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Senate Standing Committees on Economics
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Dear Secretariat

Xstrata welcomes the opportunity to make a submission to the Senate Economics Reference Committee on the Development and Operation of the Minerals Resource Rent Tax (MRRT). We are also a member of the Minerals Council of Australia (MCA) and support the MCA submission to this inquiry.

Xstrata has consistently called for a principles-based approach to taxation reform in Australia that supports

- the long-term, sustainable future for the resources sector;
- the maintenance of our international competitiveness;
- fiscal stability and fairness;
- long-term investment certainty and business confidence.

We remain committed to a transparent and cooperative dialogue with the Government on public policy issues related to the resource sector in Australia.

In Australia, Xstrata has 31 coal, copper, zinc and nickel operations spread across New South Wales, Queensland, Northern Territory and Western Australia, employing over 16,500 Australians.

In our submission to the Senate Select Committee on the Scrutiny of New Taxes in 2010, we indicated that between 2002 and 2009 Xstrata generated \$44 billion in revenues from our operations in Australia, but also spent or invested \$45 billion into Australia. This means we have invested more into Australia than the revenue that we have generated. In the period since we made the above submission, and essentially post the MRRT agreement, Xstrata Coal has continued to invest and has committed an estimated \$4 billion to new projects in Australia.

In addition to the contribution Xstrata makes through investment, jobs, local procurement and social contributions, we also pay our way in terms of corporate taxes and royalties. In 2012 Xstrata paid over ~\$960 million in taxes and mining royalties in Australia, plus \$540 million of employee taxes. The MRRT is designed as a "top-up tax" that would apply when mining profits are at above normal levels. Our business remains subject to the full range of federal and state government taxes, royalties and charges regardless of whether our business incurs any obligation to pay any MRRT.

We are deeply concerned by suggestions that resources companies do not contribute their fair share and that the MRRT (and previously the RSPT) was required to rectify this situation. This misinformation has been exacerbated by reports that the coal industry in Australia has not

generated much if any MRRT profit since the tax commenced on 1 July 2012. This may well be the case, but unfortunately reflects the reality of the current parlous state of the Australian export coal industry.

The design and operation of the MRRT has been the subject of exhaustive examination by at least three separate Senate Inquiry processes. With respect to the issues being raised in this inquiry, Xstrata wishes to make the following points:

1. The originally proposed retrospectively acting Resource Super Profit Tax (RSPT) contained a number of serious flaws that did not recognise unique resource sector risks (geology, commodity pricing, currency, capital and operating cost risk profile). It made material retrospectively acting changes to the existing taxation rules which would have made the Australian resource sector one of the highest taxed in the world, thereby introducing an element of sovereign risk that had not previously existed.
2. The lack of genuine consultation with industry around the RSPT left the mining industry with little choice but to respond publicly with concerns. It also forced companies to review projects to protect shareholder value.
3. Xstrata undertook a review of its Australian projects and those projects made uneconomic by the RSPT were suspended. These included the \$6 billion Wandoan Coal project and the \$600 million Ernest Henry copper mine underground shaft project.
4. Xstrata, Rio Tinto and BHP Billiton were invited to discuss an alternative to the RSPT by the Government. The set of key attributes from these negotiations formed the framework of the Minerals Resource Rent Tax.

These attributes stemmed from a set of principles believed to be appropriate in discussions pertaining to tax reform. They include consultation, prospectivity, international competitiveness, resource rents to be resource based and differentiated by mineral type, and that any tax reform should lead to an equitable, efficient and stable tax environment. The agreement reached with Government went a long way towards meeting the above principles.

5. A fundamental flaw of the RSPT was its application to existing projects and mine investments. The MRRT provided a workable alternative on the issue of prospectivity by recognising the value of existing investments through a deductible starting base.
6. Xstrata largely supported the work of the MRRT Policy Transition Group jointly chaired by the Hon Martin Ferguson AM MP and Don Argus, tasked with converting the heads of agreement into detailed design recommendations for implementing the MRRT.
7. Since the MRRT came into effect on 1 July 2012 it has raised significantly lower revenues than anticipated in the Governments forward estimates. However this is due in part to lower industry profitability. In the case of coal, profitability has declined significantly as a result of the following:
 - Significant coal price declines;
 - Increased strength of the Australian dollar;
 - Increasing cost pressures in Australia (labour, consumables, carbon tax, increased royalties, etc.)

8. Australia's mineral sector over the past decade has recorded a company tax and mining royalty tax rate in excess of 40 per cent, which is higher than most other mining countries. The mining industry's contribution to the Australian economy remains very significant.
9. Xstrata fully recognises the Government's right to set whatever tax policy it deems appropriate. It is important to note, however, that investment into the sector will depend, amongst other things on the investor's perception of whether or not a competitive return can be generated from an investment. It will also depend on whether the rules pertaining to tax policy and the cost of doing business are likely to adversely change once investment decisions have been made, as has been the case of late in Australia.

For further queries in relation to this submission please contact Ms Cassandra McCarthy, Group Manager, Government Relations & Climate Change, Xstrata Coal

Yours sincerely

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ENDS