MINERALS COUNCIL OF AUSTRALIA

PRODUCTIVITY COMMISSION 5 PILLARS INQURY

22 SEPTEMBER 2025

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1. MINING, PRODUCTIVITY AND CASHFLOW

Mining investment is sensitive to project profitability and cashflow

Private sector capital investment through its contribution to capital deepening is an essential component of Australia's productivity growth and, therefore, economic growth. In the absence of any changes to policy settings to make Australia a more attractive investment destination, capital investment is likely to remain weak.

Mining is one of Australia's enduring economic strengths. The role of Australian mining in determining the economy's productivity performance cannot be overstated. Mining is the most productive sector in the economy and a consistent contributor to national income, investment and exports.

The expansion of mining that occurred in the early 2000s substantially contributed to Australia's productivity growth and long-term growth in per capita income by increasing the amount and efficiency of capital per worker. The Centre for International Economics estimates that without this massive increase in capital investment, in 2024 Australia's real GDP would have been about 14.5 per cent lower, average real household income 17 per cent lower ($19,160 less) and average weekly real wages 12.6 per cent lower ($248 less).[1]

Australia's hard-earned comparative advantage in mining has come from the industry's ability to lead the world in developing and implementing new technologies, to drive efficiencies in complex and risky operations, and to do it while meeting the highest global standards in sustainability.

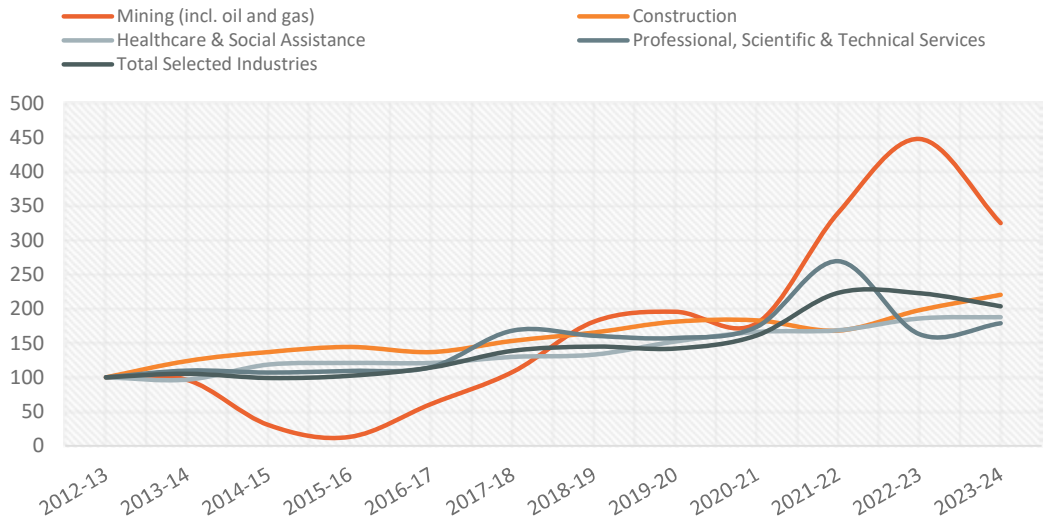
Mining is by its very nature a risky business and that also applies to its investment. Investing in a mining project involves committing to high risk, long lived capital intensive expenditure. Because projects are exposed to highly uncertain future returns the required rate of return that investors need is higher than investment in most other industries.

Mining is also exposed to the largest variation in profits compared to all other industries (figure 1), and consequently the federal budget is also exposed to volatile revenue variations. Despite this volatility, history shows that the profile of mining royalties and company tax payments have bolstered the Australian economy and government budgets just at those times when external shocks have battered other economies.

[1] Centre for International Economics, *Estimating the economic benefits of mining expansion: an update*, note prepared for the MCA, Canberra, 15 March 2025.

Figure 1: Mining profits are more variable compared to those in other industries

Operating profit before tax (index 2012-13 = 100)



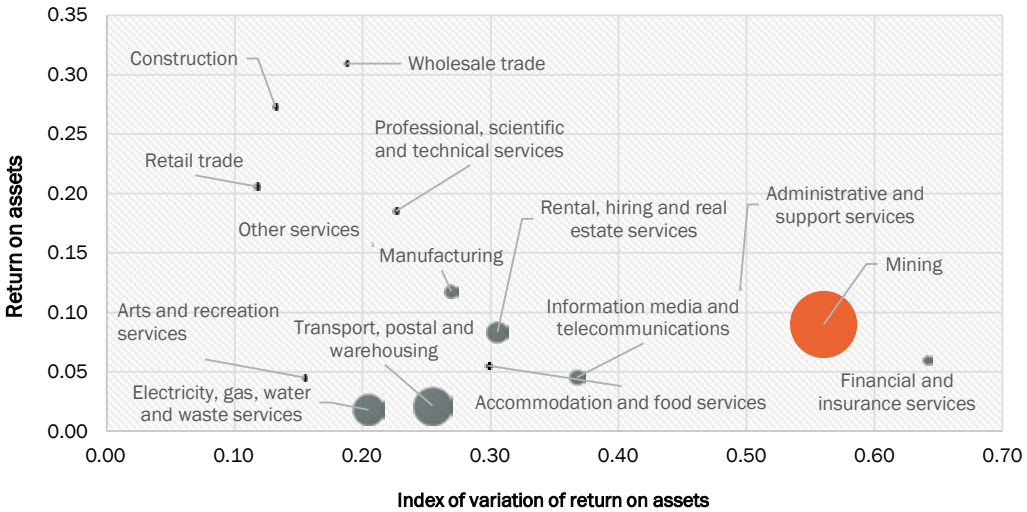
Source: ABS, *Australian Industry*, 2022-23, table 1, released May 2024.

