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Business Opportunities in Australia

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The Federal Budget 2012-13

Inside This Issue

Introduction

The Federal Budget for the financial year 2012-2013 was announced by Treasurer Wayne Swan on 8th May 2012. In the context of a challenging economic environment and a multi-speed economy, the government has committed to deliver a surplus for the 2012-13 year.

The key 2012 Federal Budget themes are:

- Constrained revenue forecasts
- Focus on tax savings
- Changes in government expenditure

Main Features

- A projected surplus of $ 1.5 billion in 2012-13 to increase to $ 7.5 billion by 2015-16
- Economic growth of 3.25% in 2012-13 easing to 3%
- Net savings of more than $ 17 billion over four years
- Defence budget cut by $5.4 billion
- $2.9 billion saved by delaying increases in the aid budget
- $1.8 billion to be spent increasing family Tax Benefit A payments
- $1.1 billion for cost of living payments to low-paid, students and unemployed
- $2.1 billion to be spent on bonus payments for parents of school kids
- $1 billion for the first stage of the National Disability Insurance scheme
- $500 million for dental service
- Business loses 1% tax cut
- Tax breaks on superannuation for rich slashed
- Government assumes carbon price in 2015 of $29 a tonne; experts say $ 15 is more likely, leaving a gap of $ 3 billion
- Plans to introduce a tax saving on interest scrapped
- 1.5 million families will receive a boost to family tax benefits from July 01, 2012 with nearly half receiving an extra $600 a year.
- 5.5% forecast jobless rate for the June quarter next year unchanged3.25% forecast inflation in consumer prices in the coming financial year unchanged

The government's statement on the budget 2012-13 deems it as a "fair go" budget delivering a surplus, during the current year and till 2015-16.

The budget is stated to set the tone for growth, despite the global financial crisis and geared for employment generation highlighting the virtues of building resilience through national saving. It funds new cost of living relief for Australians, helps businesses invest and finances bold new policies to help the disabled, aged and low income earners. The budget projects the deficit to be $ 44 billion in 2011-12 to achieve a surplus of $ 1.5 billion in 2012-13. It seeks to spread the benefits of the mining boom to low and middle income earners as well as small businesses. The funds for company tax cuts have been re-directed to families. It seeks to drive investment, improve productivity for up to 2.7 million small businesses. The budget strives to make targeted savings to get back to surplus and address priorities.

Critique

- The present budget is a politically inspired one with the primary purpose to re-engage with mainstream voters. Government has sought to redistribute the fruits of capitalism and make amends to the low income earners, families and pensioners who were feeling the pressures of rising cost of living
- Government has chosen to disregard the negative reaction of big businesses to breach the longstanding undertaking to cut corporate tax as part of tax reforms and simply handover the proceeds of the mining tax to families alienated by the carbon tax. Savings on this account alone A$5 billion.
- In doing so the Government has tried to repair the breach of faith with the broader electorate over the carbon tax by a new breach of faith with business.
- The budget reflects the government's trouble converting economic growth into tax revenue, with the lags in company tax revenue and the collapse of capital gains receipts upsetting calculations. Expenditure cuts and assumptions about tax revenue growth feed into the optimism.
- With nominal GDP receipts expected to grow at 5.5% the anticipated growth in receipts will not be achieved. The expectation that there will be a fall in payments in the next financial year from this year is flawed.
- The wafer thin projected budget surplus (of $1.5 billion in 2012-13) could easily become a deficit if the economy does not return to trend quickly. Given that the present economic growth is just over 2%, a marked improvement will be needed in the coming months. The projected surpluses in the out years are very small.
- The projected surplus is premised on the validation of 3.25% growth forecast and the ambitious 10.8% tax receipts forecast. if this does not fructify the budget projection sinks.
- Defence cuts of $5.4 billion has reduced defence spending to 1.5-1.6% of GDP, very low level since the 2nd World War era.

Impact of Australia's New Mining Law

The Australian Government has announced and introduced into the Parliament new resource taxation arrangements. The Minerals Resource Rent Tax (MRRT) is a proposed tax on profits generated from the exploitation of non-renewable resources in Australia. The tax, levied on 30% of the "super profits" from the mining of iron ore and coal in Australia, is proposed to be introduced from 1 July 2012. A company will only have to pay the tax when its annual profits reach $75 million, a measure designed so as not to burden small business. It was passed by the Senate on 20 March, 2012, after it was passed by the House of Representatives on 23 November, 2011.

