

IRON ORE AGREEMENTS LEGISLATION AMENDMENT BILL 2010

EXPLANATORY MEMORANDUM

Introduction

The purpose of this Bill is to remove the historical concession applying to royalties for fine ore in the BHP Billiton and Rio Tinto State Agreements and apply instead the royalty rate of 5.625% as specified in the Mining Regulations.

Commensurate with this change, the beneficiated ore royalty rate is amended to 5% of the f.o.b. value as is specified in the Mining Act.

The removal of these concessional royalties has been the goal of successive governments since 1996 and my Government has been negotiating over the past year with BHP Billiton and Rio Tinto to increase the royalty rate for fine ore of 3.75% in their State Agreement Acts to the rate currently applying in the Mining Regulations, i.e. 5.625%. The companies in turn have sought, through these negotiations, certain variations to their State Agreements to expedite their declared intentions to integrate their iron ore operations. By including this matter as part of the negotiations with the companies, we have avoided any implication of sovereign risk.

The Bill, when enacted, will apply the new royalty rate for fine ore and beneficiated ore as and from 1 July 2010 despite any limitations in the various State Agreement placed on this pursuant to any other clause.

Background

The establishment of an export iron ore industry from the Pilbara in the 1960s was based on the sale of high quality lump ores. The companies insisted on a proportion of inferior quality fine ore being included in contracts with its trading partners. In an effort to assist the companies in establishing an international market for fine ores, the State negotiated concessional royalty rates on fine ore to facilitate the efforts of the iron ore companies.

Subsequently, iron and steelmaking technology has advanced to the stage that fine ore has become the main ironmaking feedstock. This has corresponded to a global decline in quality lump ore. The percentage of fine ore exported from Western Australia has progressively increased from approximately 40-45% in the 1960s, to 55-60% in the 1980s, to currently over 70% of all output. This is required to husband the full exploitation of the resource base and is likely to increase further over time to perhaps 75 to 80%.

Explanation of Clauses

Part 1 - Preliminary

Section 1: Short Title

Contains the short title of the Act.

When enacted, the Bill will be cited as the *Iron Ore Agreements Legislation Amendment Act 2010*.

Section 2: Commencement

The Bill is intended to come into operation on receiving the Royal Assent, however, the new royalty rate will apply as and from 1 July 2010.

Part 2 – Iron Ore (Goldsworthy-Nimigarra) Agreement Act 1972 amended

Sections 3 and 4

This part addresses the various parts of the *Iron Ore (Goldsworthy-Nimigarra) Agreement Act 1972* that need to be amended to put into effect the removal of concessional royalties of 3.75% for fine ore and 3.25% for beneficiated ore and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

Part 3 – Iron Ore (Hamersley Range) Agreement Act 1963 amended

Sections 5, 6 and 7

This part addresses the various parts of the *Iron Ore (Hamersley Range) Agreement Act 1963* that need to be amended to put into effect the removal of concessional royalties of 3.75% for fine ore and 3.25% for beneficiated ore and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

It also addresses changes required in the Second Supplementary Agreement to the *Iron Ore (Hamersley Range) Agreement Act 1963* (This Second Supplementary Agreement is also known as the *Iron Ore (Hamersley Range) Agreement Act - Parburdoo 1968*) so that it refers back to the *Iron Ore (Hamersley Range) Agreement Act 1963* as amended above.

Part 4 – Iron Ore (Marillana Creek) Agreement Act 1991 amended

Sections 8 and 9

This part addresses the various parts of the *Iron Ore (Marillana Creek) Agreement Act 1991* that need to be amended to put into effect the removal of concessional royalty of 3.25% for beneficiated ore and replacing it with the rate in the current Mining Regulations, i.e. 5% for beneficiated ore.

The *Iron Ore (Marillana Creek) Agreement Act 1991* has no provision for royalty on lump ore, so definitions of fine ore and lump ore have been added, as well as the royalty rate for lump ore at 7.5%.

Part 5 – Iron Ore (McCamey’s Monster) Agreement Authorisation Act 1972 amended

Sections 10 and 11

This part addresses the various parts of the *Iron Ore (McCamey’s Monster) Agreement Authorisation Act 1972* that need to be amended to put into effect the removal of concessional royalties of 3.75% for fine ore and fines and 3.25% for concentrates (ie beneficiated ore) and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and fines and 5% for concentrates.

Part 6 – Iron Ore (Mount Bruce) Agreement Act 1972 amended

Sections 12 and 13

This part addresses the various parts of the *Iron Ore (Mount Bruce) Agreement Act 1972* that need to be amended to put into effect the removal of concessional royalties of 3¼% for fine ore and fifteen cents per ton for beneficiated ore and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

Part 7 – Iron Ore (Mount Goldsworthy) Agreement Act 1964 amended

Sections 14, 15 and 16

This part addresses the various parts of the *Iron Ore (Mount Goldsworthy) Agreement Act 1964* that need to be amended to put into effect the removal of concessional royalties of 3.75% for fine ore and 3.25% for beneficiated ore and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

Part 8 – Iron Ore (Mount Newman) Agreement Act 1964 amended

Sections 17, 18 and 19

This part addresses the various parts of the *Iron Ore (Mount Newman) Agreement Act 1964* that need to be amended to put into effect the removal of concessional royalties of 3.75% for fine ore and 3.25% for beneficiated ore and replacing them with the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

Part 9 – Iron Ore (Rhodes Ridge) Agreement Authorisation Act 1972 amended

Sections 20 and 21

This part addresses the various parts of the *Iron Ore (Rhodes Ridge) Agreement Authorisation Act 1972* that need to be amended to align the provisions of this Agreement with the relevant provisions in the current Mining Regulations to introduce the rates in the current Mining Regulations, i.e. 5.625% for fine ore and 5% for beneficiated ore.

Part 10 – Iron Ore (Robe River) Agreement Act 1964 amended

Sections 22 and 23

This part addresses the various parts of the *Iron Ore (Robe River) Agreement Act 1964* that need to be amended to put into effect the removal of concessional royalties of 3¾% for fine ore and one shilling and sixpence per ton for beneficiated ore and replacing them with the rates in the current Mining Regulations, ie 5.625% for fine ore and 5.00% for beneficiated ore.