Department of **State Development**

Department of **Mines and Petroleum**

Mineral royalty rate analysis – Responses to frequently asked questions

CONSULTATION

How can people and organisations provide input into the Review?

People and organisations with an interest in the Review were invited to make submissions. The submission period closed in October 2013. The Review team held meetings with key stakeholders in late 2013 and will continue to do so in early 2014. An Industry Reference Group including representatives from the peak industry bodies, the Chamber of Minerals and Energy of WA and the Association of Mining and Exploration Companies, will provide detailed input and analysis of industry issues.

People interested in arranging a meeting to discuss the Review should contact on Rebecca White 9222 0445 or rebecca.white@dsd.wa.gov.au

SCOPE

Why is magnetite excluded from the Review?

Magnetite is a new industry in Western Australia, and a recent review determined that a rate of 5% should apply to this mineral. Further changes will not be considered in the current Review.

Will the Review consider changes to State Agreements?

The Review applies to projects governed by State Agreements, except in industries excluded from the Review (magnetite, oil and gas). Any changes recommended for State Agreements as an outcome of the Review will be subject to the usual negotiation and agreement processes between the State Agreement parties.

REVENUE

How did Treasury calculate the $180 million and is this a minimum, maximum or target for revenue that the Review must generate?

The $180 million figure included in the 2012-13 and 2013-14 Budget papers is an estimate provided by Treasury for the purpose of the Budget. It is not a minimum, maximum or targeted amount of additional revenue that the Review should generate.

The Review will be guided by its terms of reference in making recommendations. These make it clear that the Review cannot propose changes to royalties that could have a detrimental effect on the State's revenue base.

How will any revenue raised be treated from the standpoint of Commonwealth transfers and tax sharing arrangements?

The Review will focus on increasing the efficacy and appropriateness of the royalty system. Changes to the royalty system may have implications for Commonwealth transfers to the State. The Department of Treasury will be asked to advise the Review on the implications of recommendations for the Commonwealth grants process.

ROYALTY METHODOLOGY

Will consideration be given to royalty structures other than ad *valorem?*

The Review will not consider alternatives to the ad *valorem* royalty rate system. However, it is open to consider changes to the benchmark of 10% of mine head value and the three-tiered rates structure (see below).

Will the Review consider applying different rates to commodities with different cost structures?

Most minerals are covered by the ad *valorem* system applying three different rates that broadly take into account different levels of processing. However, there are already variations from this standard model for some sectors including gold, diamonds and basic raw materials such as sand and gravel. The Review will consider whether different treatment of particular minerals or mineral products is warranted should a compelling case be presented by stakeholders. Any changes will be guided by the principles of equity, efficiency, adequacy, stability and predictability, and transparency and simplicity.

Will the Review consider royalty concessions for businesses experiencing financial distress?

The Terms of Reference makes no provision for royalty concessions for particular businesses to be considered. Royalty concessions are only provided to give companies more time to fulfil their royalty obligations. It is recommended that if Government provides assistance, it should be in the form of a government grant to the project rather than a change to the payable royalty rate. This ensures that the assistance is transparent and does not distort the royalty principles that are reflected in the legislation.

Will the Review undertake any modelling to assess the costs structures of commodity sectors?

The Review will analyse costs structures within and across industries to determine the incidence of the current royalty system and evaluate the effects of any proposed changes to royalties.

How was the 10 per cent mine head benchmark determined?

The State Government adopted the 10% benchmark as the basis for the three-tier mineral royalties system in a 1981 Mineral Royalty Review. The benchmark rate was considered fair, and has proven to be a durable gauge for balancing public and industry interests in the collection of royalties.

Will the Review consider changes to the 10 per cent mine head benchmark?

Yes, the Review will consider changes to the 10 per cent mine head benchmark, as outlined in the Terms of Reference. The Review:

"'will examine the ongoing efficacy and appropriateness of the policy that revenue returned from royalties is broadly equivalent to 10 per cent of the total mine-head value of the mineral".

How does the three-tier royalty rate system relate to the 10% benchmark?

The three-tier system applies royalty rates of 2.5% to metals, 5% to concentrate and 7.5% to crushed and screened products. The three rates reflect a standardised response to different levels of value added processing after the ore is mined. Lower rates apply to more processed products to allow for the increasing costs of converting the ore into semi-processed, concentrate or metal form as it is transformed through the value chain. The resource value of a commodity is a smaller percentage of the sale price of a highly processed mineral than one subject to minimal processing. The 10 per cent benchmark provides an approximation for underpinning these three tiers.

Are iron ore rentals *de facto* royalties and, if they are, should they be taken into account as part of the iron ore royalty return to the State?

Additional Lease Rentals are specific rate charges per tonne of iron ore produced from both State Agreement and *Mining Act 1978* projects 15 years after commencing production. They were added to Agreements where there was an obligation to construct new harbour facilities that would later be transferred to the State. They are outside the royalty system and will not be considered in this Review.