



Treasurer; Attorney General

Our ref: 35-13563

Senator Mathias Cormann
Chair
Senate Select Committee on the Scrutiny of
New Taxes
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear ~~Senator Cormann~~ *Mathias*

COMMONWEALTH MINING TAX – REQUEST FOR UPDATED ESTIMATE OF STATE CONTRIBUTION

Thank you for your letters of 23 February 2011 to the Premier and me seeking updated analysis of Western Australia's contribution to the Commonwealth Government's proposed Mining Resource Rent Tax (MRRT) revenues, following the release of certain revenue modelling details by the Commonwealth Treasury under a Freedom of Information request.

I note that the results released by the Commonwealth Treasury show that iron ore is estimated to contribute 64.9% of total MRRT revenue over the period modelled (2012-13 to 2020-21). This is consistent with previous estimates by the Western Australian Department of Treasury and Finance (60-65%), effectively for an indicative year.

The consistent results are notwithstanding that the Commonwealth's estimates appear to be based on projections directly of 'resource rents' for the iron ore and coal industries (broken down by key income and expense components), whereas Western Australia's estimates use value of production as a proxy for relative levels of 'resource rents'.

However, certain lines of income and expense projections (some of which are likely to incorporate information provided confidentially by the mining industry), and underpinning assumptions such as commodity prices and exchange rates, have been 'exempted' from the information released. Consequently, it is not possible to assess the veracity of the Commonwealth's projections.

There are a number of possible explanations for the time series pattern of the Commonwealth's estimates, which shows iron ore initially contributing 87.5% of total MRRT revenues. For example, higher and faster write-offs of the capital expenditure starting base may have been assumed for coal versus iron ore projects. However, we have not been able to verify the reasons.

Overall, I remain comfortable with the State Government's previous estimate that iron ore (and therefore Western Australia) would contribute around 60-65% of MRRT revenues, while recognising that the actual proportion may well vary during the MRRT implementation phase and over time as investment in, and the relative profitability of, the iron ore and coal industries varies.

Again, I thank you for your letters and trust that my comments are helpful.

Yours sincerely

HON C. CHRISTIAN PORTER MLA
TREASURER; ATTORNEY GENERAL

cc Hon Colin Barnett MLA, Premier

28 MAR 2011