The general economic resilience afforded to the broader Australian economy by the mining industry's pattern, pace and scale of investment is generated on the back of a calculated risk: that the high returns that are produced during upswings in global commodity prices are allowed to compensate for the low returns borne by mining companies during downswings.

Because the industry has the greatest amount of assets at risk and is subject to volatile and cyclical commodity prices, investors are exposed to significantly more variation in the returns on assets relative to other industries. When mining profits are compared to the size of the industry's capital investment, return on assets has averaged 9 per cent over the last ten years (figure 2). This compares to a 12 per cent average return on assets across all other industries.

Figure 2: Mining is among the riskiest of all sectors for return on assets

Return on assets and risk (size = relative industry share of net capital stock)

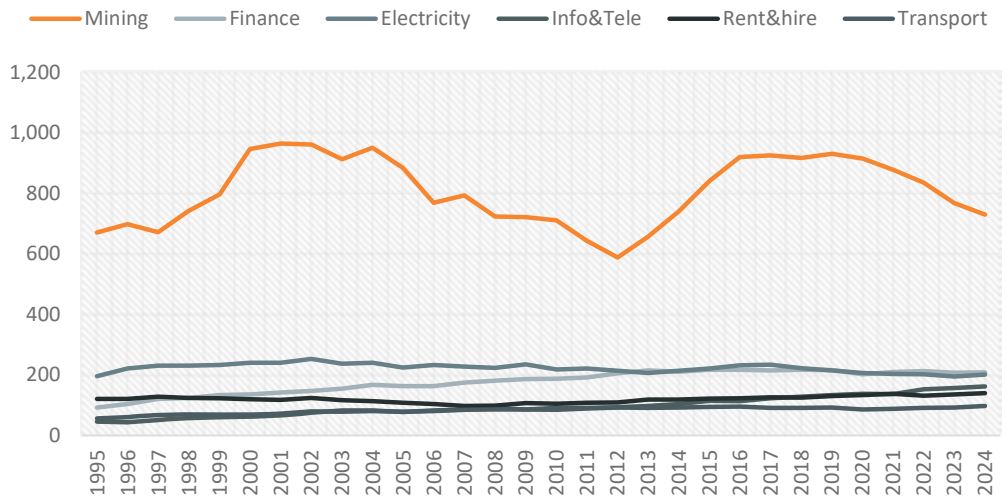


Source: ABS, *Business Indicators*, table 9, released 5 June 2023; and ABS, *Australian System of National Accounts*, table 58, released 28 Oct 2023.

The extreme degree of capital-intensity and highly technological nature of mining investment means that mining activity also exhibits the largest level of labour productivity compared to any other Australian industry (figure 3). In 2024 the value added per hour worked in mining was $730 – the average mining employee (combined with the installed mining capital) added more than three and a half times more value added to the Australian economy than the average employee in the next most productive industries (Finance and Insurance Services and Electricity, Gas, Water and Waste Services were $208 per hour and $201 per hour, respectively).

Figure 3: Mining is Australia's most productive industry

Value added per hour worked ($/hr)



Source: ABS, *Australian National Accounts*, table 6, June 2025; ABS, *Labour Account Australia*, June 2025.
Note: Value added per hour worked is calculated as the ratio of Gross Value Added by Industry (Chain volume measures) to hours worked (derived from ABS measures of the average hours actually worked per job and jobs filled by industry).

Mining labour productivity is both very high and cyclical owing to the tendency for the size of the workforce to contract and expand over the commodity price cycle. The counter-cyclical relationship between the industry's workforce size and commodity prices means that downswings in the commodity price cycle are associated with rising labour productivity growth and vice versa. While this can lead to apparently large changes over time, the level of mining labour productivity is persistently high.

The Australian mining industry is also a key driver of technological innovation. When correctly measured to account for the characteristics of mining, long-term estimates of mining multi-factor productivity consistently show yearly growth of 2.0 per cent to 2.5 per cent.[2]

For the minerals industry to sustain its large contribution to the economy, including to government revenues, companies must be willing to keep taking risks on investment in exploration, new projects, and the operation and extension of existing mines. Favourable investment decisions depend on adequate expected financial returns over the project's life.

[2] See Syed, A. et al (2015), 'Multifactor Productivity Growth and the Australian Mining Sector, *Australian Journal of Agricultural and Resource Economics*, Vol. 59, pp. 549-570; Zheng S., and H. Bloch, (2014), 'Australia's Mining Productivity Decline: Implications for MFP Measurement, *Journal of Productivity Analysis*, Vol. 41, pp. 201-212; and Topp, V. et al, (2008), 'Productivity in the Mining Industry: Measurement and Interpretation', Productivity Commission Staff Working Paper, Canberra.

