Document 2

TREASURY EXECUTIVE MINUTE

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21 March 2012

Deputy Prime Minister and Treasurer

BR12/136 – MEETING WITH BHP BILLITON CEO MARIUS KLOPPERS

Timing: Wednesday, 28 March 2011 at 11.00 am.

Recommendation/Issue:

- You are meeting with Dr Marius Kloppers, Chief Executive Officer of BHP Billiton.
- BHP has identified their recent investment activities and public statements on government policy as topics for discussion.

Noted Signature:...................................... ...../...../2012

KEY POINTS

- BHP Billiton is the world's largest diversified natural resources company; and is among the world's largest producers of major commodities including aluminium, copper, energy coal, iron ore, manganese, metallurgical coal, nickel, silver and titanium minerals, uranium; and also has substantial interests in oil and gas.
- Dr Kloppers has been a Director of BHP Billiton Limited and BHP Billiton Plc since January 2006. He was appointed Chief Executive Officer on 1 October 2007.
- Please find attached talking points and background briefing on the following topics:
  - the MRRT and PRRT (Attachment A);
  - BHP's recent and prospective Australian projects (Attachment B);
  - commodity prices (Attachment C);
  - BHP's financial performance (Attachment D);
  - BHP and carbon pricing (Attachment E);
  - fly-in fly-out community concerns (Attachment F);
  - BHP's industrial dispute in Queensland (Attachment G); and
  - foreign investment (Attachment H).
- The following areas have been consulted in the preparation of this minute: IG20D; FITPD; ITD; IEDD; SPD; and the Department of Resources, Energy & Tourism.

Contact Officer: Ext:

Manager
Industry Policy Unit

ATTACHMENT A

THE MINERALS RESOURCE RENT TAX (MRRT) AND PETROLEUM RESOURCE RENT TAX (PRRT)

Talking Points

- *The MRRT and PRRT Bills passed the House of Representatives on 22 November 2011 and were passed by the Senate on 19 March 2012.*
- *Technical MRRT amendments, including some identified by industry, were introduced on 21 March 2012 as part of the second Taxation Law Amendment Bill (TLAB). The TLAB was released for consultation on 13 February 2012.*
  - *Further required technical amendments have been identified in relation to the MRRT and the PRRT. These are expected to be progressed as part of a technical amendments Bill in the winter sittings.*

Background

- From 1 July 2012, the Mineral Resource Rent Tax (MRRT) will apply to the mining of iron ore and coal in Australia. The existing Petroleum Resource Rent Tax (PRRT) will be extended to include all onshore and offshore projects involving both oil and gas production.
- The fundamental design of both the MRRT and PRRT extension reflect the parameters outlined in the 2010 Heads of Agreement between the Government and BHP, Rio Tinto and Xstrata.
- The MRRT and PRRT Bills have been developed in partnership with the resource sector through one of the most comprehensive stakeholder consultation processes undertaken. BHP was an active participant in all aspects of the consultation process.
  - BHP met with the Policy Transition Group during the policy design phase.
  - BHP has a direct representative on the Resource Tax Implementation Group and provided detailed technical comments on the MRRT exposure draft.

BHP comments regarding the MRRT and PRRT

- BHP has made minimal public comments on the MRRT or PRRT. These taxation measures raised no questions in recent analyst briefings and have not been mentioned in recent presentations.
- BHP have been active members of Resource Tax Implementation Group and had direct representation through Brian Purdy. Many of BHP's other concerns with the MRRT were raised through the submissions of the Minerals Council of Australia (MCA).
  - On 20 March 2012 the MCA was quoted as stating: 'Revenue forecasts or projections are necessarily and solely the domain of the Treasury and the government. At no point did the MCA, industry or other representative bodies agree to revenue outcomes or projections tied to the design of the MRRT… At every stage, the government relied on Treasury modelling of MRRT revenue.'

