



Senate Economics Legislation Committee - Inquiry into Minerals Resource Rent Tax (MRRT) Repeal and Other Measures Bill 2013

Thank you for the opportunity to appear before the Senate Economics Legislation Committee concerning the Inquiry into the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013.

The Association of Mining and Exploration Companies (AMEC) is the largest and most successful peak industry body for mineral exploration and mining companies within Australia.

AMEC's membership comprises hundreds of mineral exploration and mining companies, many of which have interests in iron ore and coal projects.

Since the Resources Super Profits Tax (RSPT) and the Minerals Resource Rent Tax (MRRT) were first announced in 2010, AMEC has consistently stated that the mining tax was an ill-conceived, poorly designed and a discriminatory tax that should be rescinded and replaced with a long term tax strategy that encourages investment and is internationally competitive.

Expert independent modelling by the University of Western Australia in September 2011 in an article in the CET Quarterly News titled "*Is MRRT competitively neutral?*" clearly highlighted the unfair and discriminatory nature of the MRRT.

It showed that there will be at least a 4% difference in the level of effective total taxation (including income tax, royalties and the MRRT) between a project that was in existence before 2 May 2010 (mostly the three major iron ore and coal miners), and that applying to less advanced or new developments taking place after 1 July 2012.

The modelling showed that before the introduction of the MRRT the average total tax (income tax and royalties) for mining companies would have been around 38%, and post MRRT the total effective tax rate would increase to over 40% and over 44% for existing and new projects respectively.

This meant that under the MRRT regime a small emerging miner would be paying an additional effective tax rate of 6%, compared to a large mature miner that will be paying an extra 2% (**graph 1 tabled**).

This differential, which is caused by a large tax shield provided to mature miners who are able to claim a significant deduction for the market value of their 'starting base assets', allows them to reduce their MRRT liability for the remaining life of the mine or 25 years, whichever is lesser.

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Small emerging miners are not able to claim such an extensive 'tax shield', and therefore their 'unit cost of production' and ultimate effective tax rate is detrimentally affected.

This is supported by evidence provided by the then Chief Finance Officer of BC Iron to the House of Representatives Committee on 9 November 2011 expected that the company's effective tax rate to go from roughly 39% to potentially 46% to 48% subject to commodity prices.

This is a significant issue in respect of competitive neutrality.

The introduction of the draft legislation for the repeal of the MRRT is therefore a significant step towards restoring confidence, particularly in emerging / mid tier Australian mining and mineral exploration companies.

Since the announcement of the RSPT and MRRT three years ago, Australia's reputation as a safe place in which to invest has been tarnished. Investor confidence has floundered and uncertainty in business and investment decisions has prevailed.

The MRRT has detrimentally affected the risk profile of small Australian iron ore and coal miners and junior exploration companies, making raising equity and debt capital extremely difficult over the past three years. This was on the back of the global financial crisis (GFC) when companies were being forced to scale down operations and implement stringent cost saving measures.

We have seen an increasing share of exploration funds raised on the ASX go towards overseas projects. In fact, over the last five years Australia's share has decreased from 81% in 2008 to a current level of 33%, and the share to overseas projects increasing from 19% to 67% during that same period (**graph 2 tabled**).

In the meantime, we have also seen ASX Initial Public Offerings of metals and mining companies reduce from a high of 126 in 2007 to only 35 in 2012, and 12 to 31 October this year (**graph 3 tabled**).

The repeal of the MRRT will go a long way to restoring some confidence and much needed investment back into the mining industry.

AMEC has also consistently expressed concern with the high level of administration and compliance costs associated with the MRRT, even for hundreds of junior exploration companies that have a pre-mining interest in iron ore and coal that may never have an MRRT liability. They have to maintain appropriate MRRT related financial records in the

event that they do become a producer or are involved in a subsequent takeover, merger or acquisition.