Government plays a critical role in providing the conditions that enable this investment

Getting the fundamental policy settings right are critical to Australia attracting investment in mining and expanding our minerals processing and mining-related manufacturing:

- No adverse changes to taxation including retaining the fuel tax credit by ensuring fuel excise is limited to those using public roads is essential for the mining industry until alternative non-fossil fuel technologies are developed and become commercially available
- Streamlining and improving the current environmental regulatory framework, along with eliminating duplication in environmental and climate change policies between jurisdictions to reduce approval delays and related costs for projects
- Implementing a total system cost approach for the clean energy transition that considers all technologies to balance short term costs against affordable, secure, clean energy in the long run, along with access to low-cost high integrity emission offsets to deliver energy to operations at the lowest possible cost
- Ensuring skills and training policy is industry focused and based on collaborative workforce planning, and there are productive workplace relations for businesses, so that industry has access to the critical skills and the training capabilities needed to secure a productive labour force both now and in the future.

2. CREATING A MORE DYNAMIC AND RESILIENT ECONOMY

Large businesses already face an internationally uncompetitive tax regime in Australia

As stated in the interim report, Australia's current corporate income tax system is not designed to encourage investment. The primary issue is that the level of Australia's effective tax rate on capital investments – the effective tax rate – is uncompetitive compared to those of most other countries.[3] A consequence is that in the absence of other offsetting factors, Australian investments need to offer higher expected rates of return than other jurisdictions to attract international capital.

The sensitivity of investment to the effective tax rates in other countries is especially relevant to Australian mining projects which have seen a deterioration in their international competitiveness in the face of high taxes for some time.

Australia's statutory corporate tax rate is already the second highest in the OECD. Between 2001 and 2024, the average statutory company tax rate in the OECD fell from 29.3% to 22 %. During this period, Australia's statutory company tax rate remained unchanged at 30%. The effective corporate tax rate is currently 28.5% (excluding State royalties and other mining imposts), ranked second highest amongst OECD peers, just behind Colombia's rate of 32.9%.

In addition to company income tax, the mining industry also pays royalties as well as the other taxes all companies pay - payroll tax, land tax, fringe benefits tax, business levies and fees. The mining industry paid $395 billion in company tax and royalties over the 10 years to 2023-24.[4]

Australia's effective tax on mining projects combined with slow and complex regulatory approvals, relatively high labour and construction costs, and rising energy prices, are putting at risk the loss of investment in mining projects to other mining jurisdictions that were traditionally seen as riskier. The Fraser Institute's Annual Survey of Mining Companies shows tax is a growing concern for mining sentiment in Australia (table 1), driven by the coal royalty hikes introduced by the Queensland government in July 2022 and followed later by the NSW government in July 2024.

Table 1: Top 5 investment deterrents facing Australian mining companies

	2021	2022	2023	2024
1	Socioeconomic agreements	Regulatory duplication	Regulatory duplication	Regulatory duplication
2	Regulatory duplication	Availability of labour and skills	Uncertainty over which areas will be protected	Uncertainty over which areas will be protected
3	Labour regulations	Labour regulations	Uncertainty re: disputed land claims	Taxation regime
4	Uncertainty re: disputed land claims	Uncertainty over which areas will be protected	Uncertainty re: existing regulations	Uncertainty re: disputed land claims
5	Legal system	Uncertainty re: disputed land claims	Taxation regime	Availability of labour and skills

Source: Derived from Fraser Institute, *Annual Survey of Mining Companies*, 2021-2024; national ranking derived by weighting state and territory results by mining GVA using ABS, *National Accounts: State Accounts*, 2024.

Mining investments are exactly the 'productivity kicker' that the PC proposes to enable

Productivity Commission Chair Danielle Wood stated at her National Press Club address in August that:

> "…our current system does not treat all investment equally. It imposes the biggest cost on higher risk, long-lived and capital-intensive investment – the type that can offer a big productivity kicker".[5]

[3] Bazel, P. and Mintz, J., Can corporate tax reform help address Australia's weak investment performance?, School of Public Policy, University of Calgary, report commissioned by the Minerals Council of Australia, 2022.

[4] EY, *Royalty and company tax payments,* 20 May 2025.

[5] D. Wood, 'Growth mindset: How to fix our productivity problem', address to the National Press Club, Canberra, 18 August 2025.

Mining projects are high risk, long-lived and capital-intensive (Box 1). Greater investment in Australian mining is exactly what the economy needs to lift its productivity.

There is promising potential for new large-scale resource projects capable of generating capital deepening in the Australian economy. In 2024, there were 68 projects at the committed stage and valued at $65.1 billion in capital investment if they all proceed. And there are a further 66 projects with the potential for an additional capital investment of $36.1 billion at the advanced feasibility stage.[6] However none of these projects will proceed unless the investment returns are right.

