



3rd March 2012

Tim Bryant
Secretariat
Senate Economics Legislation Committee
Parliament House
CANBERRA ACT 2600

Dear Tim

Senate Economics Committee Inquiry into the Minerals Resource Rent Tax – Questions on Notice

Thank you for the opportunity of providing separate responses to various Questions on Notice asked at the Senate Economics Committee hearing held on 21 February 2012.

AMEC would also like to provide some additional and relevant comments concerning the MRRT for the consideration of the Committee.

Q from the Chair, page 56– How many small miners are currently making an annual profit of more than \$75 million a year?

Response

In respect of the MRRT legislation, AMEC considers that a small miner should be defined as a miner producing less than ten million tons of iron ore or coal per annum.

According to Intierra¹, in the calendar year 2010² there were six iron ore producers and ten coal producers in production in this category.

Examining the most recent annual reports of the iron ore³ producer's shows three of the six iron ore producers made a "company profit" in excess of \$75 million. Four of these companies are single commodity producers (iron ore) while the other two produce other commodities.

AMEC is unable to separate any iron ore profit from the balance of the company profits in the later two cases.

Of the two iron ore companies mentioned by me in the hearing on 21 February, BC Iron only entered production in the first half of the 2011/12 financial year and therefore full annual financial data is unavailable.

Based on its 2010/11 annual report Atlas Iron recorded a company profit in excess of \$75million. During the hearing (page 57 of the Hansard extract), I also drew attention to the fact that Atlas Iron

¹Intierra is a comprehensive database that brings together information on publically listed companies listed on the world's major stock exchanges.

² 2010 is the most recent full-year production figures. Production is only attributed to the majority owner

³ Iron ore consists of direct shipping ore (hematite) and magnetite concentrate

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has a \$3billion market capitalisation, and therefore a profit of \$75million represents about 2 per cent of that, and that such a return is extremely 'small'.

Examining the most recent annual reports of the coal⁴ producer's it is difficult to differentiate their profit from Australian coal production from their other operations. In almost all cases, reported total company profit has been in excess of \$75million. Recent consolidations also make it difficult to distinguish profits associated with the coal production.

However, in the context of the hearing, AMEC respectively submits that the discussion and question regarding 'annual profit' is irrelevant for the purposes of determining or comparing the forecast MRRT liability. In this regard 'annual company profit' bears no direct relationship to MRRT liability as the calculation methodology is vastly different.

It is also noted that the calculation methodology for the MRRT is extremely complex, and is susceptible to volatile commodity prices and exchange rates, and difficult 'starting base calculations', and therefore without any publicly available data or other information, AMEC is unable to provide the number of companies which might have an annual MRRT liability greater than \$75million.

Q from Senator Eggleston, pages 60-61 – relating to the provision of greenfields and brownfield exploration data

Response

Following the recent release of Mineral and Exploration data by the Australian Bureau of Statistics, some public statements and incorrect assumptions have been made by the Government indicating that because exploration expenditure is increasing, the total amount of exploration undertaken is also increasing.

It is a common assumption that when exploration expenditure increases exploration itself is also increasing and that this is a good representation of a strong industry. AMEC considers that this is however an inaccurate interpretation of statistics.

Other factors need to be taken into account to be able to provide a true depiction of the strength of the minerals exploration industry.

It is important to take into consideration when analysing these ABS statistics the 'total metres drilled' and the 'cost per metre' of drilling in relation to greenfield and brownfield sites individually.

AMEC has undertaken a closer analysis of the ABS Mineral and Exploration data, in **Chart 1** below, which shows that as a proportion of total metres drilled, the greenfields share has fallen from around 45% to just over 30% since 2003, while the brownfields share has consequently risen from 55% to around 70%.

As commodity prices have increased over the last few years companies have been active in shoring up their reserves and expanding production at brownfields sites.

However, the decline in greenfields exploration signals a threat to the long term growth of the Australian mining industry as the potential to discover the next operational mine decreases.

⁴ The term coal is used to describe all forms of coal, e.g. coking, pulverized, and thermal (brown coals) etc.

Increased exploration expenditure can be seen as a direct result of the rising costs of overheads such as fuel and employees.

