



Mr John Hawkins

Secretary

Senate Select Committee on Scrutiny of New Taxes

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**To the Members of the Select Committee**

Magnetite Network "MagNet" Supplementary Submission on Proposed MRRT

Thank you for the opportunity to appear before the Committee in Perth and make a further submission on the proposed Minerals Resource Rent Tax (MRRT).

Attached are:

- Policy Transition Group "PTG" Submission dated 5 November 2010;
- Presentation to Senate Committee on 8 November 2010; and
- Atlas Iron September 2010 Quarterly Report.

This submission has been prepared by MagNet, an industry body representing the interests of three member companies and the wider emerging Australian magnetite industry. The three member companies, CITIC Pacific Mining Pty Ltd, Atlas Iron Limited and Extension Hill Pty Ltd are currently developing, financing and constructing separate greenfields magnetite projects in regional Western Australia with an expected collective capital investment in excess of AUD\$13 billion for the first stages alone. These projects each have a life span best measured in decades rather than years and represent a significant, new, long term, value adding industry for the nation.

The diversification of the iron ore industry in Western Australia is especially significant given that Direct Shipping Ore "DSO" or hematite ore is going to decrease in quality in the medium to long term. The investment in new magnetite projects presents huge opportunity for our nation with flow on economic and social benefits for many regional communities as illustrated below.

Economic benefits of MagNet member projects - estimated

Company	Mine Life	CAPEX (\$A)	Employment (construction)	Employment (ongoing)	Royalties p.a. (A\$)	Annual Export Revenue (A\$)
CITIC Pacific Mining	+25 years	6.4b	4,500	+800	+125m	3.0b
Atlas Iron Ridley	+30 years	2.8b	1,100	+750	75m	1.25b
Atlas Iron Balla Balla	+26 years	1.9b Phase 1 & 2	1,650	+ 530	95m	1.1b
Extension Hill	+50 years	2.0b Phase1	2,000	+500	50-150m	1.0 b
<b>TOTAL</b>		<b>\$13.1b</b>	<b>10,150 jobs</b>	<b>2,330 jobs</b>	<b>+\$300m</b>	<b>\$6.3b</b>

**VALUE ADDING**

During the Committee hearing a question was posed on notice as follows as per the Committee's letter:

Please be aware that the following Question on Notice was taken at the public hearing on 8 November 2010. The question was asked by Senator Cameron.....

***Senator CAMERON**—Just take this on notice: why should the Chinese investors or the overseas investors—it does not matter who it is—get specific benefits that Australian miners, or other miners, may not get? It seems strange that you should be arguing that something that does the same thing when it gets on the boat and into the steel mill should be treated much differently here. It just does not make a lot of sense to me. If you have got a better argument than this, I would like to hear it.*

MagNet refers to its evidence and the attachments referred to above.

Our argument is that the magnetite concentrate and DSO are very different when they are loaded on the export ship. The value adding for magnetite is done after it is mined but before it is exported as concentrate. The value adding for DSO is done overseas. It is submitted that this new value adding industry should be encouraged not penalised for the efforts made to create jobs in Australia.

The magnetite industry is new to Western Australia and when compared with existing DSO mining operations is very easily distinguished as it includes significant beneficiation at the mine site and prior to export. There are also significant jobs created as the beneficiation is energy intensive and in the case of CPM requires a separate large desalinated water plant. It requires massive capital expenditure on plant and processing infrastructure.

This is dramatically different to DSO which involves minimal crushing and possibly sometimes blending of mined ore prior to export. DSO has a higher iron content at the time of extraction and a high value without processing.

Magnetite ore is not saleable at the point of extraction as outlined in the evidence given by Bill Mackenzie. It requires beneficiation before becoming of value to steel mills.

### ***Direct Shipping Ore (DSO)***

Rocks are comprised of discrete grains of different minerals fused together to form a solid mass. In the case of DSO, the iron oxide minerals hematite, goethite and limonite predominate and there is no requirement to separate individual mineral grains to produce acceptable quality iron making feedstock and the ore can be sold to steel makers in its “as mined” form.