- On 21 March 2012 *The Australian* reported that BHP's iron ore executive, Ian Ashby, said he was unable to estimate the potential impact of the minerals resources rent tax.
  - Mr Ashby, who was at an iron ore conference in Perth, said BHP was 'working our way through the numbers' and attempting to answer key questions – 'What's the tax base? What are the deductions?' he said.
  - The comments follow those in Rio Tinto's annual report, released on 16 March 2012, that 'given the complexity of the MRRT, quantification remains in progress.'
- BHP's 2011 Annual Report states:
  - The MRRT would operate in parallel with State and Territory royalty regimes, with all current and future royalties fully creditable against the MRRT. The proposed MRRT and PRRT extension will increase the effective tax rate of Australian coal and iron ore operations and the North West Shelf project. This could have a negative effect on the operating results of the Group's Australian operations. The MRRT and PRRT extension is subject to the passing of legislation by the Australian parliament, and the final legislation may differ (wholly or in part) in its final form from current expectations.
- At BHP's 2010 Annual General Meeting, in response to shareholder questions, BHP stated:
  - It is 'premature to speculate on the amount of tax that will be paid in FY13, and this is consistent with BHP Billiton's practice of not providing earnings forecasts, including forecasts of tax or royalty payments to Governments.'
- On 2 July 2010, following the announcement of the MRRT, BHP issued supporting press releases and a letter to shareholders, stating that with the heads of agreement 'a good foundation has now been established on which an effective tax can be implemented'.

Contact Officer: (ITD) Ext:

ATTACHMENT B

BHP'S RECENT AND PROSPECTIVE AUSTRALIAN PROJECTS

Talking Points

- *I understand BHP approved US$12.9 billion worth of projects in 2010-11, with a further US$4 billion in the six months to December 2011, most of which is in Australia.*
  - *But there are reports that Chairman Jacques Nasser has told investors that BHP is re-evaluating its spending plans as Chinese growth levels off.*
  - *Do you have any further details on changes to BHP's investment plans?*
- *Given the uncertain status of the TEMCO manganese plant in Tasmania, is there scope for BHP to absorb potential job losses elsewhere in the company?*
- *Are there any other closures or downsizing expected at other BHP facilities?*

Background

- In 2010-11, BHP approved development of US$12.9 billion (BHP's share) worth of projects, of which around US$10.6 billion are in Australia, including (jobs figures are provided where available):
  - Macedon off-shore gas project, WA, US$1 billion, 300 construction jobs.
  - Pilbara Jimblebar iron ore mine expansion, WA, US$3.3 billion.
  - Port Hedland Inner Harbour expansion, WA, US$1.9 billion, 200 jobs.
  - Port Hedland port blending and rail yard facilities, WA, US$1.4 billion.
  - Bowen Basin Daunia mine development, QLD, US$800 million, 450 construction and 500 operations jobs.
  - Bowen Basin Broadmeadow mine life extension, QLD, US$450 million.
  - Bowen Basin Mackay Hay Point port expansion, QLD, US$1.25 billion.
    - : News reports indicate that these three Bowen basin projects will together create 2,650 jobs.
  - Hunter Valley Mt Arthur (known as RX1) mine expansion project, NSW, US$400 million, 300 jobs.
- In the six months to December 2011, BHP approved development of US$4 billion (BHP's share) worth of projects, of which around US$3.6 billion are in Australia, including:
  - North West Shelf LNG plant throughput maintenance, WA, US$400 million.
  - Pilbara Orebody 24 iron ore mine maintenance, WA, US$698 million.

- Bowen Basin Caval Ridge mine development, QLD, US$2.1 billion, 1,200 construction and 500 operations jobs.
- Newcastle port expansion, QLD, US$367 million.

• BHP has a number of additional projects in prospect, particularly:

- Olympic Dam copper/uranium/silver/gold mine expansion, SA, which is under its first phase and involves US$1.2 billion of pre-commitment expenditure. The project would create around 10,000 jobs if it proceeds.
- Port Headland Outer Harbour (new wharf, jetty and shipping channel) development, WA, which is also under its first phase with US$779 million of pre-commitment expenditure.

• On 23 February 2012, BHP announced that it would temporarily suspend production at its manganese alloy facility, TEMCO, in Bell Bay, Tasmania, for a three-month review of the operation.

- This facility produces ferro alloys which are used in steelmaking. Most of the facility's production is exported, but around a quarter is sold domestically (to BlueScope Steel).
- There will be no change in the employment status of 300 permanent employees during the three-month review period, but 100 contractors will lose their jobs.
- The high Australian dollar, low manganese prices and rising input costs have been cited as the reasons behind the suspension.

• On 20 March 2012, the *Australian Financial Review* reported that BHP Chairman Jacques Nasser had told select investors that the company is re-evaluating its spending plans as it reviews its projection that Chinese steel production will peak in 2020.

- The article identifies the Pilbara mine and port expansions, the Olympic Dam expansion and potash projects in Canada as investments that may be under review.
- BHP has not, to date, made any market announcements on these reports.