Box 1: Mining projects are high-risk, long-lived, capital-intensive productivity kickers

Mining projects are risky

Mining projects involve large sunk capital under uncertainty, and profits fluctuate significantly over time. A short period of high profits over a mines long lifetime does not imply that firms systematically earn more than their cost of capital.[7] Because investment behaves like an option, firms may delay entry or continue operating at a loss to preserve future recovery. Policy based on snapshot profits risks confusing temporary volatility with sustained economic return.[8]

Mines are long-lived assets

Mining projects create long-lived benefits that flow to workers, communities and regions, and governments. Their returns include payments that compensate for sunk costs, technological innovation, management expertise, bearing risk, and workforce development. [9] Taxing away these payments would deter investment, reduce skills formation, and undermine long-term project performance.[10]

Mining is capital-intensive

Mining involves large capital expenditures during exploration, construction, operation and rehabilitation phases. Capital expenditure generates both upstream and downstream ripple effects through the business supply chain as local businesses purchase goods and services from other businesses, often through several links in the supply chain. This activity plays a catalytic role in the economy – generating spillovers into infrastructure, innovation, regional development and skills. In that sense, mining is not just a driver of productivity; it is a platform for delivering it.

The net cashflow tax will deter investment in large productivity-driving projects

The MCA does not support the Commission's proposal for a net cashflow tax that would create an increased tax burden for companies earning over $1 billion. The proposal just adds to the tax burden of industries such as mining who are already Australia's largest company taxpayers. More tax on the Australian mining industry will kill investment and destroy productivity.

The overall tax burden will increase for large companies under the Commission's hybrid cashflow tax proposal, with effective tax rates rising while the international competitiveness of Australian industry will continue to fall.

Imposing an additional 5 per cent cashflow tax on top of existing company tax on companies who can deliver large-scale capital investments is at odds with improving Australia's productivity growth.

[6] Department of Industry, Science and Resources, 'Resources and Energy Major Projects Report', Canberra, 2024, table 1.1, pg. 7.

[7] Dixit, A. (1992), "Investment and Hysteresis," *Journal of Economic Perspectives*, Vol. 6(1), pp. 107-132.

[8] The seminal paper on valuing the option to enter and/or exit resource projects is McDonald, R. and D. Siegel (1986), 'The Value of Waiting to Invest,' *Quarterly Journal of Economics*, Vol. 101, pp. 707–727. An extensive theoretical and empirical literature is set out in Dixit, A.K. and Pindyck, R.S., 1994. Investment under uncertainty. Princeton: Princeton University Press.

[9] For an Australian context: Ergas, H. and A. Robson, (2012), Revenue Allocation under the MRRT: Economics Aspects, *Journal of Australian Taxation*, Vol. 14(2), pp. 183 – 206.

[10] Davis et al. (2021), Maximizing Output and Government Revenues from Mining, World Bank Policy Research Working Paper 9825.

Large scale projects are important in driving aggregate investment. In 2021, the Reserve Bank of Australia published a report which estimated that the top 1 per cent of firms (measured by gross output) accounted for half of all non-mining business investment in Australia.[11] Including mining businesses is unlikely to change that conclusion.

As the RBA noted:

> 'A key piece of information to link the firm-level outcomes to overall outcomes is an understanding of the firm-size distribution of investment – that is, how much firms of differing sizes contribute to overall investment outcomes.'[12]

In addition to the uncertainty about the role of the firm size distribution of investment in the economy, very little is known about the sensitivity of large business investment to changes in the tax rate.

The international economic literature is likewise nascent and limited. What scant empirical research that does exist points to larger firms exhibiting the highest investment-cash flow sensitivity, despite being less financially constrained – a characteristic that appears durable to changes in the business cycle.[13] This points to a substantive gap in knowledge about the effect of both an increase in the impost of taxation on large-scale investment, but also the channel through which particular instruments – like the net cashflow tax – work on influencing investment decisions.

What is certain is that a net cashflow tax that followed the Commission's prescription would see companies with turnover exceeding $1 billion pay the second highest, if not the highest, effective corporate tax in the world.

A net cashflow tax is unproven and there are many risks moving to a hybrid system

In practical terms, there are several issues related to the hybrid net cashflow tax system being proposed. These relate to the design of the net cashflow itself, its rate and the evaluation of its expected performance with investment profiles that better represent a large-scale, long-lived, capital-intensive mining project.

It is important to understand the impact for companies facing both the existing high statutory tax rate as well as the additional net cashflow tax. The interim report set out an example of how the hybrid tax scheme would work for companies under the $1 billion turnover threshold. The same exercise is carried out below for companies with a turnover of $1 billion (Box 2).

The box shows an increase in the total tax burden on high turnover companies from the new hybrid tax and that new investment is deterred owing to:

- an increased tax burden from the retrospective application of the net cashflow tax to existing operations (past investment)
- the extra tax paid on new investment which although attracting a credit in the year when the capital expenditure is made, incurs an additional impost on net cashflows over and above company tax paid in subsequent years.

It is interesting to note from the example that the extra tax paid would be greater than the additional value generated by the new investment. This will be a more general feature of the scheme that arises from the revenue neutrality constraint. By imposing the constraint, the Commission has penalised investment by large businesses when the productivity challenge facing Australia requires more investment by all businesses.