In correspondence dated 22nd November 2012, AMEC advised the Senate Economics Committee that, minimum total set up costs in the first year for smaller iron ore and coal miners and junior exploration companies (excluding large miners) was estimated to be over \$20 million and an ongoing administration and compliance cost in excess of \$2 million.

Set up costs included: valuations, chart of accounts, forms design, procedure and policy manuals, computer system changes, training, staff costs, audit, legal and accounting professional advice.

Ongoing costs include staff for data collection, input, reconciliations, reporting, associated general office overheads, ongoing staff training, information technology support, audit and accounting professional advice.

It is AMEC's understanding that the administration and compliance costs for the larger mining companies are of the same magnitude. The repeal of the MRRT will remove these costs on industry as well as save the Government millions in the administration and enforcement of the tax.

AMEC acknowledges that the Government has attempted to recognise the administrative and compliance costs being faced by small emerging miners by providing an Alternative Valuation Method as an easier method to work out the mining revenue at the taxing point, and a Simplified Method to reduce the record keeping burden.

However, both of these intended concessions for small miners have been ineffective as they have generally not been adopted by companies as they would have been precluded from transferring allowances and combining interests in future years. This would have weakened their financial attractiveness for a merger or acquisition at a later date.

The Tax Commissioner also attempted to minimise quarterly reporting requirements by issuing a 'nil rate determination' to MRRT taxpayers who hold 'pre-mining interests' in projects. The determination exempted such taxpayers from having to lodge MRRT liability notices for the 2013 MRRT year.

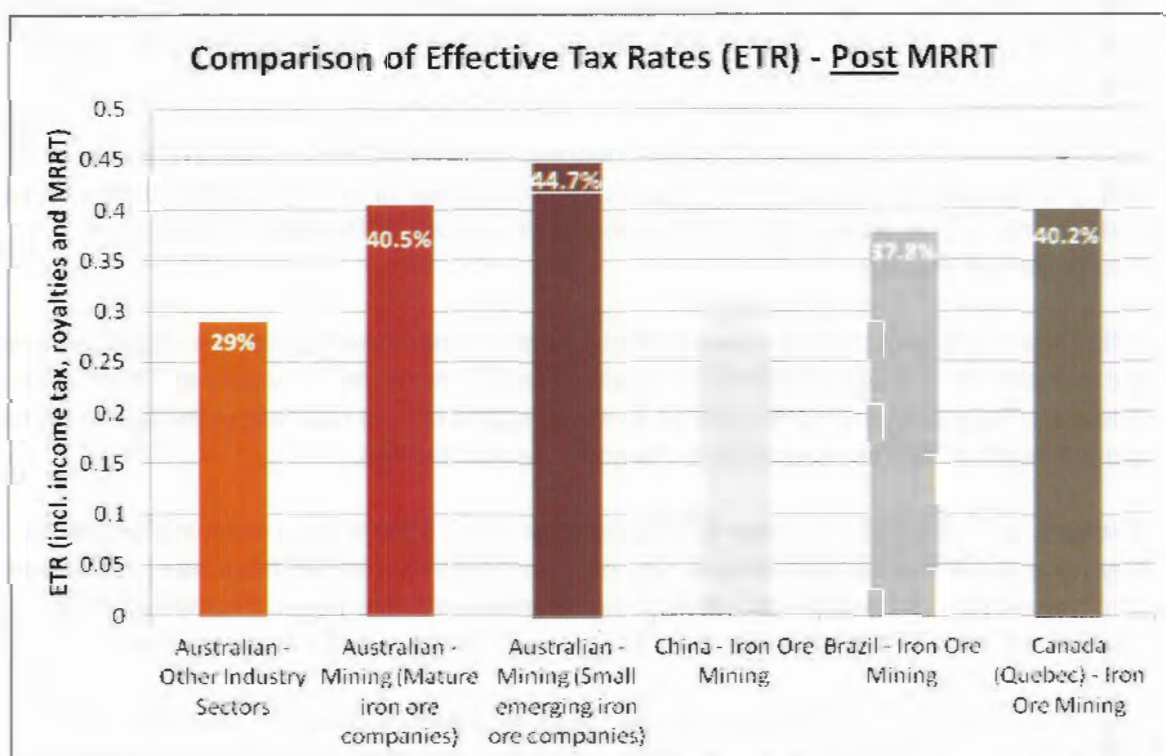
Whilst this initiative was promoted and supported by AMEC, it highlighted how ridiculous and inefficient the reporting requirements for junior exploration companies were.

