



Australian Government

**CHAMBER OF MINERALS AND ENERGY OF
WESTERN AUSTRALIA**

**The Hon Martin Ferguson AM MP
Minister for Resources and Energy
Minister for Tourism**

Perth

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**Check against delivery*

Ladies and gentlemen, and particularly Reg, thank you for the opportunity to address you and hold this discussion this morning.

It's been a tough two months for all of us.

Now it is time for us to get on with business and move forward in a constructive way.

This means the Government getting on with the job of governing in the national interest and industry getting on with the business of mining and oil and gas production that is so central to the nation's ongoing prosperity.

Tax debates are never easy and this one has been no exception to that rule.

I believe we have reached a good compromise for the nation and the industry, but I understand that not everyone is happy about the process or indeed the outcome.

But let me say this.

In our dealings with BHP, Rio and Xstrata, the junior miners have always been an important part of the equation.

It is no secret that the big players have moved over the last year or so to centralise industry representation in the Minerals Council of Australia.

The stakes have therefore been high for them to deliver for the industry as a whole and throughout our discussions, the interests of the juniors have been effectively represented at the table.

The evidence is clear.

Only about 50 companies in Western Australia now fall within the scope of the new resource rent tax.

And there will be no resource rent tax liability if your profits are less than \$50 million a year.

I will come back to other factors later.

Last week we had a breakthrough agreement.

An agreement that delivers on the Government's core objectives while also meeting the needs of industry.

It will put an additional \$10.5 billion back into the Australian community.

And where will that funding go?

It will strengthen retirement incomes for the most vulnerable.

It will build infrastructure in mining communities.

It will give small business a leg up with immediate write-off for purchases up to \$5,000.

It will reduce the company tax rate by one per cent instead of lifting it by 1.7 per cent – which is what Tony Abbott will do if he gets the keys to the Lodge.

Nobody wants that.

Australia wants change.

Australia wants reform and that is what Labor Governments deliver.

What we have achieved with this agreement on a new Mineral Resource Rent Tax is generational change.

A better return for the Australian community from the once-off development of our non-renewable resources.

And a great outlook for new investment with an internationally competitive, profits-based tax.

A tax that has: a headline rate of 30 per cent; a 25 per cent extraction allowance that recognises the contribution of the miner's expertise to profits; immediate expensing; an uplift of about 13 per cent on unutilised losses including royalties; and, transferability between projects.

Our reforms pave the way for continued prosperity not just for us but for our children.

It is a great legacy from which they will reap the benefits.

Since May 2, we have talked, we have listened, and in the end we have struck the right balance.

The new resource taxation arrangements maintain Australia's standing as an attractive place to invest.

They provide certainty.

They recognise the individual needs across the resource sector.

Firstly, commodities other than iron ore, coal, oil and gas are not included in the new regimes.

Why?

Because this tax regime focuses on genuine resource rents in high value bulk commodities with low processing content.

This cuts the number of companies affected from 2,500 to 320.

As Australia's largest mining state, we know that Western Australia will be proportionately more affected.

This will also be reflected in the amount of infrastructure investment that flows to the state.

Secondly, a profit-based regime automatically adjusts to changes in commodity prices and extraction costs.

It provides a much fairer system of taxation over time – providing a better return to the community in boom times while giving companies taxation relief to help them get by when times are tough.

Since the beginning of the boom, it's worth remembering that prices for iron ore have risen by 400 per cent.

And thirdly, we're giving greater competitive neutrality to industries such as LNG.

Bringing onshore and offshore oil and gas projects – including the North West Shelf and the new coal seam gas projects in Queensland – into a single regime promotes efficiency and provides certainty for the industry.

It allows projects to compete on a level playing field.

We have come a long way but there is still work to be done.

That's why we're setting up a Policy Transition Group.

Don Argus and I will lead this group with support from the Treasury and my own department, the Department of Resources, Energy and Tourism.

The Group will consult with industry and advise the Government on implementation issues, particularly the resolution of final starting bases, taxing points and pricing methodologies.

There are also some unique projects that will require particular attention – for example, magnetite projects here in Western Australia and the OneSteel business in South Australia.