Contact Officer: (IEDD) Ext:

ATTACHMENT C

COMMODITY PRICES

Talking Points

- *I understand BHP is expecting continued strength in copper, iron ore and metallurgical coal prices, but less so in aluminium, nickel and manganese alloy prices. Do you have a sense that these weaker metals will eventually strengthen with Chinese and Indian development?*

Background

- In BHP's commentary on the outlook of commodity prices, as reported in its 2011-12 half year results, the miner expects underlying demand growth rates to remain robust, particularly for copper, iron ore and metallurgical coal.
  - BHP states that 'geopolitical factors are once again likely to influence crude oil pricing' and that the outlook for aluminium, nickel and manganese alloy 'remains challenging.'
  - In the longer term, BHP is 'positive on the outlook for the global economy as the drivers of urbanisation and industrialisation in China, India and other emerging economies are expected to underpin global growth and robust commodities demand.'
- On 20 March 2012, BHP's iron ore executive, Ian Ashby, was reported as saying 'steel growth rates will flatten, and they have flattened,' which raised market concerns about Australia's trade outlook – briefly dragging both the Australian sharemarket and dollar lower.
  - However, Mr Ashby's comments were taken out of context, as he went on to say that iron ore demand would 'grow strongly' in the next 10 years, with consumption of the mineral to grow at more than 3 per cent globally over the next eight years. It was not until after 2025 that Mr Ashby said China's demand for steel and therefore iron ore would 'soften markedly'.
  - Moreover, groups such as the China Iron and Steel Association and Cliffs Natural Resources have also warned recently that steel demand in China would grow at slower rates than during recent years.

Treasury commodities update

- Commodity prices have generally strengthened since the end of 2011, as signs of a pickup in growth in the US and solid growth in China have eased global slowdown concerns.
  - The Reuters Jefferies Commodity Research Bureau (CBR) global commodity price index has risen around 4 per cent since the end of 2011.
  - Nevertheless, the European sovereign debt crisis remains a threat to the global economic outlook, creating an environment of risk and uncertainty, which may contribute to continued commodity price volatility in the near term.
  - In addition, recent events relating to Iran have contributed to rising oil prices and highlighted the potential for an oil price shock, which, if realised, would pose a threat to the global economic recovery.

- **Iron ore** prices have traded within a narrow band in recent weeks, while **coal** prices have experienced mild fluctuations.
  - Iron ore prices have now risen around 2 per cent since the Mid Year Economic and Fiscal Outlook (MYEFO). Iron ore exports were impacted by Cyclone Heidi earlier in the year, which resulted in the closure of Port Hedland for a few days and subsequently a lower volume of trade in the month of January.
  - The ports of Dampier and Hedland closed on 16-18 March, in preparation for the arrival of Cyclone Lua. Both ports have since reopened, with early reports suggesting no serious damage to either port. The impact of the cyclone and port closures on iron ore production and exports is still being assessed but is not anticipated to be significant.
  - The spot price of hard coking coal has fallen around 10 per cent and thermal coal prices have fallen 8 per cent since MYEFO. There have been some reports of minor disruptions to coal production from recent rainfall in Queensland and New South Wales. However, these disruptions are not currently assessed as being economically significant or outside normal seasonal conditions.
- **Base metal** (copper, lead, nickel, zinc, aluminium and tin) prices fell in 2011 due to concerns about the potential for a 'hard landing' in China and possible recessions in Europe and the United States. However, supply constraints for many base metals, coupled with a general improvement in global demand, saw prices rise towards the end of 2011 and into 2012.
  - On 16 March 2012, the London Metals Exchange (LME) Index (a proxy for base metal prices) had risen 14 per cent since the release of MYEFO (23 November 2011), but fallen 18 per cent since its 2011 peak (14 February 2011).
  - Copper prices have been supported by supply bottlenecks and potential production issues, such as recent labour disputes and strikes by miners in Peru and Indonesia. Copper prices rose around 12 per cent between the end of 2011 and mid March 2012.
- **Crude oil** prices strengthened toward the end of 2011 early 2012, due to improving sentiment over global economic prospects and ongoing tensions in the Middle East, most notably Iran.
  - Iran's threat to close the Strait of Hormuz, a key oil shipping channel in the Persian Gulf, and the European Union's decision to impose an embargo on Iranian oil exports from July this year have highlighted the risk of an oil price shock to the global economic recovery in 2012.
  - Saudi Arabia has indicated that it is aiming to keep crude oil prices around US$100 per barrel, reflecting its commitment to new public expenditure to limit social unrest following the Arab Spring.
  - At US$107 per barrel on 16 March, the price of West Texas Intermediate is around 42 per cent higher than its recent low of US$75 in October 2011. The WTI futures curve suggests the price of oil is expected to rise modestly over the next six months.
- Between the end of 2011 and mid March 2012, the price of **gold** has risen around 10 per cent and is currently trading around US$1,680 per ounce. This partly reflects increased investor demand for gold as a safe haven amid the uncertain global economic outlook.

