Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
CANBERRA ACT 2600
by email: economics.reps@aph.gov.au

8 November 2011

Submission to the Inquiry into the Minerals Resource Rent Tax Bills 2011

Thank you for the opportunity to lodge a submission to the Committee's Inquiry into the Minerals Resource Rent Tax Bills 2011, relating to the various aspects of the legislation. Our Chairman Bill Mackenzie and I were very pleased to have a chance to give evidence today as well.

Background

Since the announcement of the Resources Super Profit Tax (RSPT) in May 2010, the Magnetite Network (MagNet) has been working constructively with the Government and policy-makers to address the magnetite industry's concerns about the impact of the policy on an emerging, jobs-intensive industry. MagNet has welcomed past opportunities to detail the membership's position in written submissions to the Policy Transition Group, the Senate Select Committee on the Scrutiny of New Taxes and the Treasury, most recently following the release of the Second Exposure Draft.

Since its formation in 2009, MagNet's membership has tripled to representation of emerging producers across four states; Tasmania, Western Australia, South Australia and New South Wales.

Current members	**Current supporting members**
• Asia Iron Australia PL/ Extension Hill P/L • Atlas Iron Ltd • CITIC Pacific Mining • Crosslands Resources • Gindalbie Metals Ltd • Grange Resources	• Iron Ore Holdings • Braemar Iron Alliance comprising: *Bonython Metals Group* *Carpentaria Exploration Ltd* *Havilah Resources* *Minotaur Exploration* *Sinosteel PepinNini Curnamona Management*

Our members are focused on adding value in Australia to low iron-content ore bodies to produce high iron-content magnetite concentrate and pellets - commodities valued for their purity and chemical properties in steel production. Magnetite concentrate requires less energy and releases less carbon emissions in the production of premium-quality steel when compared to Direct Shipping Ore or hematite.

Selected MagNet member projects in Western Australia, alone, represent an initial capital investment of some $21.8 billion, an estimated $119.5 billion in annual export revenue, more than 14 750 direct construction jobs and 5 500 direct permanent jobs. Please refer to the table at page 5 illustrating the estimated economic benefits of selected MagNet member projects.

MagNet's continuing submissions highlight the emerging industry's key concerns arising from the proposed Minerals Resource Rent Tax, as follows:

- Magnetite has more in common with minerals ***excluded*** than those included in the MRRT.

- Magnetite ore is not a saleable product and has very little value at the MRRT taxing point. The MRRT liability, therefore, should be negligible. The negative unintended consequences of an MRRT charged on magnetite include but are not restricted to:
    - Companies will incur significant compliance costs;
    - Lack of commercial certainty about liability – valuation methodology;
    - Investment uncertainty in an emerging, jobs-intensive industry; and
    - Investment has already been affected by the MRRT with a decline in the level of investment in new projects having occurred since May 2010.

MagNet notes there has been some real improvement to the valuation methodology relevant to valuing magnetite since the release of the second exposure draft version of these complex proposed laws. However the profit split valuation methodology previously contained in the first exposure draft was not fully re-instated.

These issues were set out at length by the PwC submission dated 5 October lodged on behalf of CITIC Pacific Mining and representing the position of MagNet member companies in broad terms.

As there has not traditionally been sea borne trade in magnetite ore – i.e. before it is subjected to value-adding processing, it is difficult to know with certainty how the Australian Tax Office is likely to value it. To exclude it would be revenue neutral as Government has stated that magnetite producers are likely to pay little or no tax.

From a public policy perspective, it is not in the national interest to discourage investment in an emerging industry that value adds and is very capital and jobs intensive at a time when there are significant imperatives to create new jobs in Australia. There are carbon benefits too.

The sorts of investment that can occur – in excess of $3 billion per average project - should be viewed as a very speedy form of economic stimulus given global economic uncertainties. The "window" for this investment will close when global iron ore supply catches up with demand.

Further background on MagNet position

When the RSPT was amended to the current MRRT as announced on 2 July 2010, the government noted:

"The new resource tax arrangement will apply to the value of the resource, rather than the value added by the miner. It will do this by setting the taxing point at the mine gate where possible, and using appropriate pricing arrangements to ensure only the value of the resource is taxed."

