



1<sup>st</sup> December 2010

The Secretary  
Senate Select Committee on the Scrutiny of New Taxes  
PO Box 6100  
Parliament House  
CANBERRA ACT 2601

By email to [newtaxes@aph.gov.au](mailto:newtaxes@aph.gov.au)

Dear Sir,

**Inquiry into a national mining tax**

Thank you for the invitation to attend the public hearing in Perth on 8<sup>th</sup> November 2010 on the Inquiry into a national mining tax.

As you will recall the following Questions on Notice were taken at that hearing:

1. **Are you able to provide us with a concise list of all the issues where you feel that the majors get a competitive advantage from the way the tax was designed? You have mentioned a few such as the capacity to offset losses between projects when you have multiple projects. You mentioned a whole series. Market valuation is another.**
2. **Can you provide the committee with a list so that we can have a very clear understanding of where that competitive advantage is?**

AMEC response to questions 1 and 2:

The following is an extract from the AMEC submission dated 28<sup>th</sup> October 2010 ([www.amec.org.au](http://www.amec.org.au)) to the Policy Transition Group on the proposed Minerals Resource Rent Tax:

*“It is relevant to highlight some significant key points of difference (between large multi-national and multi-commodity Australian based companies; and mid tier / emerging Australian mining companies) that further impacts on individual Effective Tax Rates, competitive neutrality, and that clearly “one size does not fit all” companies.*

*The Government`s intention of applying the MRRT homogenously across the board fails to recognise that the iron ore, and the coal sectors, are not homogenous; and that the proposed MRRT impost will have very different impacts between the major integrated producers; and mid tier / emerging producers.*

*In fact, the mid tier / emerging producers (which constitute the bulk of AMEC`s membership), will experience additional significant domestic and international competitive disadvantages against larger Australian based multi-national and multi-commodity integrated producers as a consequence of the introduction of a MRRT.*

*Major companies, which have locked in and largely delineated the vast majority of the Australian iron ore resources, will have a significant advantage relative to mid tier and*

emerging producers in that the market value of their resources is so large as to provide them with significant MRRT tax shields. In addition they have the capacity to transfer undeducted MRRT losses from one project against MRRT liability incurred in other projects in their portfolios.

These same mid tier / emerging producers will also experience competitive neutrality implications as they are disadvantaged by a number of general and MRRT related factors which directly affect their overall 'per unit cost of production', such as:

- Lower capacity to attract exploration and development capital,
- Higher project / entity risk profile with the result that the cost of capital is far higher (the use of an industry average penalises those with a higher cost of capital and provides a relative advantage to those with a lower cost of capital),
- Lower economies of scale,
- Inability to fund or access dedicated transport and port infrastructure,
- Often single project and single commodity companies that cannot share common infrastructure among a number of projects as major integrated companies do,
- Emerging producers are exposed to double taxation if there are changes to state and territory royalties, whereas larger developments conducted under the protective umbrella of State Agreement Acts may not be,
- Significant administration and compliance impost even for projects / entities that do not exceed the proposed \$50m resource profit threshold,
- Provide more restricted career paths and find it harder and more expensive to attract and retain quality key professional personnel, and
- Uncertainty over the implementation and application of the MRRT has a disproportionate impact on those companies whose growth plans cannot be met by existing cashflows (ie all industry participants other than a few large multi-national global mining companies).

These mid tier and emerging producers have therefore become, and will continue to be collateral damage as a direct consequence of the proposed MRRT.

Mid cap and emerging mining, and junior exploration companies have also been significantly affected as a result of the uncertainty surrounding the specific and complex design features and definitions, and still do not have a clear understanding of the proposed MRRT, particularly noting that they were excluded from the detailed discussions and underlying assumptions in late June 2010 that resulted in the 'Heads of Agreement' with the 3 large mining companies.

This has in turn significantly and detrimentally affected investment and business decision making processes to the point that many companies are understood to be having difficulty in raising equity finance in which to fund their existing or proposed new projects.

**3. Could you also take on notice a question in regard to our overseas competitors, the Brazilians particularly. Speaking of Senator Cameron's level playing field, would you contrast the costs imposed on Brazilian producers in supplying to the same markets Australia supplies? That is in regard to, for example, Brazil, which I understand to be our major competitor, and Australia.**

AMEC response to question 3:

It should be noted that Australia does not have a monopoly on minerals resources and faces significant competition from a number of continents and countries, including Africa, Asia, North and South America and Europe.

It is therefore incorrect to state that Brazil is 'our major competitor'.

*In the time available to respond to the question raised by the Senate Select Committee it has not been possible to access or determine with any accuracy 'the costs imposed on Brazilian producers in supplying the same markets'.*

*Nevertheless, AMEC considers that the most relevant and accurate benchmark on which to make a realistic cost comparison is the "effective tax rate" (ETR) paid by individual companies.*

*Based on data provided by KPMG – 'Tax Reform in the Minerals Sector', the **ETR for an average iron ore producer in Australia is 46%** (comprising a company tax rate of 30%, plus relevant State / Territory royalty payments, plus the proposed Minerals Resource Rent Tax).  
By comparison, the ETR for an average iron ore producer in **Brazil is 37.8%, Canada (Quebec) is 40.2%, and China is 31.1%.***

*If the status quo(excluding the proposed MRRT) was maintained the ETR for an Australian iron ore producer would be 43.6%, which is already at the 'top end' of the ETR scale. A further increase in the Australian ETR to 46% (as a result of the proposed MRRT) would severely impact on capacity of Australian producers to remain internationally competitive in a challenging, growing and demanding global market.*

*A higher ETR would also detrimentally affect Australia`s reputation as a place in which to invest. In fact, over the last 6 months, 57% of funds raised in Australia for minerals exploration are now being directed towards overseas projects.*

Thank you for the opportunity to make additional comment on this most important issue.

If you consider it necessary, I would be pleased to discuss these issues in more detail at a time that is convenient.

Yours faithfully

Simon Bennison  
**Chief Executive Officer**