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‘Costs’ of mining add up to zilch

HENRY ERGAS THE AUSTRALIAN JUNE 30, 2014 12:00AM

WITH RET-seekers descending on Canberra by the corporate planeload, honest citizens need to clutch not only their wallets but also their sanity. After all, as the Red Queen told Alice, it is easy to believe the most impossible things if one has enough practice; and nobody works harder at that than the Greens and their fellow travellers.

Even so, last week’s Australia Institute report on Mining the Age of Entitlement must get the “we try hardest” prize. Advancing the startling claim that the states spend as much assisting mining as on their most vulnerable citizens, the report’s conclusion is that mining drains the nation’s purse. The subtext is obvious: the subsidies provided to schemes such as the renewable energy target are small change compared with the largesse bestowed on those unspeakable miners.

Unfortunately, the report’s claims aren’t even wrong; they make no sense. Its approach is simple: it treats investments in state-owned utilities serving the mining industry as a cost; but it doesn’t offset against those costs the revenues the utilities obtain from the services they provide. By ignoring revenues, every centime of expenditure becomes a loss: and hey presto, a colossal “subsidy” to mining, that supposedly reduces government’s ability to spend on the disadvantaged, is conjured out of thin air.

Little wonder then that Queensland, which greatly expanded its rail and port systems during the resource boom, emerges as the champion subsidiser, accounting for $9.5 billion out of an estimated total of $17.6bn in mining “assistance” over the six years to 2013-14. But a moment’s examination shows the state government’s expenditures were more than matched by the charges it imposed for the assets in which it invested.

For example, the report treats the $3.7bn spent on Queensland’s coal rail network as a gift by taxpayers to the mining industry. But over 95 per cent of that expenditure went into the “regulated asset base” on which Queensland Rail earns a return set by the Queensland Competition Authority. Moreover, the state government sold those assets for $4.6bn in November 2010, handsomely recouping the outlays the report defines as subsidies. Yet none of those cash inflows are recognised in the report’s reckoning.

So too for ports and electricity, which account for an additional $3bn in alleged Queensland mining subsidies. Far from those assets incurring losses, as the report claims, Labor, the Greens and the unions have objected strenuously to their privatisation on the basis that they are cash cows.

Correcting the report’s estimates reduces the estimated Queensland subsidy to mining by 97.5 per cent. The assistance mining receives is therefore one-fiftieth that the report claims, and is swamped by the billions the state has earned in royalties. But even that remaining 2.5 per cent is overstated.

In effect, the report seems remarkably relaxed about what it classifies as assistance to mining. It will, for instance, puzzle the beneficiaries of Queensland’s Transport Service Contracts , which help fund general freight and passenger transport, to learn that they are carrying coal. And it seems eccentric to count as assistance amounts spent regulating mining and administering the taxes and charges it has to pay.

An equal opportunity offender, the report applies the “method” it uses for Queensland to the other states as well. And for them, too, it doesn't shirk the tough decisions.

For example, to count the $229 million NSW spent on Port Kembla as a loss must be regarded as daring, given that the state has now sold the port for three times that amount. But if that is brave, what can one say about treating as a subsidy the $227.9m in capital works NSW taxpayers outlaid on the Port of Newcastle, for which the state recently pocketed $1.75bn? A few more such subsidies and Mike Baird's fiscal problems would be a thing of the past.

As for including in the claimed largesse Western Australia's Ord River project (that far from assisting mining is funded through taxes on iron ore), it richly deserves howls of "awuyelelemana", which Dan Jacobsen assures us is the Zulu equivalent of Yiddish's "oy vey" with a hearty pinch of "enough already" thrown in for good measure.

In short, working through the Australia Institute's list slices the tens of billions to less than $600m for the states as a whole, most of that going on ill-judged environmental programs. Set against royalty payments, and mining's contribution to financing the transfers the states get from the commonwealth, that spending vanishes into insignificance.

Of course, the report's weaknesses have not prevented its findings from being hailed as gospel truth, with Fairfax's Ross Gittins saying they prove that "not only are we undertaxing the miners, we're giving them lots of subsidies". Careless as that may be, it also betrays more than a hint of desperation: and understandably so.

With the carbon tax set to be repealed, all that remains of the greenies' grand design is the RET; but preliminary modelling for the RET review estimates that over the period to 2040, the RET increases electricity costs by $12.8bn. Since the abatement it causes could be purchased internationally for some $2bn, over 80 per cent of that $12.8bn is pure waste.

No doubt, both sides of politics are responsible for that waste; but as the time to bring it to an end approaches, prepare for yet more nonsense from those who view coal as the nation's enemy.

"A wise man," wrote Bertrand Russell, "will enjoy the goods of which there is a plentiful supply: and of intellectual rubbish he will find an abundant diet, in our own age as in every other." With Mining the Age of Entitlement to feed on, could anyone ask for more?

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