Source: Joint media statement PM Gillard, Deputy PM Swan and Minister for Resources Ferguson - 2 July 2010 – Agreed Principles attachment

The taxing point is at the run of mine or ROM stockpile under this legislation.

MagNet's analysis of the MRRT design has identified six key issues that support the case for exclusion, namely:

1. Magnetite concentrate can be readily distinguished from other iron ore products and this provides a simple method by which magnetite concentrate may be excluded from the MRRT; product derived from the extensive processing of magnetite ore ***(Fe_3O_4)*** that is only saleable as magnetite concentrate and hematite or direct shipping iron ore "(DSO)" ***(Fe_2O_3)***.

2. Excluding magnetite concentrate from the MRRT regime is consistent with the Government's stated policy intent to tax the value of the resource, rather than the value added by the miner and to attribute a value to ore at the mine gate or point of extraction where possible;

3. To include magnetite concentrate in the MRRT regime, while excluding all other mineral concentrate from the MRRT regime, is inequitable and inconsistent as it is discriminatory against one mineral processing sector as against others;

4. The emerging magnetite concentrate industry is unlikely to generate significant if any new taxation revenue under reasonable assumptions surrounding the design features of the proposed MRRT regime;

5. Including magnetite concentrate in the MRRT regime will impose a significant compliance burden on magnetite concentrate producers and the public sector for a minimal if any net gain; and

6. Including magnetite concentrate in the MRRT regime will have an adverse impact on this **emerging** industry by deterring investment and jeopardising the significant regional development, economic and social benefits that might otherwise occur.

MagNet urges the Committee to recommend to the Federal Government that there be adoption of a definition of "iron ore" that acknowledges and distinguishes between hematite DSO and magnetite. Such terms already exist in Western Australian legislation in the Mining Act – state royalty regime and adoption of such a definition of iron ore provides a simple and effective means to exclude magnetite concentrate from the MRRT regime.

If this is done there will be greater investment in this emerging industry. It is beneficial to have a greater diversity of iron ore producers and the economic benefits that would be delivered are set out below.

Thank you for your attention and consideration.

Yours faithfully,

Megan Anwyl
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Projects – Estimates of Economic Benefits

Company	Mine Life (years)	Capex (A$)	Employment (construction)	Employment (direct ongoing)	Annual Royalties (A$)	Export Revenue (A$)
Asia Iron Australia Ltd Extension Hill Project	+50	2.9b Phase 1	2000	500	50-150m	1.3b
Atlas Iron Ltd Balla Balla Project	+26	1.9b Phase 1 & 2	1650	530	95m	1.1b
Atlas Iron Ltd Ridley Project	+30	2.8b	1100	750	75m	1.25b
CITIC Pacific Mining Sino Iron Project	+25	5.2b (USD)	4000	800	125m	3.0b
Gindalbie Metals Ltd Karara Mining JV	+30	2.6b Phase 1	2000	500	75-100m	1-1.4b
Grange Resources Savage River Operation (Tasmania)	Operating since 1966	NA	NA	600	15m	400m
Grange Resources Southdown Project	+19	2.5b	2000	600	80m	1.6b
Crosslands Resources Jack Hills Expansion Project (Real A$)	+39	3.9b	2000	1250	30-168m	2.0b
TOTAL	-	**$21.8 billion**	**14 750 jobs**	**5 530 jobs**	**$545-808 million**	**$11.65-12.05 billion**

Further information at http://www.magnetitenetwork.com.au/

MagNet — MAGNETITE NETWORK

MagNet aims to:

- Build recognition of the benefits to Australia of magnetite mining and processing – in particular, the massive job opportunities provided from intensive value-adding processing at the mine site
- Promote Australian magnetite projects as a major new industry set to meet growing demand from important global markets
- Show that magnetite concentrates deliver a significant net global reduction in carbon emissions from high-quality steel production when compared to hematite iron ore
- Demonstrate the significant economic and regional development opportunities from magnetite projects

MagNet is working constructively to gain recognition by Australia's decision-makers that the emerging magnetite industry needs and deserves support to achieve its full potential and contribute meaningfully to Australia's growth and prosperity.

The Mining Tax, Carbon Tax and amended State Royalty Regime directly impact on the emerging sector's prospects. Securing affordable domestic gas and general power, transport and other infrastructure is also critical to the magnetite industry's success.

