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Exempt - section 22

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**From:** Stojanovski, Pero  
**Sent:** Monday, 20 September 2010 10:07 AM  
**To:** McDonald, Hamish  
**Cc:** Francis, Geoff; Goldsworthy, Brenton  
**Subject:** RE: SA mining royalties [SEC=UNCLASSIFIED]

Hi Hamish,

Attached is a Note For File on the South Australian royalty increase and its impact on MRRT revenue.

Cheers,

Pero

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**From:** Francis, Geoff  
**Sent:** Friday, 17 September 2010 11:35 AM  
**To:** McDonald, Hamish  
**Cc:** Stojanovski, Pero; Goldsworthy, Brenton  
**Subject:** FW: SA mining royalties [SEC=UNCLASSIFIED]

Pero

Is having some difficulty finding exactly what SA has factored in for iron ore, but the total royalty increase is \$65 million of which iron ore will only be a component. So there is unlikely to be a large impact on MRRT from this one.

Geoff

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**From:** McDonald, Hamish  
**Sent:** Friday, 17 September 2010 11:16 AM  
**To:** Francis, Geoff  
**Subject:** RE: SA mining royalties [SEC=UNCLASSIFIED]

Thanks Geoff - I would be interested to see the stuff from Brenton/Pero.

**From:** Francis, Geoff  
**Sent:** Friday, 17 September 2010 9:59 AM  
**To:** McDonald, Hamish  
**Cc:** O'Toole, James; McCullough, Paul; Brown, Colin (RG TAD); Goldsworthy, Brenton; Stojanovski, Pero  
**Subject:** RE: SA mining royalties ~~[SEC=IN-CONFIDENCE]~~

Hamish

The lines seem fine. Most of the commodities listed are not subject to MRRT. Coal is not mentioned. I am not sure if SA has much. The rate increase for iron ore will have implications for MRRT revenue.

Brenton/Pero would you please have a look to see if you can find out what SA have factored into their Budget in terms of the revenue increase for iron ore. Presumably if we credit this, it will come straight off the bottom line for MRRT, (with possibly some extra loss if there is any uplift of the royalty credits).

James

Has the minute of royalty crediting been sent? If not now might be an appropriate time to review and send it.

Geoff

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**From:** McDonald, Hamish  
**Sent:** Friday, 17 September 2010 9:37 AM  
**To:** Francis, Geoff  
**Subject:** FW: SA mining royalties ~~[SEC=IN-CONFIDENCE]~~

Hi Geoff,

I presume you saw the change in the SA Budget.

Would the appropriate lines for public consumption be something like:

- The Policy Transition Group are considering options around the interaction of State royalties and the MRRT.
- When we announced the MRRT we said we would credit existing and scheduled increases in royalties, and discuss future changes in State royalties with State governments.

As background, I'd think the SA change would have little impact on the MRRT revenue, in the broad scheme of things?

Cheers,  
Hamish

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**From:** Thompson, Alyse  
**Sent:** Friday, 17 September 2010 9:28 AM  
**To:** McDonald, Hamish  
**Subject:** SA mining royalties ~~[SEC=UNCLASSIFIED]~~

Hi Hamish,

As discussed, here is the extract on royalty revenues from the SA budget:

**Royalties**

A new three-tiered system for applying mineral royalty rates will be introduced from 1 July 2011. It is estimated to provide an additional \$65.5 million of revenue over three years.

A royalty rate of 3.5 per cent will be retained for refined metallic products, including refined copper, gold and silver. It

will also continue to apply to categories of industrial minerals and construction materials, including limestone and gypsum. Retaining the 3.5 per cent rate for industrial minerals and construction materials will ensure that the housing and construction sector is not affected by the changes. Extractive minerals (such as sand, gravel and stone) also remain at their existing rate of 35 cents per tonne.

The royalty rate will be increased to 5.0 per cent for other mineral products, generally concentrates or minimally processed products, including copper concentrate, uranium oxide concentrate and iron ore.

New mines will remain eligible for a concessional rate for the first five years, but this rate will be increased to 2.0 per cent from 1.5 per cent. Existing mines paying the 1.5 per cent rate will be subject to this rate until the end of their five year term.

**Alyse Thompson**

Analyst

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## South Australian Royalty Increase and the Impact on MRRT Revenue

- On 16 September 2010, the South Australian Government announced a new three-tiered mineral royalty regime effective from July next year.
- Among other minerals, the royalty rate for iron ore and coal has increased from 3.5 per cent of sales value to 5 per cent of sales value.
  - In addition, mines in the first five years of production will receive a concessional royalty rate of 2 per cent of sales value (previously 1.5 per cent of sales value).
    - : Existing mines will continue to receive the 1.5 per cent royalty rate until the end of their 5 year term.
- The royalty rate increase will impact MRRT revenue estimates via the crediting of royalties, which will result in a reduction in MRRT payable.
- The impact of the royalty rate increase on MRRT revenue estimates is unlikely to be significant.
  - The increase in royalty rates is expected to increase royalty revenue by \$55 million over the period relating to the first two years of the MRRT (an additional \$10 million is expected to be raised in 2011-12).
  - Coal and iron ore represent a small proportion of the value of total minerals produced in South Australia (Source: ABS Catalogue 8155.0). Consequently, these minerals represent a small proportion of total royalty revenue collected.

	Black Coal	Iron Ore
2001-02	3%	1%
2002-03	3%	2%
2003-04	3%	2%
2004-05	2%	1%
2005-06	2%	6%
2006-07	2%	7%
2007-08	2%	11%

- Given that the MRRT revenue estimates total \$10.5 billion, the \$55 million increase in South Australian royalty revenue (a small portion of which relates to coal and iron ore) is unlikely to have a significant impact on these estimates.