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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

Dear Sir,

Inquiry into Minerals Resource Rent Tax

Thank you for the invitation to provide comment on the Senate Select Committee Inquiry into the Minerals Resource Rent Tax.

The Association of Mining and Exploration Companies (AMEC) is the peak national representative body for hundreds of mid tier / emerging and junior exploration companies throughout Australia.

As you may be aware, for a number of important and significant reasons AMEC and its members publicly opposed the proposed Resources Super Profits Tax, ever since it was first announced on 2nd May by the then Rudd Government.

AMEC has also subsequently publicly opposed the amended proposed Minerals Resource Rent Tax (MRRT) announced by the Gillard Government on 2nd July, on the basis that it:

1. Is poorly designed, ill conceived and discriminatory,
2. Is a short term tax grab and not a genuine longer term strategic tax reform program,
3. Is complex, inefficient and will result in a significant administrative, compliance and resource impost on industry and Government,
4. Continues to severely damage Australia`s sovereign risk and reputation as a safe place in which to invest,
5. Continues to create extreme confusion and uncertainty in overseas investment, capital markets and decision making processes,
6. Continues to detrimentally impact on financing, business and investment decisions for thousands of emerging mining and junior exploration companies, and many more service providers supporting the industry,
7. Makes mid tier / emerging Australian iron ore and coal companies less competitive in the global market,
8. Was originally intended to capture the profits of the 3 large multi-national companies, but has resulted in 317 other mid tier / emerging Australian iron ore and coal companies being caught in the first 'net',
9. May widen and directly affect another 2000+ mining companies (which deal in other commodities) in the short / medium term,

10. Does not stimulate growth or promote further exploration and mining activities, or cater for future Australian generations, and
11. Will directly affect all those service providers, suppliers, small businesses that support the mining and exploration sector.
    It will also indirectly affect all Australians, families, regions and communities.

Despite our opposition to this proposed extra tax on mining, AMEC is genuinely and constructively engaging with the Government`s Policy Transition Group and is in the process of finalising a comprehensive submission, containing a number of key observations and major recommendations on various serious design flaws of the proposed MRRT.

We have also highlighted the fact that 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 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.

Specifically, mid tier / emerging producers will have a post-MRRT effective tax rate (approximately 46%) that is at the high end of the global competitive market; whereas the larger companies may be able to reduce their overall taxation liability by utilising some of the MRRT design features to their financial advantage, such as claiming up-front deductibility of significant infrastructure costs at market value.

These same mid tier / emerging producers will also experience competitive neutrality implications as they are disadvantaged by a number of other significant factors, 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,
- Inability to transfer corporate income tax losses to a related company,
- 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 are not,
- Significant administration and compliance impost even for projects / entities that do not exceed the proposed $50m resource profit threshold, and
- Provide more restricted career paths and find it harder and more expensive to attract and retain quality key professional personnel.

These mid tier and emerging producers have therefore become, and will continue to be collateral damage as a direct consequence of the proposed MRRT. AMEC is therefore of the strong view that the Government should urgently implement appropriate initiatives that address the damage caused to the Australian economy and the mid tier and minerals exploration sector, such as exploration development programs that attract investment and increase exploration expenditure within Australia.

In this regard, AMEC will be recommending a 'package of initiatives' to promote exploration development in its submission to the Policy Transition Group.

AMEC continues to be of the view that a healthy and developing mining and exploration sector provides significant economic and social benefits to the Australian economy, communities and families, and therefore should be encouraged and promoted at every opportunity.

AMEC considers that the proposed MRRT does not encourage investment or development, and has directly affected and damaged Australia`s sovereign risk and reputation as a safe place in which to invest. The proposed MRRT has had the effect of detrimentally slowing that rate of growth, to the disadvantage of the Australian nation.

AMEC has therefore always considered that the proposed MRRT should be withdrawn immediately in order to reduce the significant uncertainty and lack of clarity surrounding the tax; and replaced with a stable tax regime, and a growth program that results in 'fast tracking' project approvals without comprising environmental and cultural heritage issues.

These initiatives will have the result of stimulating investment and bringing forward and increasing the level of income tax, royalties and the myriad of other taxes and charges raised by respective Federal, State and Territory Governments.

Thank you for the opportunity of providing comment on these most important issues.

Noting that there has been limited time in which to make more expansive comments on the impact of the MRRT or proposed Exploration Development initiatives, I would be happy to discuss these issues in more detail at a time that is convenient.

Yours faithfully

Simon Bennison
Chief Executive Officer