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Second wave casualties of the RSPT

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THE big miners are making the most noise about the resources super-profits tax, but suppliers and service providers are starting to enter the fray as they fear major fallout from project cancellations.

The Australian Mining Equipment Technology and Services (Austmine) industry group represents more than 100 companies involved in mining technology and services exports.

Members include the likes of Bucyrus, Sandvik, Worley Parsons, Clough, Inbye, CSIRO, Goodyear and Minova.

Feedback from its membership is forcing Austmine to campaign against the tax.

"If the miners catch a cold, we're going to get the flu," Austmine director and chief executive of consultancy Optiro Mark Warren said.

"Why I say we'll get the flu is that a large proportion of mining industry spending on plant, equipment, services and technology comes out of capital budgets and this money comes from after-tax profits miners reinvest in projects and expansions.

"Those profits are going to be severely eroded by this RSPT if it becomes a reality."

Warren stressed that it was unusual for Austmine to campaign against government policy.

"Austmine does not typically lobby – it is a promotional body.

"But we are very concerned about the potential impact of this new tax and our members are already seeing their customers and clients defer capital investment while uncertainty remains about how the RSPT actually works."

He said mining companies simply cannot finance projects because banks and other investors don't know how to measure the impact of the tax.

Warren notes that Optiro was at the front end of the mining investment process.

"Our clients are telling us that to international financiers they're off the investment radar at the moment.

"It's not hard to understand why. Our business is about projects and modelling the financial value of projects and it's pretty hard to get finance when you can't actually tell what the net present value of a project is because you can't model the tax component.

"Of course, when you do make some assumptions and include the tax, many projects are no longer viable. They will not proceed and will be lost to the country for many decades, if not forever."

While the car manufacturing industry delivered about \$3.1 billion of exports last year, and is often finding new avenues for government handouts, Austmine noted the mining technology and services sector exports are in the \$6 billion-plus territory.

Yet this sector was not part of the federal government's RSPT consultations when former Prime Minister Kevin Rudd was at the steering wheel.

Warren said mining companies which have sunk capital into projects under the existing tax regime will have to rethink capital and operating expenditure.



"That leaves us with the very real possibility that mines are going to be run into the ground," he said.

"They're not going to spend the money on advanced technology and so-called nice-to-have, locally developed products and equipment like they are now.

"They're not going to invest the same amount of money in mining R&D and technology with a long-dated return - not in a jurisdiction where we're seeing a new level of sovereign risk."

Breaking the silence

Russel Mineral Equipment was inducted into the Australian Export Awards Hall of Fame last year, but will cut R&D investment if mining companies get squeezed on their net profits.

"Australian innovators in the mining technology services sector such as Russell Mineral Equipment rely on strong partnerships with mining companies to identify needs and potential solutions," RME general manager Andrew Gray said.

"A reduction in mining sector R&D will flow through and inhibit the ability of Australian companies in the MTS [sector] to continue to be at the cutting edge of technology development that would otherwise result in technology exports that increase the wealth of the nation."

Runge executive director Christian Larsen said a significant amount of its business involves reserve assessments and feasibility studies for new mines.

"As a result of this proposed new tax, our clients are now slowing down or deferring their commitments to such projects and consequently, we have to redeploy our valuable personnel elsewhere throughout the world to accelerate mining projects outside of Australia," he said.

Conveyor weighing system specialists Control Systems Technology notes that mining investment is on hold until the federal election.

"This hold in investment will deprive our economy of billions of dollars of much needed revenue," CST managing director Ian Burrell said.

"The pause in the mining boom caused by flow-on effects from the GFC will now be unnecessarily extended by the proposed new tax - this will cause untold damage to mining suppliers."

He could not see how a super profit threshold is anything above 6%.

"Viable business investments need to be three times this just to allow for the margin for error which can occur in estimating returns.

"The return in excess of 6% is just a normal reward for investing money in Australia's future. It is a reward for taking a risk and not just putting the money in the bank, it could never be described as super profit. We need to encourage entrepreneurs in Australia. We don't want to be just a nation of low risk investors."

Remote Control Technologies senior business development manager Phil Goode said the RSPT uncertainty was affecting business.

"Projects decisions are taking longer as people reconsider the impact of the new tax and financing of mining projects existing and new," Goode said.

"Effort, attention and money is being distracted away from key real industry challenges like downstream processing in Australia, mining-led trade education and immigration, and local manufacture of mining equipment and technology for global export and application."

Maptek, which specialises in 3D mine planning and modelling packages, put the RSPT debate into a wider perspective.

"While the various media announcements by mining companies about cancelling projects or reviewing expansion plans may be seen as simple political propaganda by the government, they are dire commercial realities for a raft of small technology companies hoping for continued investment in this industry," Maptek general manager Peter Johnson said.

"The confidence in the long-term stability of the taxation and economic framework under which Australian mines are operated has been removed without warning.

"This is having an immediate negative effect on the mining technology sector in Australia. There is

no upside."

RSPT ceasefire could end

While the major miners and industry groups have suspended their ads against the tax, a lack of progress in "genuine" consultation with the Gillard government could see the war of words erupt again before a looming federal election.

Queensland Resources Council chief executive Michael Roche recently said there was more research underway for further advertisements if negotiations fail.

QRC notes the resources sector directly and indirectly accounted for 20% of the state's economy in 2008-09 and 12% of full time equivalent employment in Queensland.

The industry group is also crunching numbers for impacts to specific communities in Queensland as part of a wider campaign against the tax, should it be required.

Other industry groups could follow suit, leading to greater resistance outside of the major mining companies.

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