Contact Officer: (IG20D) Ext:

ATTACHMENT D

BHP'S FINANCIAL PERFORMANCE

Talking Points

- *I note BHP's financial performance remains strong with profit around US$10 billion in the six months to December 2011, despite persistent uncertainty in the global economy.*
- *Is BHP still experiencing the effects of the 2011 Queensland floods?*

Background

- On 8 February 2012, BHP released its financial report for the half year ended 31 December 2011.
- BHP's sales revenue for the six-month period increased on the equivalent prior year period by 9.7 per cent to US$37.5 billion.
  - This was mainly due to record Western Australian Iron Ore production and stronger bulk commodity and petroleum products prices.
- BHP's after-tax profit over the same periods decreased by 5.5 per cent to US$9.9 billion. The decrease was caused by a combination of:
  - temporary reduction in production at several of BHP's leading businesses (flooding effects at Queensland Coal; and industrial action and lower grade copper in Chile);
  - underlying cost pressures (especially increased labour and contractor costs); and
  - higher income taxation expenses in Australia.
- BHP's net debt increased by US$15.6 billion (from 30 June 2011) to US$21.5 billion following the successful acquisition of Petrohawk Energy Corporation in the United States.
- The following table summarises the company's performance in the period.

Half year ended 31 December 2011	**2011 US $M**	**2010 US $M**	**Change %**
Revenue	37,480	34,166	9.7%
Underlying EBITDA	18,743	17,304	8.3%
Underlying EBIT	15,689	14,829	5.8%
Attributable profit (ie., net income)	9,941	10,524	-5.5%
Attributable profit excluding exceptional items	9,941	10,700	-7.1%
Net operating cash flow	12,280	12,193	0.7%
Basic earnings per share (US cents)	186.8	192.4	-2.9%
Basic earnings per share – excluding exceptional items (US cents)	186.8	189.2	-1.3%
Dividend per share (US cents)	55.0	46.0	19.6%

Note: BHP reports in US dollars.

Contact Officer: (IEDD) Ext:

ATTACHMENT E

BHP AND CARBON PRICING

- BHP Billiton is expected to be a liable entity under the Carbon Pricing Mechanism. BHP is likely to be eligible for assistance under the Jobs and Competitiveness Program, Coal Sector Jobs Package and Coal Mining Abatement Technology Support Package.
- In 2010 Mr Kloppers called on Australia to take a global lead on pricing carbon. He has since criticised the Government's climate change policy for the lack of compensation for trade-exposed industries, particularly coal and LNG.
- BHP Billiton remains an active participant in the climate change policy debate. Most recently it made a submission on the price floor discussion paper released earlier this year.

Clean Energy Future Package implementation

- The Government's Clean Energy Future Package legislation is now law, after the final elements of the package received Royal Assent in December 2011.
- In preparation for the introduction of the carbon price on 1 July 2012, the Clean Energy Regulator will start operations on 2 April 2012.

BHP under the carbon price

- BHP is expected to be a liable entity under the Carbon Pricing Mechanism.
  - In 2009 and 2010 the company emitted 5.2 mt of direct and 1.8 mt of indirect greenhouse gas emissions respectively.
- BHP is expected to be eligible for assistance under the Jobs and Competitiveness Program.
  - It is expected to receive free permits at the 94.5 per cent rate for its alumina refining and manganese production activities and at the 66 per cent rate for its nickel operations.
- Its coal mining activities are expected to receive assistance through the Coal Sector Jobs Package (CSJP) and Coal Mining Abatement Technology Support Package.
  - Applications for the 2012-13 funding round of CSJP closed on 29 February 2012.

BHP's involvement in climate change policy

- Mr Hubie van Dalsen, President, Metallurgical Coal at BHP, was a member of the Government's business roundtable on climate change.
- On 8 February, 2012 BHP made a submission on the price floor for the Carbon Pricing Mechanism and identified option 3 (market price at the time of surrender) as their preferred price floor option.