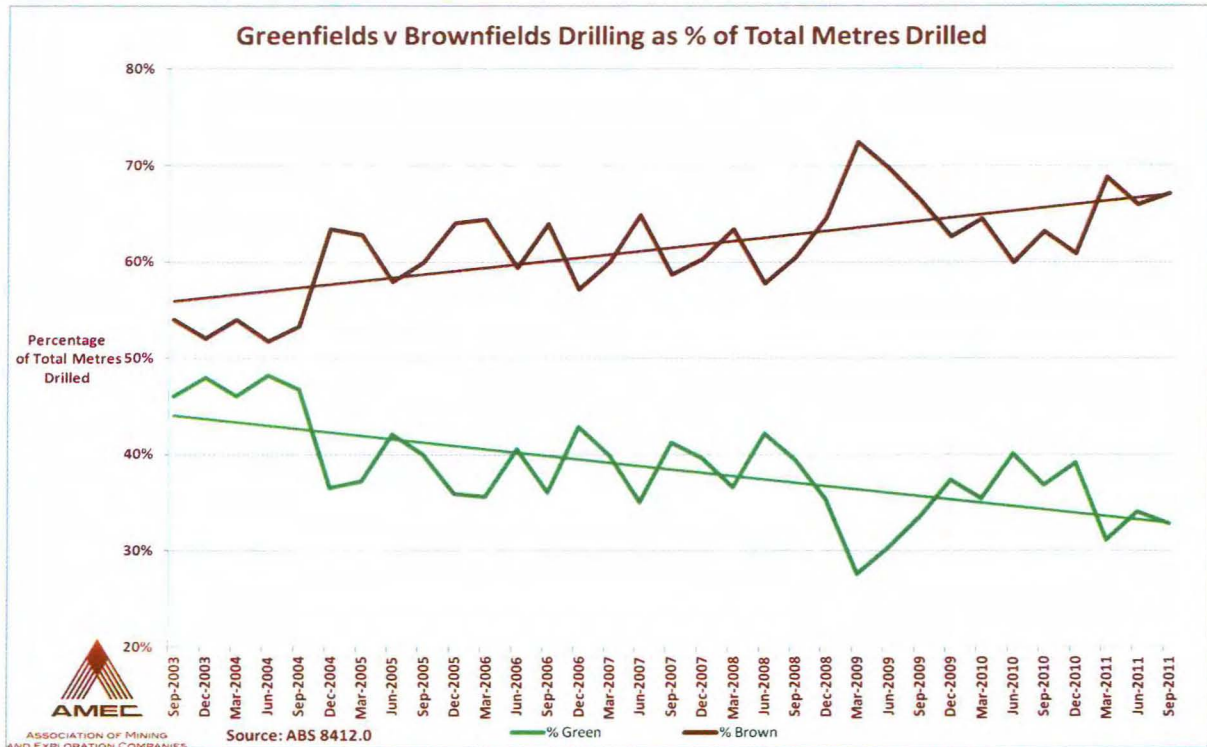


Chart 1

The source of Australia’s new mines is potentially in serious decline with the decrease in greenfields exploration. When also measured against international exploration expenditure Australia is falling behind.

However when comparing Australia to the world, ‘mineral exploration expenditure’ is the only readily available statistic.

Internationally, Australia is losing global minerals exploration expenditure⁵ share.

According to the Metal Economics Group’s Worldwide Exploration Trends report, Australia’s share of minerals exploration expenditure has declined from a high of 15% in 2004 to 12% in 2010⁶, as detailed in **Chart 2**.

A declining share of global expenditure relative to other countries often provides the first indication that a country is losing its competitiveness in attracting investment into its mineral sector⁷.

This is a concerning sign for the Australian mineral industry and threatens its long term growth.

⁵ Greenfields and brownfields expenditure

⁶ Metals Economics Group. World Exploration Trends. 2010.

⁷ Otto J., Andrews c., Cawood F., Doggett M., Guj P., Stermole F., Stermole J. and Tilton J. Mining royalties : a global study of their impact on investors, government, and civil society. 2006. The World Bank.