Representatives of the Magnetite Network

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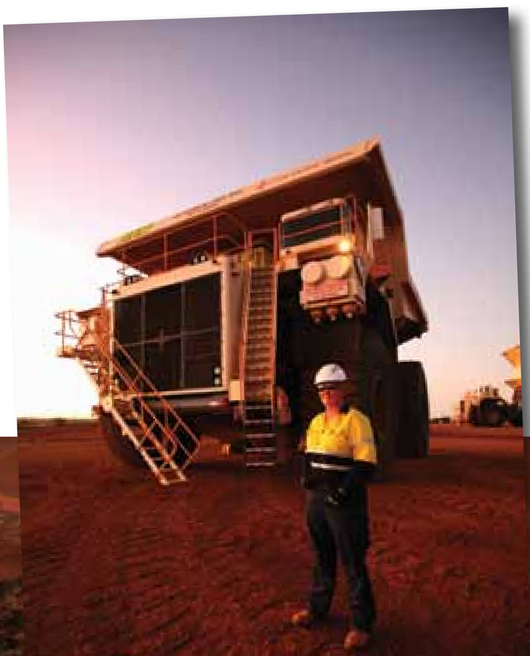
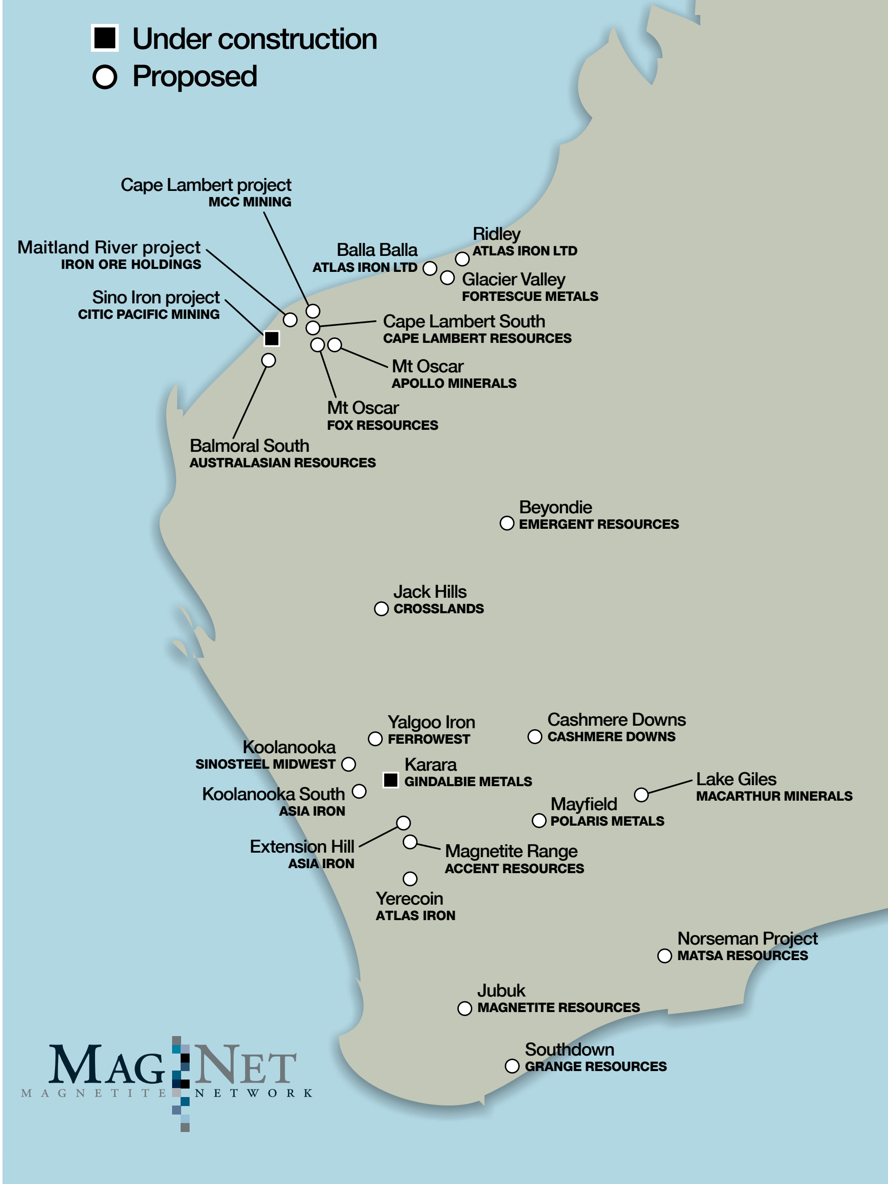
www.magnetitenetwork.com.au



