New study proves RSPT flawed: CME

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Fresh industry research has further undermined the federal government's justification for its proposed resource super profits tax, identifying major flaws in the economic modelling used to support the tax.

According to the study by Ernst & Young's US-based Quantitative Economics and Statistics unit, government's claims the tax would ultimately boost mining investment, jobs and output were based on "flawed theory" and "unrealistic assumptions".

The report, commissioned by the Chamber of Minerals and Energy of Western Australia and global miner Xstrata, argues the government's modelling was especially unrealistic in assuming mining investment was "immobile" because the minerals themselves cannot move.

Instead, Ernst & Young's modelling showed that the tax would lead to a fall in mining investment as companies pursued other opportunities elsewhere, increased sovereign risk, fewer jobs, higher borrowing costs, and a more volatile national tax base.

"We believe the proposed RSPT and the treasury's economic analysis rest on a flawed theory and application of 'super profits' taxation; an unrealistic assumption about the immobility of mining investment; and the absence of a complete analysis of the proposal's economic and fiscal short-run, medium-run, and long-run effects," authors Thomas Neubig and Robert Cline said. Dr Neubig is a former chief economist for the US Treasury's office of tax analysis.

"A sophisticated economic model's results are only as good as its underlying assumptions. The model used by Government incorporated a key assumption that mining investment is completely immobile. We do not believe that critical assumption is realistic for the 21st century global mining industry."

The report states that the theory was fundamentally wrong because it assumed "companies don't have alternative investment opportunities in other countries" should Australian tax rates be increased.

"(But) Australia accounted for only 13 per cent of global mining exploration in 2009, so there are many alternative mining investment geographies," the report said.

Another key flaw was that the government's modelling also assumed that all the value generated was attributable to the underlying mineral, rather than also reflecting the effort, expertise, and special technology applied by the miner to commercially extract the mineral.

Those findings echo the view of Access Economics chief economist Chris Richardson, at a RSPT forum in Perth last week.

"You can never know whether a given dollar of mining profit is due to the mineral value that is generated or because the miners have worked harder or smarter," Dr Richardson said. "And the higher the (tax) rate you set, the more you will be picking up not just the value of the mineral, but also the entrepreneurial effort of the miner.

"It's once you do that, that you get the tax base moving. The mineral may not be mobile, but the investment is, and that's where this tax is going to have an impact."

Chamber chief executive Reg Howard-Smith said the Ernst & Young report vindicated the industry's demand that the proposed tax be withdrawn until its fundamental flaws had been addressed.

"It's now clear the government's selective assumptions completely ignore the real-world impact of making Australia one of the highest-taxed mining provinces in the world," he said.

The report comes amid growing speculation the government is preparing to offer partial compromises to blunt the industry's bitter opposition, including extending the offshore petroleum resource rent tax provisions to Queensland's coal seam gas sector, a possible increase in the minimum threshold.

But industry maintains such changes would not address its fundamental concerns or prevent an inevitable outflow of investment capital to other countries.

"Tinkering around the edges will do nothing to end the uncertainty this tax has foisted upon mining companies and their workers, mum and dad investors and the wider Australian economy," Mr Howard-Smith said.