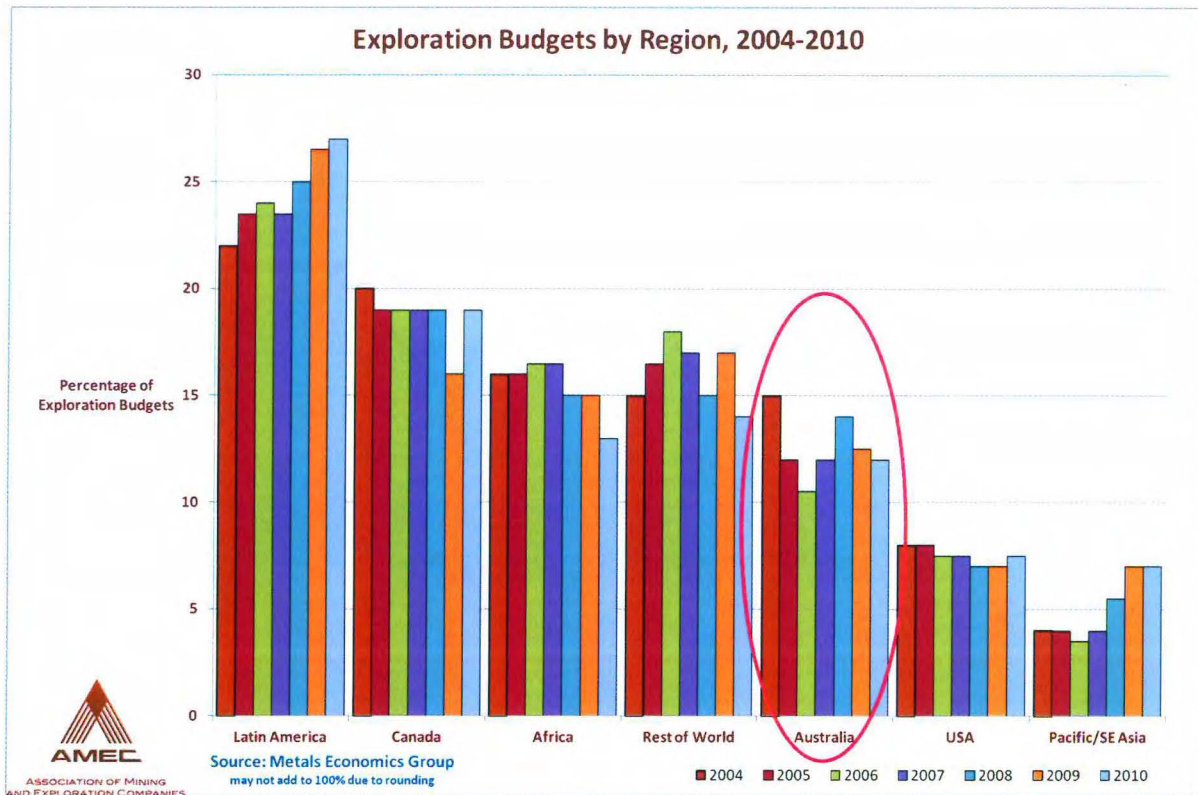


Chart 2

Q from Senator Eggleston, page 61 – relating to offshore investment

Response

In response, the following data is provided:

- **Chart 3** – Percentage Share of Capital Raisings by Region
- **Chart 4** - \$AUD Capital Raisings by Region

Chart 3 represents the past 4 years of capital raisings and shows Australia has lost share of the total capital raised for mineral projects across the world, falling from 21% in 2008 to 15% in 2011.

Chart 4 shows variances against 2008 data as follows:

- Capital raisings in Africa for 2011 increased to \$AUD 4.3 billion.
- Capital raisings in South America for 2011 increased to \$AUD 2.7 billion.
- Capital raisings in Canada increased slightly for 2011 to \$AUD 4.2 billion.
- Australia has remained relatively steady with capital raisings totalling \$AUD 4.5 billion in 2011.

Of particular interest in the Charts is the significant growth of the Rest of World (including Europe, Asia and the subcontinent) which has increased from 37% in 2008 to around 45% share in 2011, representing nearly \$AUD 13.5 billion.