The Commission's interim report does not provide the details needed to make a robust assessment of its impacts. These include a realistic investment profile, the treatment of risk, baselining of historical

[11] Dynan, L. 2021, "Which Firms Drive Business Investment? New Evidence on the Firm-Size Distribution", *RBA Bulletin*, December 2021.
[12] Ibid.
[13] Grullon, G., J. Hund and J. Weston (2018), "Concentrating on *q* and cashflow", *Journal of Financial Intermediation*, Vol. 33, pp. 1-15.

capital expenditure, and the impact on compliance costs on small, medium and large businesses. Assessing the magnitude of the proposed changes would require an extensive period of consultation, as well as a suitable transitional period – which in itself will create uncertainty and potential adverse outcomes for investment and productivity.

Box 2: Example of tax payable with the company tax and additional net cashflow tax

The example below builds form PC's example in Box 1.6 in the interim report:

> The company Widgets Inc. has an annual turnover of *$1 billion* and earns a *$50 million* profit per year. It is thinking about investing *$10 million*, funded through retained earnings, in a five-year asset that is required to make a normal annualised return of 10% to be considered worthwhile. The investment is projected to earn a return of *$2.8 million* per year for five years, after which it will have fully depreciated. The pre-tax return on this investment is 12.5% – the discount rate required so the net-present value of the returns from Year 0 to Year 5 equals the cost of the investment.

Tax payable with existing 30% company tax plus additional net cashflow tax ($ millions)

Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net profits from other operations	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
Investment	-$10.00					
Profits on new investment, before dep		$2.808	$2.808	$2.808	$2.808	$2.808
Depreciation		-$2.000	-$2.000	-$2.000	-$2.000	-$2.000
Taxable income	$50.000	$50.808	$50.808	$50.808	$50.808	$50.808
CIT payable	$15.000	$15.243	$15.243	$15.243	$15.243	$15.243
CIT payable on other operations	$15.000	$15.000	$15.000	$15.000	$15.000	$15.000
CIT payable on new investment	-	$0.243	$0.243	$0.243	$0.243	$0.243
NCT payable	$2.000	$2.640	$2.640	$2.640	$2.640	$2.640
NCT payable on other operations	$2.500	$2.500	$2.500	$2.500	$2.500	$2.500
NCT payable on new investment	-$0.50	$0.140	$0.140	$0.140	$0.140	$0.140
Total tax payable	**$17.000**	**$17.883**	**$17.883**	**$17.883**	**$17.833**	**$17.833**
Before-tax cashflow for new investment	-$10.00	$2.808	$2.808	$2.808	$2.808	$2.808
After-tax cashflow for investment	-$9.500	$2.425	$2.425	$2.425	$2.425	$2.425
Extra tax paid	**$2.00**	**$2.60**	**$2.60**	**$2.60**	**$2.60**	**$2.60**

Cumulative tax paid under proposed new hybrid tax scheme ($ millions)

Cumulative tax paid	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Tax paid @ 30% CIT	$15.0	$30.2	$45.5	$60.7	$76.0	$91.2
Tax paid @ 30% CIT + 5% NCT	$17.0	$34.9	$52.8	$70.6	$88.5	$106.4
Extra tax	$2.0	$4.6	$7.3	$9.9	$12.6	$15.2
Percentage increase in tax paid	13%	15%	16%	16%	17%	17%

Slashing green and red tape is necessary to improve business investment

MCA strongly agree that the stock of Australia's regulations are weighing down business through duplication, inconsistency and inefficiency. Regulations could be simplified to achieve the same or better outcomes without compromising necessary protections.

The Commission has diagnosed Australian regulators to be suffering from 'risk aversion', an 'underweighting of regulatory burden on business', and 'tunnel vision'. Application of the EPBC Act to

project approvals is a principal example where the actions of regulatory decision makers within the framework of the legislation produces less than satisfactory outcomes for the economy.

It is important to note that what the Commission has identified as affecting poor regulatory outcomes are behaviours, deliberate choices made under the existing frameworks. To this end, an Australian Government led adoption of a whole-of-government statement on the principles of good regulation would also help to strength leadership over improving the behaviours identified. Addressing regulatory culture and mindset are important, but on their own are unlikely to shift behaviours unless the institutions governing the behaviours are also modified.

Improving institutions is the best way to improve the efficiency of regulation

The most successful productivity-improving policy agenda in modern Australian came from the Hilmer review. The principles of those reforms were mostly directed at achieving economy-wide efficiency outcomes by exposing government functions to the discipline of market competition.

In the decades since those reforms there has been a tendency for regulatory drift, where the hand of government has increasingly constrained private businesses away from driving efficiencies. The lack of discipline within government processes that has contributed to the regulatory burden getting worse has also been identified in the interim report in terms of the diminished role for regulatory impact assessment being a strict part of policy decision-making. MCA supports the recommendations to restore best practice regulation to support better scrutiny, review and evaluation of new and existing regulation.

A key issue for the mining industry is policy coordination – both between policy areas and across levels of government. The lack of coordination of policy means that there is a huge risk that priorities slated for reform compromise other policy domains which if occurs will undermine investment certainty and dilute the efficiency outcomes sought. The proposed regulatory agenda set out in the interim paper would be more comprehensive if it included specific measures to combat the tendency for 'tunnel vision' which are contributing to the lack of policy coordination.

