



Gillard and Swan must abandon the mining tax



The Gillard Government this week sought to blame a \$2 billion hole in its Budget on a decision by the WA Government to remove a royalty concession on iron ore fines.

The reality is that Treasurer Wayne Swan has only got himself to blame.

The mining tax deal he and Julia Gillard negotiated in secret and exclusively with the three biggest mining companies before the last Federal election is the real cause of the blowout.

When she became Prime Minister, Julia Gillard promised to fix the mining tax mess she had inherited from the former Rudd administration.

So she negotiated a deal locking out of the process every other mining company in the nation and all State and Territory governments.

How the Federal Government ever thought they could "reform" resources taxation and royalty arrangements without actively engaging the States and ultimately reaching agreement with them remains a mystery.

The Government knew they needed to negotiate with the States, as then-Treasury secretary Ken Henry recommended in his review.

They never even tried.

Yet when it came time and the Prime Minister and the Treasurer signed the mining tax deal, they went ahead and committed the Commonwealth to crediting all State and Territory royalties against any national mining tax liability.

That was always going to expose the Federal Budget bottom line to future royalty increases in any State or Territory.

And let's be clear, under our Constitution changes to royalty rates are the prerogative and responsibility of the States.

Much of the debate this week has centred on what and when Wayne Swan knew about WA plans to remove royalty concessions on iron ore fines.

He had pleaded ignorance and surprise about the move to align royalty rates for iron ore fines and lumps.

The evidence is that he had been told about those plans on several occasions over a period of more than a year.

Wayne Swan certainly knew about those plans when he recommended to the Prime Minister that she sign off on the promise to credit all State royalties.

Even leaving that aside, surely any competent Australian government about to commit to credit all State royalties would make it its business to find out, discuss and reach agreement about royalty rates into the future before pressing ahead.

After all, the Commonwealth has no legal authority over royalty rates in the States.

In the shadow of a difficult election, they were in too much of a rush to get a deal which would get the big miners off their back and let them put the mining tax revenue towards the Budget bottom line, creating the illusion of an early surplus by 2012-13.

A surplus now exposed to decisions about royalty rates in six different States and the Northern Territory.

The appropriate level of royalties is of course a matter for the States as the appropriate level of income tax on mining company profits is a matter for

the Federal Government.

The State's decision to remove the royalty concession on fines means that over the next four years \$2 billion which would otherwise go to Canberra will stay in WA.

On current trends over a decade it is probably more than \$8 billion.

Mr Swan's response to that is to threaten a tax war against WA by letting the Commonwealth Grants Commission take even more of the GST away from WA and cutting infrastructure spending for our State.

Never mind that none of the GST money would help him fix his \$2 billion Budget hole.

It would merely be redistributed among other States.

Declaring a tax war against the people of WA is not going to fix the mess the Gillard Government has created by not dotting its i's and crossing its t's

Mr Swan can't hide behind the Commonwealth Grants Commission either.

What ultimately happens with WA's share of GST as a result of the removal of royalty concessions on iron ore fines is entirely his call.

The mining tax is bad policy which came out of a bad process.

If the Government was dinkum about genuine tax reform it would start from scratch.

It would scrap the mining tax and engage in an open, transparent and inclusive process about tax reform.

It should work on finding a way out without penalising WA in the process.

WA Liberal Senator Mathias Cormann is the shadow assistant treasurer