



To The Manager of the Resource Tax Unit - The Treasury

## Magnetite Network Submission on Proposed MRRT legislation

### Summary

- Magnetite has more in common with minerals excluded than those included in the MRRT.
- Magnetite ore is not a saleable product, and has very little value therefore MRRT liability should be negligible. Negative unintended consequences include but are not restricted to:
  - Companies will incur significant compliance costs;
  - Lack of commercial certainty about liability – valuation methodology;
  - Investment uncertainty in an emerging, jobs intensive industry; and
  - Investment has already been affected by the MRRT with a decline in the level of investment in new projects having occurred since May 2010.

Application of the MRRT to magnetite is likely to generate little or no revenue for the Commonwealth yet it is impacting negatively on the development of a new important industry for Australia. The Federal Government has assessed a very low level of taxation to be likely to be paid on the basis that the ore will be valued as close as possible to the point of extraction.

This valuation methodology is unclear given that there is no trade in magnetite ore currently. It is only saleable as concentrate or pellets.

Australia's national interest is best served by excluding magnetite from the MRRT.

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Thank you for the opportunity to make a submission on the proposed Minerals Resource Rent Tax (MRRT) legislation.

### Background

This submission has been prepared by MagNet, an industry body representing the interests of five member companies and the wider emerging Australian magnetite industry. These member companies, CITIC Pacific Mining Pty Ltd, Atlas Iron Limited, Grange Resources, Gindalbie Metals Ltd 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\$16 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. Magnetite is an emerging industry in Western Australia and underpins massive infrastructure development in the regions such as Oakajee port. CITIC Pacific Mining will be the first company in production with its Pilbara based Sino Iron project followed by Gindalbie Metals and Ansteel's joint venture – Karara project under construction now in the MidWest.

In addition Grange Resources is Australia's leading magnetite producer with its Savage River mine in Tasmania producing about 2mtpa of magnetite concentrate and pellets. It has been in operation for more than 45 years and is a very significant Tasmanian employer.

The diversification of the iron ore industry in Western Australia is especially significant given that 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 (direct ongoing) | Royalties p.a. (A\$) | Annual Revenue (A\$) | Export |
|------------------------|------------------------|-------------|---------------------------|-----------------------------|----------------------|----------------------|--------|
| CITIC Pacific          | +25 years              | 5.2b (USD)  | 4,000                     | 800                         | 125m                 | 3.0b                 |        |
| Atlas Iron             | +30 years              | 2.8b        | 1,100                     | 750                         | 75m                  | 1.25b                |        |
| Ridley                 |                        |             |                           |                             |                      |                      |        |
| Atlas Iron             | +26 years              | 1.9b        | 1,650                     | 530                         | 95m                  | 1.1b                 |        |
| Balla Balla            |                        | Phase 1 & 2 |                           |                             |                      |                      |        |
| Extension Hill         | +50 years              | 2.0b        | 2,000                     | 500                         | 50-150m              | 1.0 b                |        |
|                        |                        | Phase 1     |                           |                             |                      |                      |        |
| Gindalbie Metals Ltd   | +30                    | 2.57b       | 1,200                     | 500                         | 50m                  | 1.4b                 |        |
| Karara Project         |                        | Stage 1     |                           |                             |                      |                      |        |
| Grange Resources       | Operating for 45 years | NA          |                           | 600                         | 15m                  | 400m                 |        |
| Savage River(Tasmania) |                        |             |                           |                             |                      |                      |        |
| Grange Resources       | +19                    | 2.5b        | 2000                      | 600                         | 80m                  | 1.6b                 |        |
| Southdown Project      |                        |             |                           |                             |                      |                      |        |
| TOTAL                  |                        | \$16.97b    | 11,950 jobs               | 4,280 jobs                  | +\$490 - 590m        | \$9.75b              |        |

Position re MRRT

The members of MagNet do not support the proposed MRRT and the provision of this submission should not be construed as support for the tax. However, MagNet does wish to thank you for the opportunity to present this submission.

MagNet does not intend to reiterate the concerns previously put to the PTG in this submission and its generic modelling attached to the PTG 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 as have previously been set out, 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 **emerging** industry by deterring investment and jeopardising the significant regional development, economic and social benefits that might otherwise occur.

MagNet urges the Treasury 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.

This submission is not intended to affect the submissions lodged by those members that are also producing hematite or direct shipping ore.

14 July, 2011

Magnetite Network