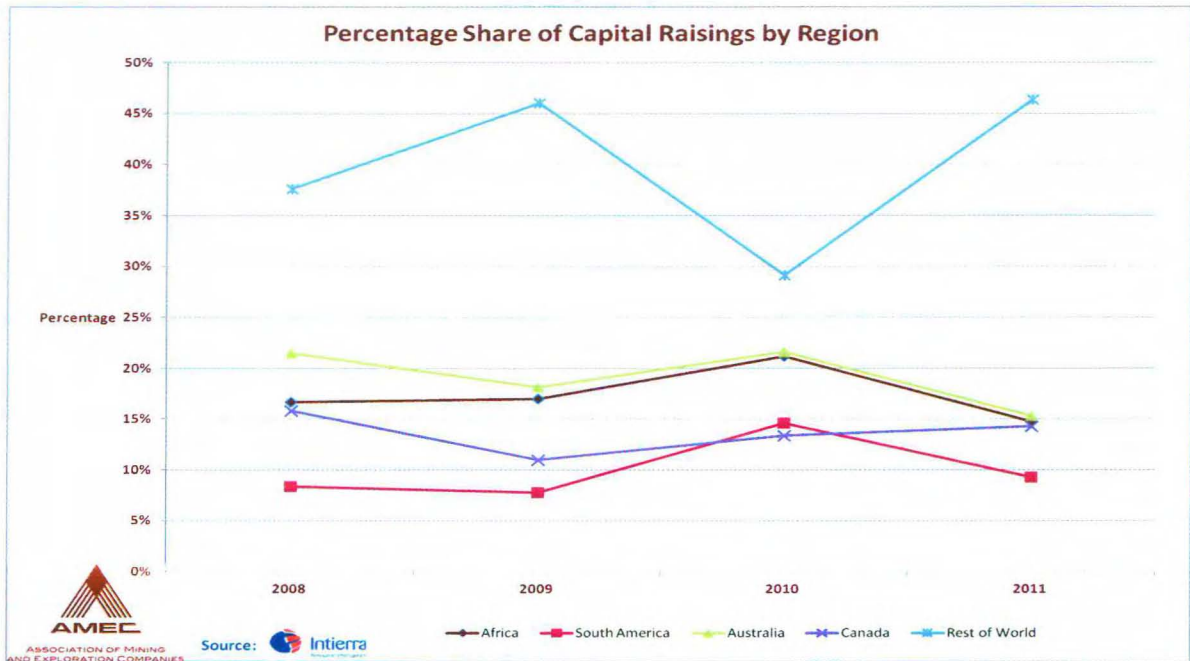


Chart 3

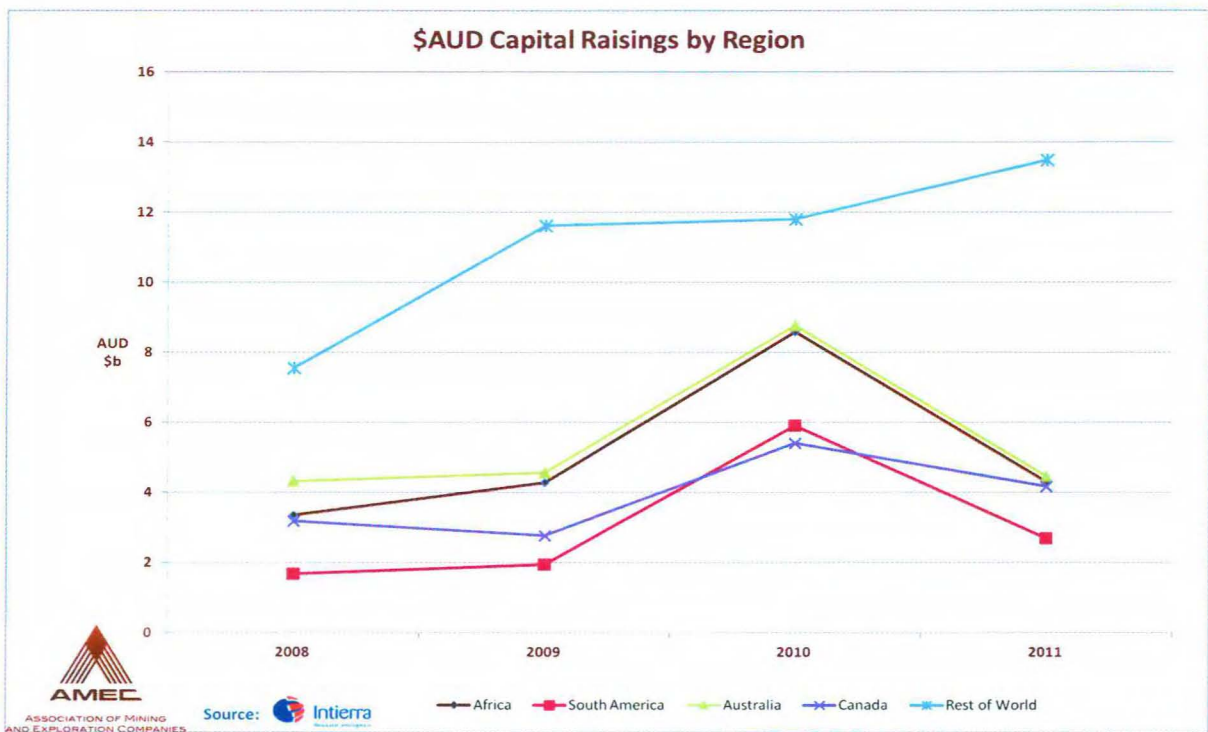


Chart 4

Note:⁸

Other significant observations made during the recent hearings

In addition to its submission and an appearance before the Senate Economics Committee, AMEC particularly noted the comments made to the Committee by:

Professor Ergas, Wollongong University in a private capacity on 21 February:

Page 3, 2nd paragraph – “As we explained in the paper I referred to, the result is a tax that has numerous distortions and inefficiencies. These include the use of a single threshold rate for a tax liability, which will distort investment in the taxable resources – coal and iron ore – away from risky projects and towards less risky project.....The tax invites state governments to increase royalty rates, this exacerbating any inefficiencies those royalties cause, particularly in terms of marginal projects’.

Page 6, 1st paragraph – “If you look at the ABS data on returns in mining over the long run, the long run returns to Australian mining have been very close to the costs of capital for mining. That tends to be true worldwide for mining because mining is subject to very severe commodity price cycles and has extremely long lived investment assets. When you look at it over the long period of time that encompasses the life of the relevant assets, rates of return on mining around the world have been pretty close to the cost of capital , and in some cases well below it. So I do not agree with your initial premise that properly calculated rates of return are extraordinarily high.

Page 8, 2nd comment – “I am not as critical of that as many other people are because it does seem to me that it is sensible to take account of the fact that the assets that miners have were highly valuable assets that they had invested in over a very long period of time, and that this is what the starting base does. The difficulty though is less with the consequences of that than with the fact of having both that and a single threshold rate for tax liability, because that threshold rate for tax liability, the rate at which the MRRT kicks in, is a rate that is reasonable from the point of view of a fairly mature, well established operation but that is very low from the point of view of high risk operations. When you have both the starting base and that single threshold rate the, yes, there is a difference in the effective marginal tax rate and the effective average rate going forward for the incumbent larger miners and their operations compared to small, high risk miners and those small, high risk miners, the junior and mid size miners will, in my view, face extremely high and very distorting marginal tax rates going forward’.

