GLOBAL COMPARISONS PERRY WILLIAMS

Leading miners feel the sting

Two of the world's largest mining groups have slammed the Australian government for plans to impose what they claim to be the highest mining industry tax rate in the world as part of the Henry review.

Rio Tinto and Xstrata slammed the proposals and warned the increased tax burden is likely to curb large scale, long-term investments.

"Taxing 40 per cent of profits over the long-term bond rate, together with corporation tax, would make the Australian minerals sector the highest taxed in the world, seriously eroding competitiveness," the managing director of Rio Tinto Australia, David Peever, said.

Swiss-based Xstrata – which owns coal and base metals assets in Australia – also weighed into the controversial sting on the resources sector, saying the government move was a "worrying signal and undermines Australia's reputation as a stable investment destination".

Xstrata chief executive Mick Davis said it was a highly regrettable decision by the Australian government.

"It is very disappointing that the Australian government is planning to impose additional taxation that will see Australia levying the highest taxes on its minerals sector of any country in the world."

Investment bank Citigroup confirmed Australia would topple the US as the most heavily taxed mining industry in the world.

On its calculations, the US previously held the top ranking, with a tax burden of 40 per cent followed by Australia and Brazil in joint second position with an overall rate of 38 per cent.

Junior nickel miner Western Areas operates the Flying Fox and Spotted Quoll mines in West Australia and is also developing six nickel, zinc and copper exploration projects in Finland.

Managing director Julian Hanna, who recently returned from a business trip to Finland, says the proposed taxation regime has severely dented Australia's business reputation internationally.

"Last week we had a meeting with Finland's minister for economy and employment and his response to our presentation was 'What can we do to help you out and get your projects off the ground?' Their whole taxation approach, the attitude to encouraging investment, is worlds apart from what we're seeing in Australia."

Mr Hanna said concessions for mining companies in Finland have lowered its corporate tax rate to just 20 per cent compared with the potential hike to 58 per cent in Australia.

Citigroup mining analyst Craig Sainsbury says Australia could become less attractive and uncompetitive as an investment destination with mining companies concerned about the change in fiscal regime.

"They [mining companies] are indicating it's early days but Australia has fallen down the ladder as a potential investment area and while this uncertainty continues they won't be looking to increase their capital spend in Australia," he said.

Mining companies were more likely to make riskier investments in other parts of the world to increase shareholder returns.

"Australian mining companies and foreign investors who would have historically invested into Australian assets will look elsewhere into Africa, Latin America and Eastern Europe," Mr Sainsbury said.

World class

How the new mining tax regime compares globally

Country	Corporate tax rate (%)	Royalty (%)	Total tax (%)
Australia (proposed)	**28**	**0.0**	**58**
US	35	3.2	40
Australia (now)	**30**	**5.5**	**38**
Brazil	34	3.1	38
South Africa	29	2.5	33
Peru	27	3.0	32
China	25	3.1	30
Russia	20	5.5	30
Chile	17	5.0	26
Canada	20	2.0	23

SOURCE: CITIGROUP