The only significant processing of DSO involves crushing and screening and possibly washing to separate the ore into “lumps” – typically particles of ore between 6mm and 32 mm in size – and “fines” – typically particles of ore less than 6mm in size.

The iron content of DSO is typically in excess of 58% Fe, though impurities such as silica, alumina, sulphur and phosphorous which have adverse impacts on iron making and steel quality are also present as these minerals are not removed from DSO during the crushing and screening process.

### ***Magnetite Ore***

In contrast, magnetite ore is not of suitable quality for iron making furnaces. The iron content of magnetite ore as mined is typically less than 40% Fe. and the impurity content is high (e.g. silica > 40% compared to < 8% for DSO). Magnetite ore must be processed to separate iron rich magnetite mineral grains from the contaminant minerals – predominantly silicates – to produce a high quality iron making feedstock.

The existing magnetite mines in Tasmania and South Australia are very significant regional employers. They are not solely owned by overseas interests.

In the case of the proposed West Australian mines many of these are located in depressed drought affected traditionally pastoral and agricultural industry reliant regions. Magnetite mining and processing will create massive job and regional development opportunities.

Overseas investment exists in many DSO mining companies and it is not accurate to assume that a particular class of overseas investor will somehow be especially advantaged by any specific exemption for magnetite.

This is a fledgling industry and to the contrary a minerals tax regime that singles out magnetite concentrate when all other concentrates are exempt – e.g. gold, nickel, copper and alumina is discriminatory and contrary to the intent expressed by the Government to tax the resource not the value added to it by the miner.

## **ATLAS IRON SEPTEMBER QUARTERLY REPORT**

Some discussion occurred in relation to this report and any reference it made to magnetite. Unfortunately I did not have the report at hand when giving evidence. The full report is attached but the portion relating to Atlas Iron’s two magnetite projects is as follows and reference is made to paragraph three:

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**ATLAS IRON LIMITED**

**QUARTERLY REPORT**

## SEPTEMBER 2010 QUARTERLY REPORT

Page 7 of 9

### ***Ridley & Balla Balla Magnetite Projects***

*Meetings have been held with key Ridley interested parties over the quarter, with all re-affirming their desire to partner Atlas in development of the project. Atlas has stressed to these parties that completion of a transaction in the shortest possible timeframe provides the best means of ensuring the project gets first access to available infrastructure and awaits firm advice. Alternative divestment strategies are being investigated simultaneously as a means of realising value for Atlas shareholders in an appropriate time frame in the event that the existing parties do not progress at an acceptable pace.*

*The Balla Balla project was acquired via the Aurox merger. Aurox has previously progressed the project through Bankable Feasibility Study stage and has received environmental approval, so fast track development opportunities exist. Atlas has been approached by multiple parties looking to participate in the development of Balla Balla and preliminary discussions are underway to determine an appropriate commercial framework.*

*Both projects have been impacted by the federal government's proposed RSPT and its replacement MRRT, as they require a stable fiscal regime given the quantum of the investment required. Atlas believes magnetite projects should be excluded from the MRRT as the value of ore at extraction is minimal and therefore it is outside of the core focus of the tax, being ores which have a high value upon extraction.*

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## SUMMARY

MagNet does wish to thank the Select Committee for the opportunity to present in Perth on 8 November, 2010 and to supply this supplementary submission.

The primary purpose of this submission is to present further information in support of the case for the exclusion of magnetite concentrate from the MRRT regime.

MagNet's analysis of the proposed MRRT design has identified six key issues that support this case, 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;
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 fledgling 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 or direct shipping iron ore "(DSO)" ( $Fe_2O_3$ ) and product derived from the extensive processing of magnetite ore ( $Fe_3O_4$ ) that is only saleable as magnetite concentrate. Such terms already exist in Western Australian legislation in the 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.

Preference is also given to the taxing point being at point of extraction rather than at the mine gate given that significant beneficiation will occur at the mine site in most projects.

Megan Anwyl

Executive Director

Magnetite Network

6 December 2010