⁸ The data for the above graphs is sourced from Intierra. Intierra is a comprehensive database that brings together information on publically listed companies listed on the world major stock exchanges. The data from Intierra is used where it is complete with a date, \$AUD raised and where a project region is clearly identifiable. The data is for mineral projects only and does not include petroleum or gas projects. Capital raising activities includes: convertible bonds, credit facility/loans; entitlement issue, float, option exercise, public offering or private placement. The capital is used for a variety of purposes including: asset acquisition, corporate acquisition/merger, capital expenditure, debt reduction/rollover, development, exploration or working capital. It is important to note that the data does not include capital raised by companies not listed on stock exchanges, or for projects funded from cash reserves from listed companies.

The observations by Professor Ergas clearly re-inforce the independent modelling and observations made by Professor Pietro Guj of the University of Western Australia that the design of the proposed MRRT is anti competitive and discriminatory.

Mr Rob Heferen, Executive Director, Department of the Treasury

Page 63 of the Hansard extract for 21 February – in an exchange with the Chair the following statements were made –

“Mr Heferen: If passed in its current form our estimates for what the legislation would raise, I think for 2012-13, is \$3.7 billion. That is out of a tax revenue base for the Commonwealth of around \$350 billion”

Chair: So, something around one per cent, give or take?

Mr Heferen: yes, that is right. Of course, \$3.7 billion is still \$3.7 billion, but in terms of the aggregate size of the Commonwealth’s tax revenue base, it is obviously not significant.

As AMEC has previously stated, the design of the tax is poor, is punitive, complex, discriminatory and is not long term strategic tax reform.

AMEC is also concerned that the MRRT will further affect Australia’s reputation and credibility as a safe place in which to invest, affect Australia’s international competitiveness, and result in further capital raisings (as detailed above) being directed offshore.

This reputational damage will continue in the medium term and current opportunities and growth activities impeded to the detriment of the ‘national interest’, for the sake of around one per cent of the tax revenue base.