Complement cultural change with a top-down red-tape reduction drive

In addition to the Interim Report's bottom-up proposals to bring about cultural change in the implementation of policy, there is a need for a complementary top-down strategy. To this end, MCA support the approach taken by the Alliance of Industry Associations in its submission to the Treasurer's Economic Reform Roundtable. The recommendations in the interim report already go some way in aligning with the Alliance of Industry Association's actions to reduce red tape. But further actions to reduce red tape include:

- Undertake a regulatory stocktake to establish the baseline cost of red tape to business, create case studies of when cutting red tape has cut costs previously, and commit to reduce the regulatory cost of doing business by 25 per cent by 2030.
- Reduce overreach, uncertainty, counterproductive and duplicative across our expansive regulatory system (including states and territories).

3. INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

Reducing emissions in the electricity sector after 2030

MCA supports electricity sector policy that develops a low cost, reliable and decarbonised grid. To this end the government should aim to minimise total systems costs which will be partly achieved by maintaining technology neutral policy settings and keeping all options available to meet the decarbonisation challenge including carbon capture and storage and nuclear power.

The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

The Safeguard Mechanism review is the appropriate place to consider the impact and implications of reducing thresholds and other Safeguard Mechanism rule changes. The Commission could be pre-empting the results of the upcoming 2026-27 review. Any change in Safeguard Mechanism thresholds should be considered in close consultation with industry.

It is critical that emissions-intensive trade-exposed (EITE) activities have access to necessary support through the transition. The long-term sustainability of trade-exposed baseline-adjusted (TEBA) status needs to be assessed should more facilities qualify for TEBA support as baselines continue to decline in the Safeguard Mechanism. EITE assistance should be provided from outside the Safeguard Mechanism (as a boarder carbon adjustment would do, albeit with other implications) without adversely impacting the baselines decline rates of other facilities.

State-federal overlap on emission reduction policies continues to be a problem with some states and territories not properly recognising federally covered Safeguard Mechanism facilities. All states and territories could follow the Western Australian Government's lead and allow federally covered facilities to be exempt from additional state-based emissions assessments and regulations.

Any policy changes should aim to prevent carbon leakage. While doing this, policy should endeavour to maintain or improve the competitiveness of domestic economic activity.

Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles

At a high level any scheme to reduce vehicle emissions should aim to be technology agnostic and achieve lowest cost abatement, which requires evaluation of the broader implications of policy. The broader implications include the additional costs imposed on business through changes such as to fuel tax credits, the application of the Safeguard Mechanism to liquid fuel wholesalers, or the introduction of low carbon liquid fuels policies.

Fuel tax credit or low carbon liquid fuel policy should not misalign decarbonisation incentives by failing to maintain the technology neutral incentives embedded in the Safeguard Mechanism that allow facilities to choose the best path to meet their emissions obligations in accordance with the legislated national target.

Option 1: Include a carbon component in a future RUC scheme?

Declining baselines in the Safeguard Mechanism scheme already incentivise covered facilities to undertake diesel displacement action. Policy changes that result in an additional carbon component in a road user charging (RUC) scheme must ensure facilities in the Safeguard Mechanism are exempted. Imposing an additional carbon cost in a RUC scheme on safeguard mechanism facilities is duplicative and adds additional costs.

Option 2: Apply the Safeguard Mechanism to fuel wholesalers?

Applying the Safeguard Mechanism to fuel wholesalers makes them accountable for downstream emissions while introducing additional complexity to their businesses. The Interim Report does not

make it clear how fuel wholesalers could 'sell' a greater volume of low-carbon fuels such as renewable diesel without adding greater cost and complexity to their businesses. The MCA shares the Commission's concern about the risk of potential double counting and double penalties.

Option 3: Increase the rate of fuel excise paid by users of heavy vehicles?

The fuel tax credit is well established policy rooted in principles of efficient road user charging, efficient re-imbursement for off-road users and in the case of heavy vehicles, efficient avoidance of double charging by state/territory and federal governments.

Fuel tax credits exist to address two fundamental economic rationales:

- Production inputs should not be taxed. Doing so creates 'taxes on taxes' – compounding the tax burden and distorting input resource allocation choices
- Fuel tax imposts that finance public road infrastructure should be minimized for users who do not use public roads.

Fuel taxation is a road user charge and not 'an implicit form of carbon pricing'. To re-utilize the fuel tax credit system to encourage or discourage behaviour relating to carbon emissions violates the Tinbergen rule of economic policy – that is, a specific policy objective should be addressed by its own specific policy instrument. If the policy objective is to achieve our emissions reduction targets – a specific policy instrument (such as the Safeguard Mechanism) is the most efficient method to achieve it. Existing policies like the fuel tax credit scheme, that are succeeding in addressing its own policy objectives noted above – should not be manipulated.

The Interim Report makes two assertions that the MCA believe mischaracterise fuel tax credits.

First, the Interim Report asserts that *'[r]emoving fuel tax credits for heavy vehicles on public roads would mean that the excise they pay in effect has two components: the RUC and a charge for emissions*'. This is incorrect. The fuel excise is a road user charge not an emissions charge.