WA Magnetite Projects



Current members of the Magnetite Network:

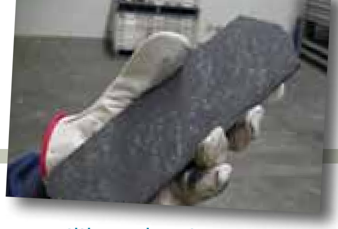
ATLAS IRON LIMITED | Asia Iron Holdings Limited | CITIC PACIFIC MINING

CROSSLANDS RESOURCES LTD | GINDALBIE METALS LTD | GRANGE RESOURCES

***Supporting members:* Braemar Iron Alliance | Iron Ore Holdings Ltd**

More Jobs. Less Carbon.

Magnetite FAQs



What is the difference between magnetite and hematite?

Hematite, or Direct Shipping Ore (DSO), has a different chemical make-up (Fe_2O_3) than Magnetite (Fe_3O_4). Magnetite contains less iron than hematite and therefore is of little value in its raw state. In order for magnetite to be used in steel production, it needs to be processed (beneficiated) in an extensive jobs and energy-intensive process. This requires the construction of very expensive processing infrastructure at or near the mine site.

Expert researchers, The Crucible Group, conclude that the production of a tonne of magnetite concentrate produces significantly more carbon emissions compared to DSO, which requires a very small amount of onshore processing. But, magnetite concentrate consumes much less energy than DSO in steel production.

Magnetite concentrate used for iron-making in steel production is higher in iron and purer than DSO. As a result, the net greenhouse gas emissions per tonne of magnetite concentrate used in steel production are about 108 kg less than those produced by a tonne of DSO fines.

Why does the emerging magnetite industry deserve assistance under the Carbon Tax?

The development of the magnetite industry will drive the creation of new long-term jobs all over Australia. Deloitte Access Economics estimates the development of the magnetite industry would deliver $4.5 billion to Australia's GDP per year. By processing magnetite in Australia, the industry will deliver employment and revenue, while helping to reduce net global greenhouse gas emissions in steel production.

The magnetite industry would enjoy a competitive advantage if there were an established global carbon trading scheme. Conversely, in the absence of such an international mechanism, a carbon tax in Australia would penalise the emerging magnetite industry, despite its economic and net environmental benefits.

In the Federal Government's own words, the Carbon Pricing Scheme aims to "support jobs and competitiveness as Australia moves to a clean energy future". It is reasonable and equitable that the magnetite industry be classified for adequate assistance as an energy-intensive, trade exposed industry until any mandated international scheme rewards the benefits of magnetite concentrate. Since 2009, MagNet has strived to negotiate a fair level of compensation for emerging projects.

Why should magnetite be excluded from the Minerals Resource Rent Tax (MRRT)?

The Federal Government's stated objective of the MRRT is to tax the value of the resource at the point it is extracted from the ground. Magnetite ore is of very low iron content and therefore of little value in its raw state. Magnetite producers add value by heavily processing it into concentrate. The Federal Government has stated that it expects to recover little or no tax from magnetite miners under the MRRT because the unprocessed ore is of minimal value.

Imposing the MRRT on the emerging magnetite industry is not in the national interest. It will generate little or no tax revenue while discouraging the expansion of a new industry that is jobs-intensive and part of the global carbon solution for steel-making.

Benefits for All Australians: estimated economic benefits of selected MagNet member projects

Company	Mine Life (years)	Capex (A$)	Employment (construction)	Employment (direct ongoing)	Annual Royalties (A$)	Export Revenue (A$)
Asia Iron Australia Ltd Extension Hill Project	+50	2.9b Phase 1	2000	500	50-150m	1.3b
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TOTAL	-	$17.9 billion	12 750 jobs	4 280 jobs	$515-640 million	$9.65-10.05 billion

More Jobs. Less Carbon.