Contact Officer: (IEDD) Ext:

ATTACHMENT F

FLY-IN FLY-OUT COMMUNITY CONCERNS

Talking Points

- *I appreciate BHP's leadership in maintaining good community relations and would welcome further engagement with Government initiatives, such as FIFO Co-ordinators and the Parliamentary inquiry into FIFO workforce practices in regional Australia.*

Background

- BHP has policies in place to minimise the negative impacts and maximise the positive impacts of its business on local communities.
  - BHP's Community Investment Programs are designed to improve the provision of services, infrastructure and quality of life for those who live near where it operates.
  - This program and other partnerships are also designed to help integrate FIFO workers, reduce anti-social behaviour and provide opportunities for alternative activities.
- Despite such initiatives, BHP's plans for FIFO workers' camps in WA have raised community concerns.
  - BHP's initial plans for a 6,000-bed temporary workers' camp near Port Hedland airport to accommodate construction workers for its Outer Harbour Development was rejected by the local council this year, BHP has since revised its proposal. BHP's new plan is a camp for an initial 2,000 workers with the option for an extra 2,000.
  - The WA Corruption and Crime Commission is conducting a preliminary investigation into the council's handling of the BHP proposal following allegations of misconduct.
- The BHP Billiton Mitsubishi Alliance is pressing the Queensland government to support a 100 per cent FIFO workforce for its planned $4 billion Caval Ridge mine, near Moranbah, instead of sticking to plans for 30 per cent of the workforce to be local.
  - BHP says it is having problems filling jobs and wants to source workers from Cairns and areas in southeast Queensland, including the Sunshine and Gold coasts. It also claims that its proposed approach will reduce pressure on Moranbah's community services and infrastructure such as schools, hospitals and roads.
  - Former Cairns Chamber of Commerce president Jeremy Blockey has been appointed Australia's first FIFO Co-ordinator in Cairns. The FIFO coordinators program is part of the Government's efforts to help connect suitable workers in regional areas with available mining and construction jobs in remote locations.
- The House Standing Committee on Regional Australia is conducting an inquiry into the use of FIFO workforce practices in regional Australia. BHP has not made a public submission to this inquiry.

Contact Officer: (IEDD) Ext:

ATTACHMENT G

BHP'S INDUSTRIAL DISPUTE IN QUEENSLAND

Talking Points

- *The Government believes that parties to an enterprise agreement are the ones who best understand their workplace and their business, and are the ones who should resolve workplace disputes.*
  - *Parties can seek Fair Work Australia's assistance (such as through mediation) in dealing with disputes that cannot otherwise be resolved.*

Background

- BHP has been negotiating with unions (the Construction, Forestry, Mining and Energy Union (CFMEU), the Australian Manufacturing Workers Union (AMWU) and the Electrical Trades Union (ETU)) for a replacement enterprise agreement to cover 3,500 employees in seven mines across the Bowen Basin. The bargaining has been protracted, with significant industrial action occurring since mid 2011.
  - While negotiations resumed on 15 March 2012, unions have foreshadowed strike action for the next three months if agreement is not reached.
  - The unions claim unresolved matters relate to safety issues, but BHP insists they relate to union rights and the company's ability to manage the business.
  - A draft agreement put directly to the workforce (without the support of unions) in October 2011 was rejected by 92 per cent of staff in the ballot. The offer included a 5 per cent per annum wage increase and a $15,000 bonus.
- Marius Kloppers has been reported as stating that 'federal workplace laws make it more difficult to negotiate new enterprise agreements because unions can issue more claims to companies'.
  - In late 2011, the Australian Government has commissioned an independent panel to undertake an evidence based assessment of the operation of the *Fair Work Act 2009*, and the extent to which its effects have been consistent with the Government's objectives for the Act. The panel is to report to the Government by 31 May 2012.
  - In its submission to the Review, BHP raises concerns, among other things, over the content of agreements (being to matters beyond the employment relationship), and notes BHP's industrial relations philosophy includes Management's retention of ultimate responsibility and right to run the business.

Contact Officer: (SPD) Ext:

ATTACHMENT H

FOREIGN INVESTMENT

Talking Points

- *The Government welcomes foreign investment because of the benefits that it provides to the economy. Like many other countries we review foreign investment proposals to ensure they are not contrary to the national interest.*

Background

- Sections 47E and 47G

- The Foreign Investment Review Board (FIRB) is a non-statutory body responsible for examining foreign investment applications and advising the Treasurer on the national interest implications. The Treasurer has the power to block foreign investment proposals or apply conditions to the way proposals are implemented to ensure they are not contrary to the national interest.

- The factors typically considered in assessing a proposal include national security, competition, other Australian Government policies such as taxation; the impact on the economy and the community; and the character of the investor.

- The foreign investment screening arrangements strike a balance between protecting the national interest while ensuring that Australia remains an attractive destination for foreign investors. Australia rarely rejects, or imposes conditions upon, foreign investment proposals.

Contact Officer: (FITPD) Ext: