

MEDIA RESPONSE

The Association of Mining & Exploration Companies Inc.

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Resources rent tax a lot more than a storm in a teacup

Citi analyst Craig Sainsbury has underestimated the impact of a Resources rent tax and totally overlooked the damage caused by the speculation about how it might be implemented. Mr Sainsbury is reported ("*Resources rent tax fears a storm in a teacup: Citi analyst*" Page 19, The Australian Business 3/2/2010) to have said that "concerns about the impact of a new tax are misplaced".

Irrespective of any actual tax increase the industry could face, the sheer speculation that the regime will change without detail about precisely how has already damaged investor confidence. Mr Sainsbury may not be aware that access to capital is critical to the viability of explorers and emerging mining companies. He may also be unaware that the fluidity of that capital is often directly proportional to the confidence of investors offering it.

On the back of the recent global financial crisis and sharp decline in demand for commodities, investors are already dangerously nervous. The mining and exploration sector simply cannot afford any further damage to confidence and public speculation about new taxes does exactly that.

It is nothing less than irresponsible of the Government to selectively leak parts of a proposed overhaul of the entire tax system. The full Henry Tax Review must be publicly released to allow for a full and frank discussion about any proposed changes in full context.

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Attached: *Original article*

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Resources rent tax fears a storm in a teacup: Citi analyst

Sarah-Jane Tasker [The Australian](#) February 03, 2010

FEARS the mining industry is facing huge new tax imposts are misplaced, according to a top resources analyst.

Citi analyst Craig Sainsbury said yesterday the tax landscape for the mining industry would not dramatically change even if the federal government moved ahead with plans to slug the resources sector with a new rent tax.

As the mining industry and the opposition called for clarity amid growing fears the Henry tax review would recommend a 40 per cent resources rent tax, Mr Sainsbury labelled the debate around the issue a "storm in a tea cup".

Speculation suggests the rent tax would be charged on operating margins and would be based on the petroleum resource rent tax and replace state-based royalties of 2-10 per cent of revenue.

Analysts have suggested the tax could cost mining giants BHP Billiton and Rio Tinto a combined \$US5 billion (\$5.68bn) in earnings a year.

Concerns about the tax reforms hit the major miners' stocks in London late last month and industry leaders have called for clarity on the issue before finalising major investment decisions in Australian projects.

Despite the widespread industry concern, Mr Sainsbury argued that the potential 40 per cent tax rate would not significantly alter the tax landscape for many Australian mining companies.

"Depending on the industry, company's margins and the metal price, we believe that the potential tax could see between a 6 per cent reduction in earnings to around a 4 per cent increase," he said.

Under higher commodity prices, the tax would see earnings downgrades, but the new tax would provide a significantly lower tax burden in trough cycle commodity price years, Mr Sainsbury said.

The key mining states of Western Australia and Queensland have agreed that they would vehemently argue against any transfer of taxing responsibility to the federal government.

Mr Sainsbury said he did not believe the states would give up their flexibility of controlling rates, adding that the federal government had no power to remove the states' royalties, meaning that if a state decides to not sign any agreement, royalties could still be imposed in their region. "Thus we could be in a farcical position where some states have approved the change and others have not, significantly increasing the complexity of the tax system," he said.

It has been reported that if the petroleum tax system had been applied to the nation's major miners and top commodity exports over the past three years, it would have raised an extra \$14n from the sector.

Mr Sainsbury said he did not believe that the government would impose a "draconian" 40 per cent resources rent tax.

Opposition resources and energy spokesman Nick Minchin yesterday called on the Senate to force the tabling of the Henry tax review.