The Mineral Resource and Rent Tax (MRRT) will apply from 01 July 2012 and has the following key features:

- Taxpayers with amounts of MRRT assessable profits under $75 million per annum will be excluded from the MRRT.
- The MRRT will apply an internationally competitive rate of 22.5 per cent (that is, a nominal rate of 30 per cent, less 25 per cent extraction allowance to recognise the use of specialist skills).
- New investments will be given an immediate write-off, rather than depreciation over a number of years. This allows mining projects to access deductions immediately, and means a project will not pay any MRRT until it has made enough profit to pay off its upfront investment.
- The MRRT will carry forward un-utilised losses at the government long term bond rate plus 7 per cent.
- The MRRT will provide transferability of deductions. This supports mine development because it means a taxpayer can use the deductions that flow from investments in the construction phase of a project to offset the MRRT liability from another of its projects that is in the production phase.
- The MRRT will provide a full credit for state royalties paid by a taxpayer in respect of a mining project. Unused credits for royalties paid will be uplifted at the long term government bond rate plus 7 per cent, as per other expenses. Unused royalty credits will not be transferrable between projects or refundable. The PTG recommended that the MRRT should not be used as a mechanism to enable States and Territories to increase inefficient royalties, and urged that arrangements be put in place to ensure they have no incentive to do so. Consistent with this, the Government has asked the independent panel conducting the GST Distribution Review to examine whether such incentives currently exist, as well as to recommend ways in which improvements in royalty regimes might be encouraged.
- The MRRT will provide recognition of past investments through a credit that recognises the market value of that investment, written down over a period of up to 25 years.
- However, those companies that wish to use their current written down book values of the project's assets, excluding the value of the resource, will be provided with accelerated depreciation over five years. This starting base calculated under this methodology will be able to be uplifted at the government long term bond rate plus 7 per cent.
- The MRRT will recognise the particular characteristics of different commodities by applying a taxing point close to the point of extraction, and using appropriate pricing arrangements to ensure only the value of the resources extracted is taxed.

More details about MRRT are available at:
http://www.ato.gov.au/taxprofessionals/content.aspx?doc=/content/00286481.htm

At this stage the likely impact of the MRRT is not known clearly as it will need detailed analysis by resource companies and investors in Australia and globally. However, initial assessment is that recent Indian investments in Australia like Adani Group's Linc Energy, Lanco Infratech's acquisition of Griffin Coal and GVK's Hancock might not be immediately affected and are likely to get affected only after the initial 8-10 years of operations. The MRRT law is meant to tax major mining companies and their profits, but many Indian coal mine investments are new and are making no profits. The tax is leviable after the full offset of capital expenditure from the profits, and after deducting all expenses including state royalties. It is estimated that the likely increases in coal and steel prices as a result of the MRRT may be absorbed in the likely rise in international prices by the time it comes into being.

Business Opportunities

- It has been reported that Aditya Birla Group has submitted a non-binding bid for a Perth-based mining company Northern Iron, which is initially valued at US$ 500 million. Northern Iron operates mines in Norway with an overall production capacity of 2.2 million tonnes of iron ore per annum.
- Jindal Steel & Power is believed to have acquired a 9.25% stake in Apollo Minerals for $ 1 million. Apollo described the deal as an “initial investment” by Jindal Group, which is expected to make further investment in the company. The new funds would be used to expand drilling programs and development of Apollo’s Commonwealth Hill iron ore project in South Australia. Apollo Minerals also has 100% interest in three exploration licences comprising the Mount Oscar Project in Pilbara Region of Western Australia (WA).

Opportunities for cooperation in research and development in resources sector:

- Vice-chancellor Paul Johnson of the University of Western Australia has urged the minerals and energy companies in WA to commit 1% of their pre-tax profits per annum to an education endowment fund to focus on building a technology and innovation economy in the state. He claimed that WA’s biggest iron ore miners, Rio Tinto and BHP Billiton, could together contribute about $300 million a year, based on last year’s earnings results, to such a fund. Fortescue Metals Group expressed its willingness to discuss ways to support higher education in the state. This offers opportunity for cooperation between India and Australia in research and development in resources sector.

