2 November 2018

Senator Sean Edwards
Chair
Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Senator

Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018

Thank you for the opportunity to comment on the draft *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* and Explanatory Memorandum, specifically in relation to the proposed changes to the Research and Development (R&D) Tax Incentive.

The Association of Mining and Exploration Companies (AMEC) continues to strongly support the provision of the R&D Tax Incentive as a mechanism by which the Government can promote business investment in innovation and R&D activities.

It is consistent with the Government`s *National Science and Innovation Agenda* which seeks to focus on science, research and innovation as long-term drivers of economic prosperity, jobs and growth.

As detailed in previous AMEC submissions in relation to the R&D Tax Incentive, this is critically important in the context of an extremely competitive international investment market, and the natural resource growth potential and competitive advantage that Australia has in emerging mining sectors such as rare earths, lithium, strategic and battery related minerals.

Exploration and Mining

In our submission to Treasury dated 25 July 2018 (**attached**) AMEC expressed concern on the impacts of the draft Bill on mining and / or mineral exploration companies, and did not support its passage in its current form.

That view remains, for the following reasons:

- Traditional funding sources for innovative research and development in new and emerging technologies are limited and extremely difficult to secure,
- The R&D Tax Incentive is considered to be a 'bankable', consistent and reliable source of funding which provides circumspect investors with some level of certainty and confidence that the project will advance to the next stage,
- Access to cash flow from the R&D Tax Incentive is vital for start-up emerging miners who have limited access to capital in the early project development stage,
- Metallurgical and laboratory testing, and the building of pilot plants to test processes, techniques and technology are key initiatives to determine the unknown economic and technological feasibility of development. This is particularly the case for emerging rare earths, lithium, strategic and battery related minerals producers, where the majority of the technology and intellectual property is located and protected by competitive overseas based companies,
- Financing of these new and emerging projects requires confirmation that the proposed technological, quality and economic outputs are achievable at acceptable and viable levels. This requires an extensive financial investment in R&D, including the development of mining flowsheets, mine design and pilot plants where the proposed type of mining, or orebody has never been done before,
- Successful pilot testing and R&D activities increases the probability that normal funding sources can be accessed for the project to further proceed through the capital intensive mine cycle to production,
- Some of these pilot tests and R&D activities can involve significant capital investment and take several years to finalise if progressive modifications become necessary in the development and design stages.

Without the R&D Tax Incentive at the current 'uncapped' level, a number of projects may not have progressed to their current advanced stage, or would have been significantly delayed due to the difficulties in raising rare risk capital investment from alternative sources.

AMEC considers that any potential barrier or disincentive to successful mining in Australia should be removed. This is particularly crucial for small start-up and emerging companies with limited access to traditional finance. The proposed creation of a $4million cap will result in such an impediment, and not be internationally competitive.

In the national interest, Australia`s capacity to maximize its resource potential should be encouraged at all times. This is described in the AMEC Federal Election Policy Platform (https://amec.org.au/Public/Advocacy/AMEC_Submissions/AMEC_Federal_Policy_Platform.aspx). The economic and social dividends achievable will be significant. There are a number of other such Australian projects which are in the development pipeline and likely to want to access the current 'uncapped' R&D Tax Incentive in future years.

It is for these reasons that AMEC recommended that the mining and mineral exploration sector should be excluded from the proposed $4 million annual cap.

Lithium and Battery Minerals – Value-adding

There is a strong business case to ‘carve out’ rare earths, lithium, strategic and battery related minerals from the proposed cap as the future economic and social dividends of doing so, would far outweigh the direct impact on the Commonwealth Budget.

AMEC has been working to promote and encourage the Australian battery minerals opportunity. Australia currently produces 60% of the world’s lithium by value. Furthermore, Australian mined hard rock lithium (spodumene) provides a comparative advantage, estimated to be 10% cheaper to transform into battery grade chemicals than South American lithium brines, Australia’s primary international competitor.

Independent research commissioned by AMEC’s members identified that the currently $165 Billion global lithium value chain will grow to a conservatively estimated $2 Trillion by 2025. This growth does consider the upswing in growth for cobalt, rare earths and other strategic and battery related minerals.

The genesis of this lithium surge can be traced back to 1991 when Sony commercialised the lithium-ion rechargeable battery. As lithium battery production costs fell, and mobile phone and electric car uptake has boomed, the global demand for lithium has grown exponentially. Underpinning this revolution in batteries are a series of intellectual patents developed through, in part, international Governments support of research and development aimed to secure a section of the battery minerals supply chain.

Each individual mining and mineral processing companies’ research and development effort is primarily directed to ensuring the reliable production of high-grade battery minerals. This can involve multiple pilot plants, and a multiple year certification process (two years in the case of graphite), and is a process that demands applied research to avoid costly mistakes.

State and Commonwealth Governments have been working to develop this emerging battery minerals industry in Australia. These proposed changes clearly undermine these efforts.

The AMEC submission to Treasury dated July 2018 also made a number of other recommendations surrounding the draft legislation and proposed administrative reforms which would improve the operations of the Incentive. We have received no feedback or response to those recommendations.

We also remain particularly concerned about the proposed amendment to the refundable tax offset being tied to 13.5% above the relevant corporate tax rate. This will have the effect of a significant reduction in the effective tax rate.

I would be pleased to appear before the Committee, if required.

Yours sincerely

Warren Pearce
Chief Executive Officer

CC
Senator the Hon Matt Canavan, Minister for Resources and Northern Australia
Senator the Hon Mathias Cormann, Minister for Finance
Jason Clare MP, Shadow Minister for Resources
Madeleine King MP, Shadow Minister Assisting for Resources