(Emphasis above added by AMEC)

Point of clarification re membership structure of the Minerals Council of Australia and AMEC

On page 39 of the Hansard extract Senator Ludlam made a statement to the Chief Executive of the Minerals Council of Australia, that the MCA was representing the same stakeholders as AMEC.

In order to clarify this issue, **Appendix 1** provides a list of MCA members and a list of AMEC members. The MCA membership information has been sourced from their website, and commodity data from the Intierra database.

It is evident from Appendix 1 that:

- there are five companies with dual membership, only one with an interest in iron ore and coal (ie Minemakers Limited),
- the three large mature companies that negotiated the MRRT are members of the MCA, and not AMEC, and
- the MCA has 10 members with interests in iron ore and / or coal, whereas AMEC has 58.

The assertion by Senator Ludlam that the MCA was representing the same stakeholders as AMEC is therefore incorrect. It is for this reason that AMEC has been extremely concerned with the initial

private consultation that occurred between the three large mature mining companies and the government, at the exclusion of AMEC and its significant membership base.

Thank you again for the opportunity of responding to the Questions on Notice and providing additional comments.

If you have any queries in relation to these proposed changes please do not hesitate to contact Graham Short.

Yours sincerely

Simon Bennison

Chief Executive Officer

Cc Senators:

Bishop

Cameron

Thistlethwaite

Brown

Ludlam

Cormann

Eggleston

Xenophon

Madigan

APPENDIX 1 - List of MCA and AMEC members

MCA Members
Alliance Resources Ltd
Anglo American Metallurgical Coal
AngloGold Ashanti Australia Limited
Astron Limited
Ausurv Pty Ltd
Barrick (Australia Pacific) Ltd
Basin Minerals Limited
BHP Billiton Limited
Castlemaine Goldfields Limited
Dart Mining NL
Downer EDI Mining Pty Ltd
Emmerson Resources Ltd
Energy Resources of Australia Ltd
GBM Resources Limited
Heron Resources Ltd
HNC Australia Resources
Ignite Energy Resources Pty Ltd
International Power Hazelwood
Jabiru Metals Ltd
John Holland Pty Ltd
Leighton Contractors Pty Limited
Lihir Gold Limited
Loy Yang Power Management Pty Ltd
Mandalay Resources
McArthur River Mining Xstrata Zinc
Minara Resources Ltd
Minemakers Limited
Minerals and Metals Group
Mulga Downs Investments Pty Ltd
Newcrest Mining Limited
Newmont Australia Pty Ltd
Northgate Australian Ventures Pty Ltd
Orion Gold NL
OZ Minerals Limited
Paladin Energy Ltd
Peabody Energy Australia Pty Ltd
Providence Gold and Minerals Pty Ltd
Range River Gold Ltd
Reedy Lagoon Corporation Ltd
Rio Tinto
St Barbara Limited
Straits Resources Ltd
Thiess Pty Ltd
Toro Energy Limited
TRUenergy Yallourn Pty Limited
TUC Resources Ltd

AMEC Members
ABM Resources NL
Alchemy Resources Limited
Alkane Resources Ltd
Alloy Resources Ltd
Altona Mining Ltd
Anglo American Exploration Pty Ltd
Antipa Minerals Ltd
Aphrodite Gold
API Management Pty Ltd
Apollo Minerals
Aquila Resources
Aragon Resources Limited
Areva NC Australia
Argent Minerals Limited
Artemis Resources
Aruma Resources Ltd
Ashburton Minerals
Astro Resources NL
Atlantic Gold NL
Atlas Iron Limited
Aurora Minerals Ltd
Australian Bauxite Limited
Australian Mines Limited
Australian Pacific Coal Limited
Auzex Resources
Azumah Resources Limited
Bandanna Energy Limited
Bass Metals
Bauxite Resources Limited
BC Iron Limited
Beadell Resources
Blackham Resources Limited
Blackwood Corporation Ltd
Bondi Mining Ltd
Breakaway Resources
Brighton MiningGroup Limited
Brockman Resources Limited
Bulletin Resources
Cameco Australia Pty Ltd
Cape Alumina Limited
Carabella Resources Limited
Carpentaria Exploration Limited
Cauldron Energy
Cazaly Resources Ltd
Chesser Resources Ltd
China Yunnan Copper Australia Limited
Civil & Mining Resources Pty Ltd