And we have always said that the key to this is ensuring there will be no double taxation created by State and Territory royalty regimes.

Another issue of particular interest to some of you here today is the question of exploration incentives.

The response to the Resource Exploration Rebate was lukewarm at best and faced with a \$1.5 billion loss in revenue over the forward estimates, the Government has decided to not proceed with this initiative.

That is not to say that exploration is not a high priority of the Government.

The Argus-Ferguson Group will look at the best way to provide exploration incentives to ensure a pipeline of resources projects for future generations.

Our timetable for the new resources taxation system remains the same.

Draft legislation will be available for comment by June of next year.

The legislation will be introduced to Parliament in early 2012 with a start date of 1 July 2012.

Minerals Resource Rent Tax

Let's look at some of the features of the resource taxation reform, starting with the Minerals Resource Rent Tax (MRRT).

It applies to all new and existing iron ore and coal projects.

Companies with assessable profits of less than \$50 million are excluded.

Importantly, industry concerns about retrospectivity will be addressed by allowing the project starting base to be assessed at market value, including mining rights, to be written off over the effective life of the project for a period up to 25 years.

The headline rate for the MRRT is 30 per cent and companies will benefit from a 25 per cent extraction allowance.

New investment will get generous treatment in the form of immediate write-off, rather than depreciation over time.

The tax will carry forward unused losses at the Long Term Bond Rate plus seven per cent.

The tax will provide transferability of deductions to other projects in Australia.

It will also provide a full credit for state royalties in respect of a mining project, with uplift at the general expenditure rate.

And the MRRT will apply a taxing point as close to the mine gate as possible.

Petroleum Resource Rent Tax

The Petroleum Resource Rent Tax (PRRT) has been an effective and stable regime for offshore oil and gas projects since 1987.

That's why it's being extended to all oil and gas projects – onshore and offshore, as well as coal seam gas.

This includes the North West Shelf.

The tax rate and the uplift allowances for unused losses and capital write-offs are different for petroleum than for mining, recognising different risks and capital structures.

Immediate expensing is available for all expenditure.

The tax value of losses can only be transferred in the case of exploration.

All state and federal resource taxes will be creditable against current and future PRRT liabilities from a project.

Transition provisions will also be available for oil and gas projects moving into the PRRT.

This includes a generous starting base using either market value or written down book value.

Taken together, these measures create a solid platform for growth across the resources sector although we recognise the need for ongoing consultation with the oil and gas industry to get the implementation of this tax reform right.

These reforms will enable Australia to make the most of a sustained expansion of the mining industry to meet the

demands of China and India over the next decade or more.

They will give all Australians a lasting stake in our prosperity.

Nevertheless I am sure that some of the medium-sized companies have project specific issues and I encourage them to get involved in the Argus-Ferguson process as soon as possible.

Infrastructure and skills

The new framework means we can invest in our infrastructure.

The new \$6 billion Regional Infrastructure Fund will support mining regions in particular.

Resource-rich states like WA will receive relatively more funding.

This will give us the roads, railways and ports we need for the ongoing development of Western Australia's \$61 billion resources industry.

New infrastructure goes hand-in-hand with new skills.

The Australian Government established the National Resources Sector Employment Taskforce to improve the efficiency of the sector's labour market and reduce its impact on the rest of the labour market.

The initial impetus for the taskforce was the Gorgon LNG project.

Gorgon is likely to create up to 3,500 direct jobs during peak construction and up to 6,500 indirect jobs.

Importantly, it is only one of a large number of new or expansion projects under way or in the pipeline, particularly in Queensland and WA.

The Taskforce has received 97 submissions, including from the WA Chamber of Commerce and Industry, mining interests in WA, and from this Chamber.

It has also held public consultations in every mainland capital city as well as Karratha, Mackay, Gladstone and Cairns.

A report in the near future will give guidance on how Government and the resources sector can work together to make sure skills pressures are minimised as projects place demands on Australia's labour supply.

Conclusion

Ladies and gentlemen, it's been a tough few months for miners and ministers alike.

Now it's time to get back to business and rebuild the constructive working relationships that the nation deserves from us.

We all know that the resources sector is one of Australia's greatest strengths.

Working together, it is our job to keep it that way.

Thank you.