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Australia

Dear Mr. Bryant

### Inquiry into the development and operation of the Minerals Resource Rent Tax Additional material in response to a question taken on notice

Further to the hearing held in Melbourne on Monday, 29 April 2013, Xstrata and the representatives of the other companies present were asked to provide additional information and took some questions on notice. The questions and our responses are noted below.

#### The level of unclaimed royalty credits

**Response:** Xstrata has not finalised its MRRT returns for the 6 months ending 31 December 2012 and the returns are not due for lodgement with the Australian Taxation Office until later this year. In these circumstances it would be inappropriate to pre-empt the information to be provided in the tax returns noting, again, that MRRT is a particularly complex tax and we are still in the process of determining final positions on various aspects of the tax calculation that will affect the use of royalty allowances.

#### The value of the goods and services sourced in Australia compared to the value of goods and services sourced overseas

**Response:** Xstrata does not record information in these categories but most goods, services and equipment are sourced from competitive local suppliers. Some specialised mining equipment is not manufactured in Australia and must be sourced from overseas suppliers. Generally, however, Xstrata has a good track record of using competitive local suppliers in Australia. In 2011 the Coal business unit invested almost \$4 billion with local suppliers in association with our mining projects. Wherever practical and cost effective we look to procure goods and services from local jurisdictions as a way of supporting local industry and communities where we operate.

**Was there an explicit discussion with Treasury, the Prime Minister Gillard and Ministers Swan and Ferguson-all three of them or individually-as to the definition of 'all royalties' and was it made clear that the understanding was it did not encompass all future royalty increases?**

**Response:** It is Xstrata's view that there was a clear statement made in Heads of Agreement that 'All State and Territory royalties will be creditable against the resources tax liability but not transferable or refundable'. The alternate approach that did not clearly recognise all royalties was a fundamental flaw of the original RSPT proposal that presented significant investment uncertainty about credits for subsequently increased State royalties.



This was a key design feature for Xstrata that is directly linked to our ongoing competitiveness and any deviation from this agreed approach would have exposed Xstrata to fiscal uncertainty. Indeed, Xstrata would not have signed the Heads of Agreement without the ability to fully credit all State and Territory royalties against MRRT liabilities.

**Do you agree with the Minerals Council's submission that any moves to further increase the tax burden through changing the design of the MRRT would undercut the very foundations of modern Australian prosperity? If you agree with that, could you give us details on how any modest changes or modest increases would undercut the very foundations of modern Australian prosperity?**

**Response:** Xstrata supports the submission made by the Minerals Council of Australia. Having a stable, predictable and competitive tax regime is critical for maintaining business confidence and future investment in Australia. Fundamental changes to the MRRT as agreed between the Government and the industry would undermine stability that is critical to mining ventures where significant upfront financial commitments are made that cover long project lives. Changes to taxation arrangements affecting existing projects do affect the industry and, importantly, perceptions of sovereign risk.

#### **A breakdown between royalties and tax**

**Response:** In 2012 Xstrata paid total tax in Australia of US\$960m. The total comprised: \$566m of mining royalties, \$258m of company tax, \$90m of State payroll tax and \$46m in other taxes. State payroll tax is levied by State governments on employers such as Xstrata. It is to be distinguished from employee tax withholdings (PAYG withholdings) that is essentially income tax withheld from employee salary and wages. Xstrata disclosed the latter category separately in our submission being \$540 million in 2012.

Please direct any queries to Ms Cassandra McCarthy

Yours sincerely

Dominic Smith  
Tax Manager - Coal