It is AMEC's opinion that the implementation of the repeal of the MRRT combined with other initiatives contained in the Coalition Government's various policy documents will provide a much needed stimulus to the Australian mining industry.

These actions will help to restore industry and investor confidence which are essential to growth and productivity and the creation of jobs in Australia.

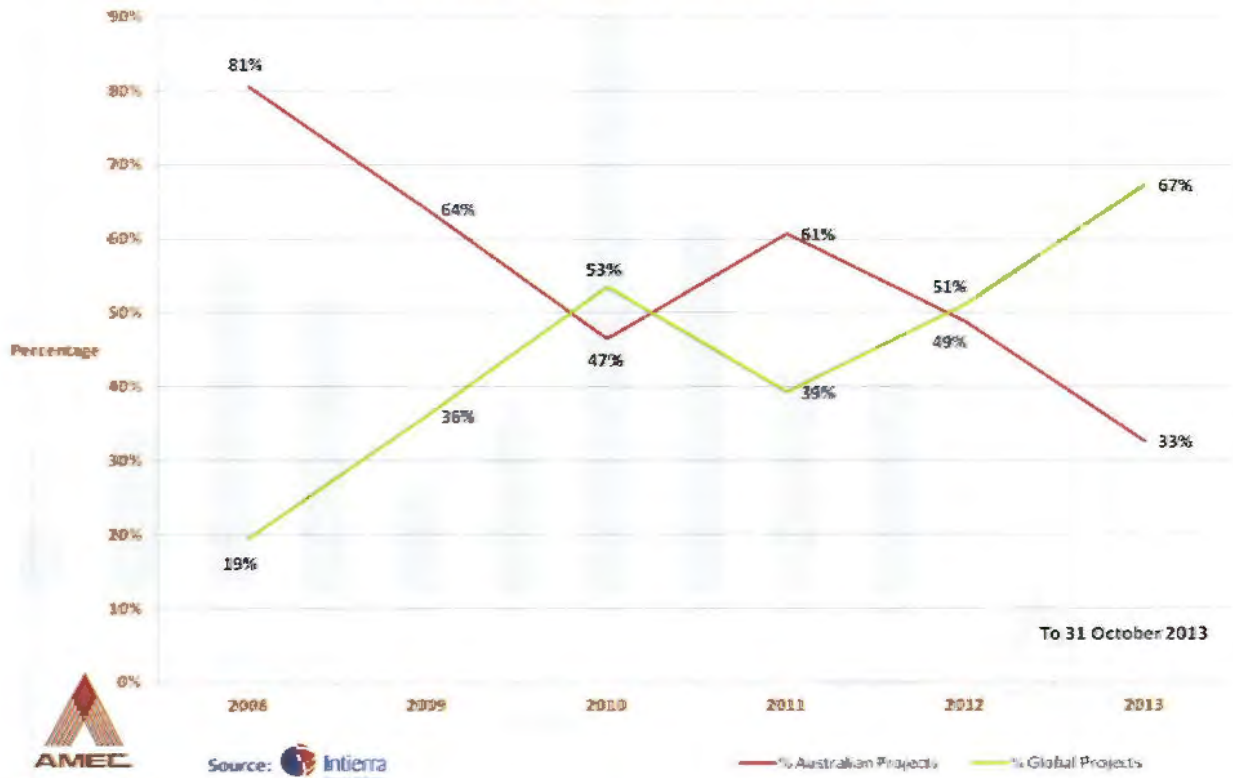
It is for these reasons that AMEC is very pleased to strongly support the repeal of the MRRT legislation.

