

30 March 2010

The Hon Colin Barnett, MLA
Premier; Minister for State Development
24th Floor, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Premier

Speculation regarding an increase in gold royalties

AMEC is the peak national body representing mining and minerals exploration companies, the majority of which are based in Western Australia.

As you would be aware, through extensive recent media debate, AMEC remains extremely concerned regarding the speculation that gold royalties will be increased in the next State Budget.

As a result, we have closely liaised with our gold producing and exploration members in a genuine attempt to determine the actual ramifications if the increase in gold royalties occurs.

Due to commercial confidentiality respective companies are unable to be individually quoted, however, based on feedback that AMEC has received, the following observations can be made:

- Existing and start up mining project viability will be detrimentally and significantly affected,
- Jobs (including indigenous employment opportunities) will undoubtedly be lost,
- The significant socio-economic benefits that the industry brings to local communities and regional Western Australia, will be foregone,
- Existing, and potential gold producers will look to re-allocate their capital and technology to another State or country,
- Fragile investor confidence will be further eroded, and capital raisings for gold companies will become even more difficult than is currently the case,
- The WA resources sector will become a 'no-go' zone for onshore and offshore investment,
- The potential increase in gold royalty will only affect the smaller scale junior companies that are not party to a State Agreement,
- These junior gold companies are not able to benefit from the same economies of scale enjoyed by the larger conglomerates,
- The aggregate cost of gold production remains high and has continued to increase in correlation with gold prices. Pre-tax profit margins have therefore not increased, as expected, with a recent increase in the price of gold,
- The rationale (*the significant extraction and beneficiation process*) for the original introduction of the existing gold royalty rate of 2.5% remains unchanged,
- The price of gold remains uncertain.

There is no doubt that the resources sector requires a stable regulatory, public policy and royalty framework in place for sound investment decision making and long term security.

Unfortunately, that is currently not the case amid speculation surrounding an increase in gold royalties, and the possible structural recommendations emanating from the Henry Tax Review.

The Government's stated desire "*to be the number one investment destination in the World*" is also at significant risk.

AMEC understands your desire to improve the State's budgetary and financial position. However, what may appear to be on face value a minor and inconsequential percentage change to the gold royalty calculation can be disastrous for the industry, regional communities and the economy as a whole.

It would seem to be more financially, economically and socially responsible to encourage and stimulate mining and minerals exploration, and increase production levels, which will automatically result in a higher aggregate level of royalty revenue from gold mining without an increase in the actual royalty rate.

Before any more damage is done with this ongoing speculation and period of uncertainty you should take notice of Mines and Petroleum Minister Moore, and think again before it is too late.

Prior to any increase in gold royalties (or any other commodity) the Government should undertake a comprehensive consultation process with industry and key stakeholders in order that all of the issues, ramifications and various options are fully considered in a strategic and careful manner.

AMEC representatives would be pleased to urgently meet with you to discuss this most significant issue.

Yours faithfully

Simon Bennison
Chief Executive Officer

cc. Hon Kim Hames, Deputy Premier
Hon Norman Moore, Minister for Mines and Petroleum
Hon Brendon Grylls, Minister for Regional Development
Hon Dr Elizabeth Constable, Minister for Education
Hon Simon O'Brien, Minister for Transport
Hon Troy Buswell, Treasurer
Hon Rob Johnson, Minister for Police
Hon Terry Waldron, Minister for Sport and Recreation
Hon John Day, Minister for Planning
Hon Peter Collier, Minister for Energy
Hon Christian Porter, Attorney General
Hon Robyn McSweeney, Minister for Child Protection
Hon Dr Graham Jacobs, Minister for Water
Hon John Catrilli, Minister for Local Government
Hon Terry Redman, Minister for Agriculture and Food
Hon Donna Faragher, Minister for Environment
Mr John Bowler, Member for Kalgoorlie