments and public policy factors affect exploration investment. Survey respondents are drawn from executives and managers from mining and mining consulting companies operating around the world.

Pre-Henry, NSW ranked 20th – just one better than Botswana in terms of mineral investment. We can only speculate as to the impact of the super tax on sovereign risk ratings into the future.

Resource companies are price takers and these costs cannot be passed on in global markets.

Reduced industry earnings will lead to lower market capitalisations, as well as fewer funds for reinvestment, social infrastructure spending, and research and development.

I'm sorry to inform you here today that this is not a scare campaign.

The Government has indicated a timeframe for negotiation and consultation, and this is welcomed. But, as has been amply demonstrated already in the past week and a half, certainty is at least as important as the end result. Mining capital is mobile, "it goes where it is welcome".

Indicative of the shifting sands in our business and political landscape, what started out as an address on climate change and the minerals industry has morphed into a discussion about *another* potential catastrophe, the Resources Super Profits Tax.

We do face significant challenges on a number of fronts. On both of the issues canvassed in my address today – the key message is this: the industry supports reform,

indeed craves it, but effective reform must be built on consultation, an understanding of the drivers of investment and expenditure, the globally competitive context in which we operate and a collaborative approach to ensure that the pursuit of reform does not lead to serious unintended consequences.