Simon Bennison
Chief Executive Officer
27th November 2013

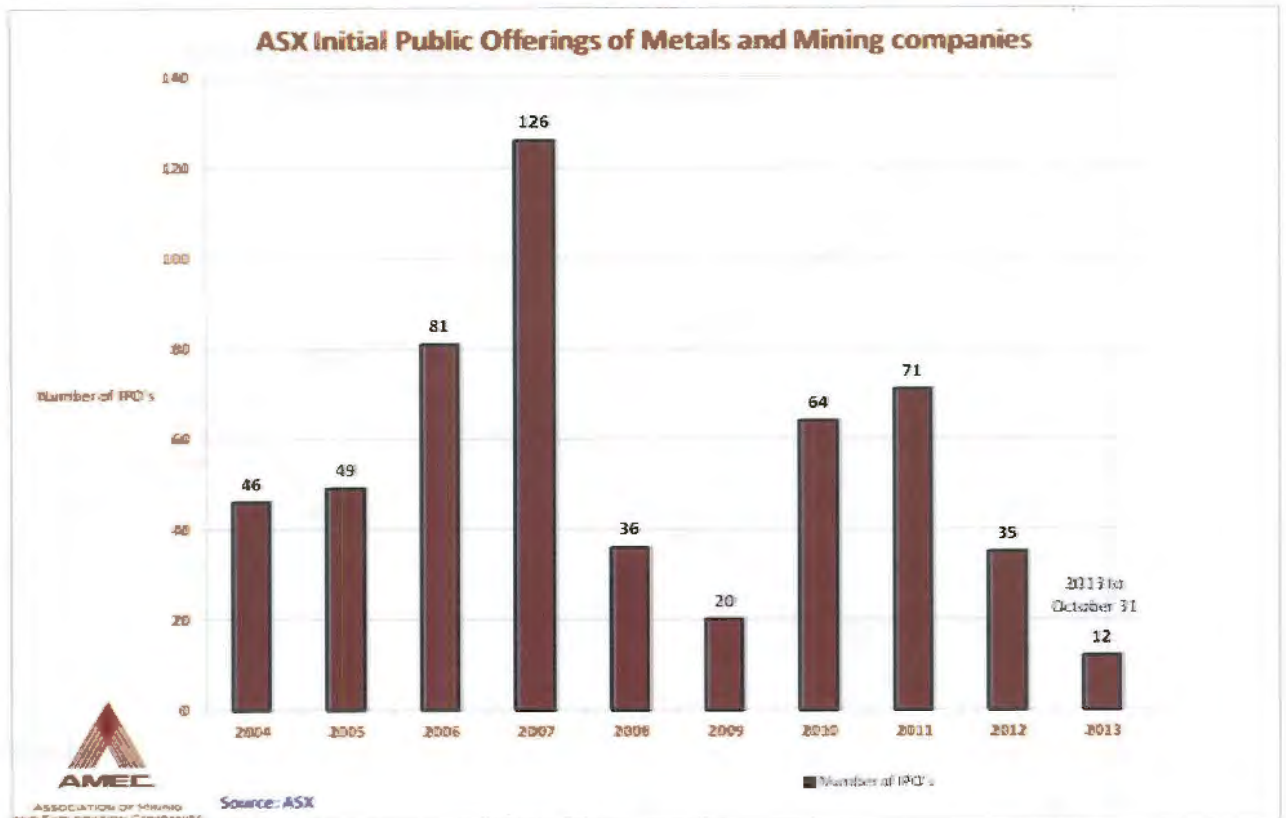


Graph 1 (Source: KPMG, ABS, UWA, AMEC)

Destination of Exploration Funds Raised on ASX Australian Projects v Global Projects



Graph 2



Graph 3