



**Fortescue**  
The New Force in Iron Ore

## **MRRT:** A Truly Awful Tax

Andrew Forrest – Fortescue Chairman-elect  
Diggers & Dealers 2011

# MRRT – Anti-competitive

- Was negotiated in secret
- Was negotiated in a hurry and without scrutiny, by less than 1% of the number of industry players
- 99% were not consulted at all
- The 1% were three multi-national-commodity companies who looked after their interests
- Announced in a grandstanding manner, but only appeased those three (ensuring they didn't have to pay much MRRT)
- Works against emerging companies and those without very big balance sheets (which suits the other 1%)

**Is basically anti-competitive**

# MRRT - Inefficient

**A tax that does not meet the Government's repeated public statements:**

- **“Encourage investment and production”**
  - But does the opposite by creating complexity, uncertainty and additional cost.
- **“Will replace royalties”**
  - But is simply now an additional tax on parts of the industry
- Additional tax that will increase the effective marginal tax rate from 29% to around 45% - the highest in the world
- Unfair between industry players

**An inefficient tax that will discourage production and investment, except for the 1%**

# MRRT – Sovereign risk

## The MRRT and the processes leading to it have:

- Ruined Australia's reputation as a safe investment destination by creating excessive taxation unfairly between industry players
- Confirmed the view that the current government doesn't understand business
- Led to a fear that any successful business could ultimately face new tax penalties to pay for incompetence

Expensive and inefficient programs:

- Pink batts/Fibre to the home NBN
- Covered outdoor learning areas. Building the education revaluation

**Made Australia a less attractive investment destination**

# MRRT – Much more complexity

- It is an additional tax on top of but separate from the others
  - Royalties    Company/Income Tax    GST
- Taxed at ‘project level’ not ‘company level’
- Requires complex costly administration to establish value
- Taxes some products but not others from the same mine
  - Magnetite – 30% MRRT; Vanadium – No MRRT; Ferrovandium ??
  - Manganese – zero MRRT; iron ore in manganese; Ferromanganese ??
- Will require another set of specific purpose accounts to be maintained

**Increased complexity, bureaucracy, uncertainty and the scope for endless tax disputes**

# MRRT – Dishonestly done

## The truth has been consistently misrepresented:

- **Announced as a deal with industry**
  - Actually a secret deal endorsed and negotiated by just 3 companies
- **Pretended that there would be proper consultation**
  - Ran through a cynical tokenistic exercise. The terms of reference for the Government's Policy Transition Group excluded all the relevant issues
- **Kept repeating that what they were doing was getting “a fairer return for all Australians”**
  - But the mineral resources are owned by the States not the Commonwealth
  - Basically exonerates the multi nationals while penalising Australians

**A hurried un-scrutinised deal that won't raise the Government budget  
– must spread to all other commodities to make budget**

# MRRT – Won't deliver

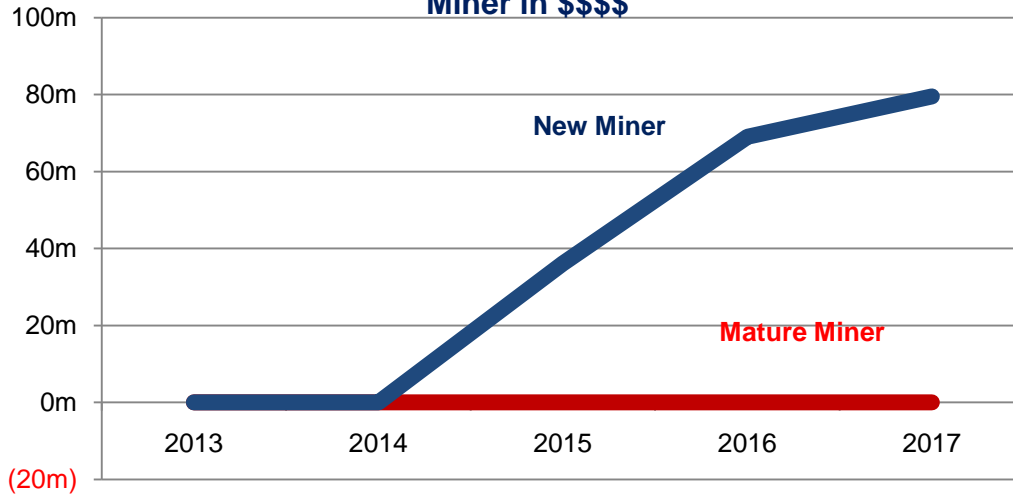
## The 1% cut a quick unanalysed and unprecedented tax shelter (based only on size)

- In the short to medium term
  - Market valuation methodology gives them sufficient tax shield to ensure that there will be little to pay for at least the high price period.
- Over the longer term
  - Iron ore prices will eventually fall back to long run levels at which point there will be little if any MRRT profits being made
- **In the meantime the government is busily spending the revenue that it thinks it will raise**
  - Lack of revenue will ultimately lead to a structural deficit

**It will hurt emerging companies, leaving the 1% unscathed and won't raise much revenue**

# MRRT – Favours Big 3

**New Miner will pay far more MRRT than Mature Miner in \$\$\$\$**



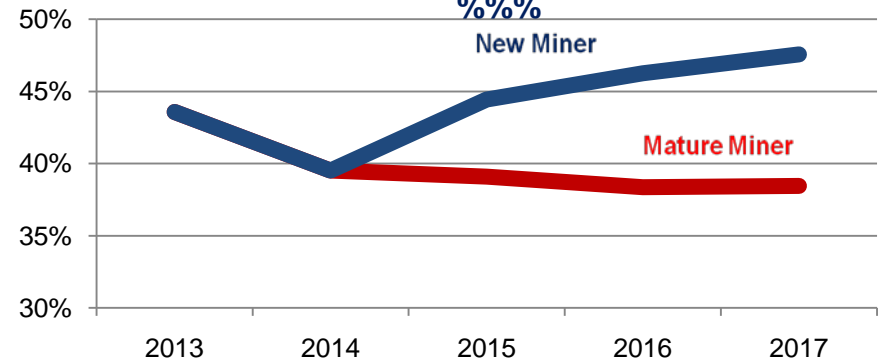
Example mine used in Government's Fact Sheet released 10 June 2011 but showing how book value starting base and market value starting base will operate

All taxes and royalties (i.e. company tax, royalties and MRRT) as per Fact Sheet example

**New Miner \$1 billion book value depreciated over five years**

**Mature Miner \$3b market value starting base depreciated over 8 years**

**New Miner will pay higher effective rate of tax in %%%**





# MRRT

## This is a tax that is:

- Anti-competitive – favours 1% & tilts the playing field in their direction
- Inefficient – will deter investment and production
- Damages Australia's status as a safe investment destination
- Hopelessly bureaucratic and complicated
- Being sold through misrepresentation
- **Won't deliver – so will inevitably spread to other commodities**
- **The secret deal that spawned this tax**
  - Violates the *Trade Practices Act* – *to directly injuring competition*
- **The tax itself**
  - Violates the Constitution, it discriminates against States

**Urge all MPs to vote against it on the grounds of improper governance, inefficiency and rank unfairness**

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