Mining might take 50 years to recover from RSPT

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Nick Evans
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IT could take more than 50 years for Australia to recover its place as the mining destination of choice if the federal government successfully introduces its proposed resources super-profits tax, according to Access Economics' Chris Richardson.

Chris Richardson

Speaking on the RSPT at the Minerals Council of Australia roadshow in Perth yesterday, Richardson argued against the federal government's assertion that the proposed tax would not distort investment decisions, saying the tax would push Australian development options up the cost curve for international miners, and would inevitably lead to greenfields projects being delayed or shelved where other options existed.

Although the minerals aren't mobile, new investment in them is," Richardson says.

"And all impacts are at the margin for new projects, so the cost impact of the new tax will send some greenfield developments towards Canada, Indonesia, Brazil and others – these nations are substitutes for what is now to be a very highly taxed activity."

He said that while Australian projects would eventually move back down the cost curve, as other mineral deposits around the world became less economic to mine, this would be in the "ultimate term", not even the long term.

"The big behaviour change will be in greenfields projects, where the big dollars lie, because there is choice there. The minerals may not be mobile, but the investment is.

"And under those circumstances you will see [overseas] mines move ahead of their Australian equivalents on the global cost curve.

"Eventually, of course, Australian mines will return to where they were sitting – their relative position – in the global cost curve.

"Eventually you will reach higher cost options in the rest of the world and Australia will sit back where it is now – eventually it will work its way through," he said.

"But 'eventually' is a very, very long time away. Fifty to a hundred years, depending on the mineral."

Richardson said that could mean Australia misses the window of high margins on commodity prices in the short term.

"The underlying thought in Treasury is that these magnificent margins will be here for 'decades to come' – that's their quote, that's their new description of the global minerals sector," he said.

But Richardson said the consensus of forecasters is that, while demand for most commodities will continue to rise strongly, so will supply and that would mean that commodity prices will fall in the medium term.

"You can only have a boom in two out of three of demand, supply and price. And at the moment the struggle is to keep with supply, and that means that margins are magnificent," he said.

"Eventually, however, it doesn't matter how fast China and India continue to grow, it matters how much demand grows versus how fast the miners are digging around the world.

"Eventually the view is that miners will dig deeper and prices will come back down. Eventually supply will catch up with demand."

Richardson said if major Australian projects were pushed back outside of a 5-10 year window, likely the period for the current price boom, Australia might miss out on the high margin period.

"No price boom in history has ever lasted. The demand boom will last – we're in a super-cycle of demand, and that will last," he said.

"As frustrating as it was, we missed the start of this magnificent cycle because Australia's export infrastructure was just not up to it. We must understand that this tax risks a new problem.

"For this period of magnificent margins, we could miss out on a chunk of it because our tax system is not up to it."

Aspermont Limited
Street Address613-619 Wellington Street, Perth WA Australia 6000
Postal Address PO Box 78, Leederville, WA Australia 6902
Head Office Tel +61 8 6263 9100 **Head Office Fax** +61 8 6263 9148
e-mail contact@aspermont.com **website** www.aspermont.com **ABN** 66 000 375 048