Unity Mining Limited
Uranium Equities Ltd
Vale
Western Desert Resources
Xstrata Plc
Zeehan Zinc Limited

Cobar Consolidated Resources Ltd
Comet Resources Limited
Commissioners Gold
Consolidated Tin Mines Limited
Cortona Resources Limited
Cullen Resources Limited
D'Aguilar Gold Limited
De Grey Mining Ltd
Diatreme Resources Limited
Discovery Metals Limited
Doray Minerals
Dragon Energy
Eagle Eye Metals
Eastern Iron Ltd
Emergent Resources Limited
Empire Resources Limited
Emu Nickel NL
Encounter Resources Ltd
Endocoal
Eneabba Gas
Energia Minerals
Energy and Minerals Australia Limited
Exco Resources
Extension Hill Pty Ltd
Ferrowest Limited
Flinders Mines
Focus Minerals Limited
Fortescue Metals Group
FYI Resources Ltd
Galaxy Resources Ltd
Gascoyne Resources
Gindalbie Metals Ltd
Gold & Copper Resources Pty Ltd
Gold Road Resources
Golden Cross Resources Limited
Golden West Resources
Green Rock Energy Ltd
Guildford Coal Limited
Gunson Resources Ltd
Hampton Hill Mining NL
Hancock Prospecting Pty Ltd
Hannans Reward Ltd
Hemisphere Resources Limited
Heron Resources Ltd
Hodges Resources Ltd
Horseshoe Metals Ltd
Image Resources NL
Impact Minerals Limited
IMX Resources NL
Independence Group NL

Integra Mining Limited
Iron Ore Holdings
Iron Road Limited
Ironclad Mining
Jindalee Resources Ltd
Jupiter Mines Ltd
Kagara Ltd
Kimberley Diamond Company
Kimberley Rare Earths Ltd
Krucible Metals Pty Ltd
Legend Mining Ltd
Lodestar Minerals Limited
Lyell Resources Ltd
Macarthur Minerals Limited
Magnetic Resources NL
Manhattan Corp Limited
Mantle Mining Corporation Limited
Marenica Energy Limited
Mark Creasy Group
Mega Lake Maitland Pty Ltd
Metallica Minerals Ltd
Metals X Limited
Meteoric Resources NL
MetroCoal Ltd
Midas Resources Limited
Minara Resources
Mincor Resources NL
Mindax Limited
Minemakers Limited
Mineral Deposits Limited
MM Mining Ltd
Moly Mines Limited
Montezuma Mining Company Limited
Mount Gibson Iron Limited
Mount Magnet South
Musgrave Minerals Ltd
Mutiny Gold Limited
Navaho Gold Ltd
Navigator Resources Limited
Northern Minerals Limited
Orion Metals Limited
Paladin Energy Ltd
Panoramic Resources Ltd
Peak Resources
Peel Mining Ltd
Pioneer Resources
Planet Metals Ltd
Platinum Australia Limited
Platsearch NL
Polymetals Mining Limited

Poseidon Nickel Limited
Ramelius Resources
Red River Resources
Reed Resources
Regis Resources
Renaissance Minerals Limited
Resource Mining Corporation Limited
Rex Minerals Ltd
Rey Resources
Robust Resources Limited
Rox Resources Ltd
Rubianna Resources
Sandfire Resources NL
Shaw River Manganese Limited
Sheffield Resources
Silver Lake Resources
Silver Swan Group
Solomon Gold Plc
South Boulder Mines Ltd
Southern Cross Goldfields
St George Mining Limited
Stanmore Coal Ltd
Superior Resources Limited
Syndicated Metals Limited
Talisman Mining Limited
Teck Australia Pty Ltd
Temby Minerals Pty Ltd
Terrain Minerals Limited
Thomson Resources
Thundelarra Exploration Limited
TPL Corporation Limited
Trafford Resources Limited
Traka Resources Limited
Tri-Star Coal Company
Uranex NL
Ventnor Resources Limited
Venture Minerals
Venturex Resources Limited
Venus Metals Corporation
West Peak Iron Ltd
Western Areas NL
Westgold Resources Limited
White Rock Minerals
Wright Prospecting Pty Ltd
YTC Resources Limited
Zenith Minerals Limited

Legend: Grey represents companies with an interest in iron ore and coal (although it may not be the primary focus

Legend: Green represents those companies with DUAL membership

NOTE; AMEC list excludes Associate members / suppliers to industry