Second, the report states that '*[b]usinesses that use heavy vehicles on public roads receive a partial refund and pay the rest as the RUC*'. That is, businesses are credited back 18.4c and pay 32.4c as the RUC. The amount credited back reflects that heavy vehicles pay heavy vehicle registration charges to state and territory governments to 'support heavy vehicle road infrastructure'.[14]

Regarding the non-RUC charge component for heavy vehicles, the ATO states that this '*remaining part of cost recovery is collected by State and Territory governments as heavy vehicle registration charges'* referencing the predecessor of the National Transport Commission, the National Road Transport Commission (NRTC), June 2002, Fact Sheet: Heavy Vehicle Charges.[15]

This was also referred to in the Fuel Tax Bill 2006 Explanatory Memorandum.

> '1.33 ….. The partial credit will be equal to the fuel tax rate minus a road-user charge
>
> 1.34 The road-user charge is set in accordance with the National Transport Commission's heavy vehicle charging determination process. The fuel tax-based charge will be adjusted annually in a similar fashion to the way that the States and Territories adjust registration fees for heavy vehicles. Changes to the charge will be made by varying the level of fuel tax credit paid for fuel used in heavy vehicles'.[16]

Option 4: A targeted policy for low-carbon liquid fuels?

Policy may be needed to support the market development of low carbon liquid fuels in the short-to-medium term. However, while electrification is the long-term solution to decarbonising mining vehicles and equipment currently reliant on traditional diesel, commencing the mass deployment of battery

[14] E.g. Vicroads, Heavy Vehicle fees, viewed 27 August 2025.
[15] Australian Tax Office, Fuel Tax Ruling FTR 2008/1, Latest Consolidated Version, Appendix 1 Explanation point 81, 30 Oct 2019.
[16] The Parliament of the Commonwealth of Australia, House of Representatives, Fuel Tax Bill 2006 (Fuel Tax Consequential and Transitional Provisions) Bill 2006, Explanatory Memorandum, 2006.

electric haul trucks throughout operations is not expected to be technically or commercially feasible before 2030.

The MCA supports the development of a low carbon liquid fuels policy that:

- Provides guidelines to define the sustainability of low carbon fuels in Australia including lifecycle emissions, direct and indirect impacts on land use, biodiversity and waste management and related co-benefit opportunities
- Provides support for workforce development to sustainably grow the industry through technical education and industry linkages, creating pathways for well-paid and secure employment
- Supports targeted measures to incentivise the development of a domestic liquid low carbon fuel market and increases competitiveness of Australian low carbon liquid fuel products
- Ensures the industry sustains a strong social licence and avoids inefficient distortionary effects within the economy
- Is based on a comprehensive evaluation of the economic viability of low carbon liquid fuels in Australia. This analysis is needed before embarking on potentially costly policy measures.

For industrial users of diesel fuel, the design of the Safeguard Mechanism economically incentivises Scope 1 (including diesel-related) emissions reductions. Additional demand side measures such as mandating fuel emissions reductions, including low carbon fuel mandates, could increase operating costs for diesel fuel industries at a time when alternative fuel sources are not competitively available at the scale required.

Option 5: A targeted policy for low-emissions vehicles?

Any targeted policy for low-emissions vehicles must ensure no unintended consequences or additional costs are imposed on Safeguard Mechanism facilities. To ensure least cost emissions reductions, Safeguard Mechanism facilities must operate in a technology-neutral framework free of technology mandates that would constrain future options.

Apply frameworks to achieve emissions targets at least cost and improve transparency

State-federal overlap in emission reduction policy continues to be a problem for least cost emission reductions. As a solution to this, Safeguard Mechanism covered facilities should be exempt from additional state-based emissions assessments and regulations.

ACCUs are an important mechanism for facilities to meet their compliance obligations while continuing to work towards onsite abatement. ACCUs represent real abatement and the balance between the use of ACCUs, and on-site abatement depends on the cost, availability, safety and reliability of technology options.

To achieve lowest cost abatement a genuine national approach to ACCUs is needed to avoid states and territories prioritising state or territory based ACCUs for compliance. The Commission should recommend that the states and territories commit to a national approach.

The Government can play a key role in promoting international consistency in climate-related financial disclosures. This includes advocating for mechanisms that recognise equivalency between the Australian Accounting Standards Board (AASB) Standard S2 and comparable international reporting frameworks. Such recognition is essential to reducing duplication, streamlining compliance obligations, and minimising unnecessary regulatory burden for entities operating across jurisdictions. By supporting alignment and mutual recognition, the Government can help ensure that Australian entities remain competitive and that climate-related financial disclosures are both credible and interoperable globally

4. HARNESSING DATA AND DIGITAL TECHNOLOGY

Australian mining is at the global frontier of applied AI

Australian mining is at the global frontier of innovation and technology with companies applying AI, machine learning and digital technology across the value chain. The mining industry's size and its safety and innovation culture makes mining an ideal industry in which to develop and trial applied AI and related technologies (Box 3).

To harness the economic growth opportunities AI offers, the federal Government could embrace a pro-innovation approach to AI regulation and avoid duplicative or contradictory regulation from State and Territory governments. Overly prescriptive regulation would hinder innovation and investment, limiting the benefits fast-moving technology offers for improved safety, productivity and sustainability.