Oil and gas exploration:

- New permits to drill off the coasts of Western Australia and Victoria by major oil and gas companies such as Woodside Petroleum and BHP Billiton are expected to result in $300 million investment in exploration over the next three years. Woodside Petroleum, BHP Billiton, Murphy Oil Corporation and Hess Corporation were awarded a series of permits in the Northern Carnarvon Basin. Resources and Energy Minister Martin Ferguson said the new permits would ensure the continued growth of investment in oil and gas exploration. He said more than $175 billion in capital expenditure has been committed to liquefied natural gas projects in Australia since 2007, and by 2017, based on proposed and committed new projects, Australia's LNG production capacity is projected to quadruple, potentially making Australia the world's largest producer of LNG.
- Federal Resources and Energy Minister, Martin Ferguson has said that brown coal in Victoria's La Trobe Valley could soon be a major resources export. According to a controversial new export industry, plan is being proposed to sell millions of tonnes of Victorian brown coal to overseas markets like India and Japan. The plan has however come in for criticism by the environmentalists who say that there is no non-polluting way that brown coal could be used.
- A newspaper article in The Age dated 8 May informs that miners and power companies in India are asking the Government of India to establish a Sovereign Wealth Fund to be used to buy mines and build infrastructure in the coal sector in Australia.
- Business Spectator dated 16 May states that the foreign investment approval in Australia grew by 27 percent in the last financial year to be almost in line with pre-global financial crisis levels and reflecting ongoing interest in the resources sector. In its annual report (2010-11) which was tabled on 15 May, 2012 the Foreign Investment Review Board (FIRB) said approval for proposed investment by foreign interests totalled A$176.7 billion This compares almost with the A$181.4 billion seen in 2008/09 before the impact of the global financial crisis. The US was the biggest investor in terms of value approvals, accounting for 16 percent of investment, followed by the UK, China, Canada and India. "This is the third consecutive year that China has been ranked in the top three sources of proposed investment and the first that India has been ranked in the top five and mirrors increased trade with these two countries", says John Philips former FIRB, Chairman.

Business related events in Australia

CeBIT Australia 2012

India participated in CeBIT Australia 2012 in Sydney as a Partner Country from 22-24 May 2012 on an initiative supported by the Prime Ministers of India and Australia. .A high level delegation led by the Hon'ble Sachin Pilot, Minister of State for Communication Information Technology and more than 60 leading Indian IT companies provided a unique opportunity and platform for networking and market development. MOS, Hon'ble Pilot met with top level functionaries of the Federal and State Government of Australia and held detailed discussions on enhancing trade and partnership opportunities in IT between the two countries. Aussie innovation and market savvy Indian muscle came together in a high tech convergence at this year's show.

Participation of Coffee Board of India in the Melbourne International Coffee Expo from 4-6 May.

Delegation was led by Shri Madhusudan Prasad, Addl. Secretary, M/o Commerce and Industry. It also included Chairman and Director of Coffee Board and four coffee exporters from India. The Coffee Board organised a Finals of Flavour of India 2012 in the Expo ground. The Board also gave a presentation on the cultivation and export of coffee from India.

Holding of the Australia Summit 2012 organised by the Global Foundation in Melbourne on 4 May.

The Global Foundation of Melbourne organized the Australia Summit on the 4th May primarily to get feedbacks on the proposed Australian White Paper on ‘Australia in the Asian Century’. The Summit was preceded by a Gala dinner in which Prime Minister Julia Gillard spoke. She mentioned in her speech, about the opportunities in the Asian countries and how Australia could take their advantage on the basis of its own strengths. In the Summit on 4th May, there was a presentation by Dr Ken Henry, Chairman, Australia in the Asian Century Taskforce. A cross section of eminent people representing various sectors deliberated in the Summit on different aspects of the Asian Century. Some of the speakers pointed out about a Pacific Century and urged that Australia should not only look at an Asian Century alone, but also at a Pacific Century.

Upcoming Events in Melbourne:

The Good Food & Wine Show Melbourne (1 June to 3 June)

The Good Food & Wine Show Melbourne will be the perfect event for those people who are going to sell products or services for the wine industry. Key decision makers and experts belonging to the wine industry will attend the event and deliver their best piece of knowledge regarding the current industry process.

Venue: Melbourne Convention and Exhibition Centre, Melbourne
Website :
http://www.goodfoodshow.com.au/
Organizer: Diversified Exhibitions