NEWS RELEASE

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NEW ECONOMIC RESEARCH CONFIRMS RSPT WILL HARM AUSTRALIAN ECONOMY

Sydney and Perth, 21 June 2010

The Australian Government's Resources Super Profit Tax ("RSPT") is based on flawed theory and will, if implemented as proposed, have an adverse effect on Australian mining employment, mining investment and the Australian economy, according to a new Ernst & Young research report commissioned by the Chamber of Minerals and Energy of Western Australia and Xstrata plc.

Released today, the report entitled "A Critique of the Economic Theory and Modeling Underlying the Australian Resource Super Profits Tax Proposal", concludes that the proposed RSPT will:

- Lead to fewer jobs, reduced investment, and lower personal income tax revenue from workers in mining and associated industries, as a result of some new Australian mining investment possibilities being deferred or curtailed
- Reduce the attractiveness of Australia for mining investment relative to other 'mining' geographies
- Raise the cost of capital required for all investments in Australia (mining and non-mining related) due to increased political (sovereign) risk, thereby reducing investment spending in Australia
- Reduce the valuation of existing Australian mining companies, impacting superannuation funds and Australia's Sovereign Wealth Fund and resulting in lower personal income tax collections from capital gains and other taxes; and
- Increase the volatility of Australian tax revenue. RSPT revenue would increase during high commodity price periods, but could be zero for extended periods during low commodity prices.

In the report, authors Dr. Thomas S. Neubig and Dr. Robert J. Cline of Ernst & Young LLP state, "We believe the proposed RSPT and the Treasury's economic analysis rest on a flawed theory and application of 'super profits' taxation; an unrealistic assumption about the immobility of mining investment; and the absence of a complete analysis of the proposal's economic and fiscal short-run, medium-run and long-run effects.

"A sophisticated economic model's results are only as good as its underlying assumptions. The model used by the Government incorporated a key assumption that mining investment is completely immobile. We do not believe that critical assumption is realistic for the 21st century global mining industry.

"Introduction of a new, untried tax on a critical sector of the Australian economy merits careful consideration and a complete analysis of the economic and fiscal effects. Before making such a significant change, Australian policymakers and the public need additional analysis of the RSPT proposal to understand the potential policy risks."

The paper briefly describes the RSPT and the Government's economic analysis of the proposal; identifies flaws in the theory and application of 'super profits' taxation underlying the RSPT proposal; describes the unrealistic assumptions about the immobility of mining activity; and suggests additional economic and sensitivity analysis important for policymakers' understanding of the trade-offs and economic effects of the proposal.

Dr. Neubig is a Principal in the U.S. firm of Ernst & Young LLP ("EY"), National Director of EY's Quantitative Economics and Statistics practice, and former Director and Chief Economist of the U.S. Treasury Department's Office of Tax Analysis and former President of the National Tax Association. Dr. Cline is an Executive Director of EY, National Director of EY's State and Local Tax Policy Economics practice, and former Director of the Office of Tax Research in the States of Michigan and Minnesota.

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