Business is already dealing with high cost and burdensome regulation – any regulation should be risk-based and proportionate, focusing on evidence-based, identified harms.

Box 3: Australian mining companies are driving operational efficiciencies with AI deployment

AI-driven satellite imagery and geological data analysis

- Advanced geospatial AI techniques to analyse satellite imagery and geological datasets to identify promising mineral deposits across Western Australia.
- Integrating AI with remote sensing data enhances the accuracy and speed of orebody mapping, reducing exploration costs and environmental impact.

AI-driven predictive maintenance

- AI and machine learning models to monitor the condition of haul trucks, crushers, pumps and other critical plant equipment.
- Sensors collect real-time data on vibration, temperature, and operational parameters, which AI algorithms analyse to predict potential equipment failures before they happen.

AI-powered rail infrastructure inspection

- AI-driven computer vision systems detect defects in rail infrastructure used for transporting iron ore.
- Mounted cameras capture high-resolution images of tracks during operations, and AI models analyse these images in real time to identify cracks, loose fastenings and other anomalies.

Artificial intelligence

The MCA strongly supports the PCs position for a strategic, flexible, and evidence-based approach to regulation that avoids stifling innovation with overly prescriptive or burdensome rules.

Australian mining is already engaged in this space and driving applied AI across operations – helping industry meet some of the challenges associated with increasing costs, skills shortages and global competition.

The use of AI in mining has been of great assistance to business and workers. Its use has not led to any concerns that existing regulatory frameworks are inadequate.

To harness the economic growth opportunities AI offers, the Federal government must embrace a pro-innovation approach to AI regulation and avoid regulation that duplicates or contradicts existing regulatory frameworks at either national or State and Territory levels.

It should not be assumed that AI carries 'risks', or that there are regulatory 'gaps' that need to be filled. Governments should only act where there is clear evidence to support either of these propositions. Any such actions in response should be targeted to only what is necessary to address particular concerns.

The mining industry's self-regulation and existing compliance frameworks are robust. Introducing new mandatory regulations could create unintended frictions with these existing frameworks that lead to increased and duplicative regulation and ultimately hinder innovation and investment.

As decisions are made for the regulatory architecture around the application of AI in Australia, it is vital that government take a balanced and true risk-based approach.

The MCA agrees that steps to implement proposed mandatory guardrails for high-risk AI should be paused until a comprehensive gap-analysis is completed. The PC rightly emphasises that poorly designed regulation, or the mere threat of it, can dampen investment in emerging technologies like AI.

Data Access

In Australia, mining companies have prioritised technology investments, building their data and intelligence capabilities, and integrating equipment, software, and human operators.

At this stage, there is no evidence to indicate that existing regulatory frameworks are inadequate in this regard.

Privacy Regulation

The MCA does not believe the existing framework established by the Privacy Act is inadequate to meet potential challenges generated by the use of AI. Any amendments to enable businesses to meet their obligations under the Act through 'outcomes-based' criteria should not increase existing regulatory obligations nor alter the general framework provided for by the Act.

The MCA does not support amending the Privacy Act to create a new 'right to erasure'. The PC argues that a right to erasure, modelled on the EU's GDPR, would impose a high compliance burden on regulated entities with uncertain privacy benefits for individuals. Experience with GDPR shows it has been costly to implement for firms and has stifled innovation and investment.

Leveraging mining's AI strengths will enhance spillover benefits with a focus on skills

The recommendations contained in the interim report on harnessing data and digital technology are focussed on the composition and reach of levers across the regulatory landscape to promote investment in and uptake of AI.

Whilst a supportive and flexible regulatory landscape is a crucial ingredient for the successful application of AI in Australia, consideration needs to be given to the following:

- Skills required to fully realise the productivity gains that AI offers – not just for the new talent pipeline (young people) but also for the existing workforce
- Strategic partnerships across sectors that have demonstrated success in applied AI technology to the benefit of other priority sectors like defence and education
- Priority pilots for the testing and diffusion of advanced AI models to address key productivity blockers such as approvals.

Mining is at the global frontier of innovation and technology with companies actively applying not only AI, but machine learning and digital technology across the value chain – boosting workforce productivity at scale through automation of routine tasks, streamlined work instructions, and training procedures.

Australia's minerals industry's demonstrated successes in applied AI technology can serve as an anchor for a broader diffusion of technologies through transferring specific applications, fostering know-how, and modelling best-practice AI security protocols and compliance.

Recommendations contained in *Pillar 2: Building a skilled and adaptable workforce* focus more on using AI and educational technology (edtech) as tools within the school system rather than on developing AI-specific skills in the workforce. The primary goal is to support teachers, improve student outcomes, and build a more adaptable workforce by embedding technology in the learning process.

Whilst the mining industry supports this approach for long-term stability and gains, in order to activate the potential of AI across industry now and realise the short-term benefits as well, consideration of the skills required across the existing workforce must be prioritised. Understanding and building the skills needs beyond foundational skills and in an occupational context, will be central to the successful uplift of AI in Australia's workforce now and into the future.