

Premier of Western Australia

Our ref : 7104885

The Hon Julia Gillard MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Dear Prime Minister

MAGNETITE IRON ORE AND THE PROPOSED MINERALS RESOURCE RENT TAX

I am writing to you in relation to the treatment of magnetite iron ore under the Commonwealth Government's proposed Minerals Resource Rent Tax (MRRT).

The Western Australian Government has a number of significant concerns with the Commonwealth's proposed mining tax package and considers it more appropriate to leave this revenue base with the States as owners of the minerals.

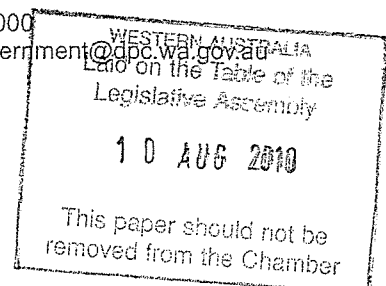
A key concern with the proposed resource rent tax regime is the inconsistent treatment of the magnetite iron ore industry compared with commodities such as gold and nickel.

Unlike the traditional hematite iron ore which is essentially crushed and screened into saleable product, magnetite iron ore is a lower grade ore that requires extensive processing to convert it into a marketable product. For example, the average direct shipping hematite ore consists of approximately 62 per cent iron, whereas the recoverable iron in magnetite ore averages 25-30 per cent. This requires two and a half to three times more ore to be mined, extensive fine grinding, with significant power needs, followed by magnetic concentration with large water requirements. As such, magnetite products cost substantially more to make, approximately double, for the same price outcome.

Magnetite development, of any substantial scale, is a fledgling industry with only two moderate scale magnetite projects currently in operation in Australia. However, in Western Australia alone, there are two new magnetite projects under construction, (totalling approximately \$8 billion in investment), and another 16 projects (totalling potentially in excess of \$40 billion in investment) under various stages of consideration. It would be unacceptable if there were any reduction in investment in this industry in Western Australia as a consequence of the imposition of the proposed MRRT.

Significantly, in recent days the new MRRT proposal has been raised with State Government officials, particularly its application to magnetite and new projects which are the focus of Chinese investment in Western Australia.

197 St Georges Terrace, Perth, Western Australia 6000
Telephone: +61 8 9222 9888 Facsimile: +61 8 9322 1213 Email: WA-Government@dpc.wa.gov.au
www.premier.wa.gov.au



Our strong view is that, for magnetite iron ore, a better option is to exclude it from the scope of the MRRT. This approach would:

- be considerably simpler;
- provide certainty to an emerging industry;
- be more equitable with respect to other minerals that incur high processing costs such as gold and nickel (which are not covered by the MRRT); and
- have a negligible impact on the revenue yield given that most of the value of magnetite comes from its processing, which is not intended to be captured by the MRRT anyway.

Failing this, the Commonwealth should ensure that, in finalising the detailed design parameters of the MRRT, emerging participants in the iron ore industry (including magnetite producers) are not disadvantaged relative to established participants. This would include recognising the extensive processing required for magnetite iron ore by assessing the taxable value only at the mine. This would avoid capturing the value added component of the ore in the MRRT.

Yours sincerely



Colin Barnett MLA
PREMIER; TREASURER

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