

# New Hope Coal Australia

A Division of NEW HOPE CORPORATION LIMITED

ABN 38 010 653 844

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The General Manager  
Business Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

## **Draft Law for R&D Tax Credit does not deliver policy intent**

New Hope Corporation Limited (New Hope) understands that it is the Government's objective for the new R&D Tax Credit to deliver:

- Additionality – R&D that would not have been undertaken in the absence of an incentive
- Spillovers - benefits surpassing those directly incentivised
- More predictability and less complexity
- Increased concessional rates (especially to SMEs) while maintaining revenue neutrality.

We appreciate some tightening of the current program is required. New Hope's concern is that the expanded 'exclusions list' and the augmented 'feedstock' rules will result in:

- reduction in R&D being undertaken in Australia
- loss of a culture of R&D fostered by the existing program.

We believe the other limiting measures (the changes to the definitions of core and supporting activities) will adequately limit claims for revenue neutrality.

## ***New Hope's Business***

We are an independent energy company, which specialises in thin-seam mining. The company has open cut mines at Acland on the Darling Downs, and at Rosewood near Ipswich. New Hope focuses on niche marketing of its thermal coal and exports around 75 per cent of its coal production to Asia Pacific markets including China, Japan, Korea and Chile with the remainder being consumed by customers in south-east Queensland. The company also holds various exploration tenements in central Queensland and on the Darling Downs in southern Queensland. With our head office at Brookwater, near Ipswich, New Hope manages each step in the coal production chain, from exploration and mining the mineral, through to delivering it to customers. The company and its subsidiaries interests include coal mining, port operations and resource based activities in Queensland. The company is a major employer in the regional centres of Ipswich and Toowoomba employing some 515 employees across the two regions, and many contractors associated with our mining and exploration activities.

## ***New Hope and R&D***

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New Hope has a long history of investing in R&D and has previously received assistance from the Government in the form of the R&D Tax Concession to support this investment. The company believes that innovation and R&D are core components to its business operations and helps to stand it apart from its competitors. For instance, through a comprehensive program of eligible R&D, the Group has successfully developed a complex thin seam coal mine at Acland, near Toowoomba, Queensland, which employs 164 people and contributes to the local community. Without the company's investment in R&D, this precious resource would very likely never have been recovered as most coal mining producers would consider the tenement too difficult to mine.

New Hope also has plans to diversify into new technology fields and is pursuing a Coal to Liquids initiative. The project is targeting excellent environmental credentials and plans to be a great example of clean coal technology. The design targets CO<sub>2</sub> equivalent emissions of less than 10% of that generated by the equivalent amount of coal burnt in a conventional power station, or less than 20% of the CO<sub>2</sub> generated by the equivalent energy of natural gas consumed in a power station. In oil equivalent terms this equates to less than 100kg of CO<sub>2</sub> per barrel of oil (159 litres). This outcome, if achieved, is significantly improved upon a commonly held perception that Coal to Liquid processes can create up to one tonne of CO<sub>2</sub> per barrel of oil equivalent. The anticipated benefit of the R&D tax concession has been a key consideration of the company to undertake this revolutionary initiative, and similarly the new R&D tax incentive will be a key consideration going forward. New Hope accounts for R&D incentives in its R&D planning process and reductions in R&D incentives may jeopardize projects like this, or at the very least, restrict the speed at which they can proceed.

### ***Problems with Excluded Activities***

The proposed Legislation excludes certain activities, notably "pre-production" including trial runs. Our concern is that this exclusion is very broad, and if interpreted literally could exclude legitimate experimentation, even design activities (as these occur prior to production). We don't believe it is the Government's intention.

We believe the tightened definitions of core and supporting activities adequately eliminates activities from receiving concessional treatment where there is questionable merit for public support. Where activities were close to commercial production (eg, the "shake down" run, per p34 of the Explanatory Materials), these activities would be excluded as they would lack the required level of technical risk, or they would not be carried on for a dominant purpose of supporting the core activities.

*Action required:* Specifically excluding these activities is not required. Please remove this exclusion.

### ***Problems with the Augmented Feedstock Rule***

The proposal expansion of the Feedstock rules results in only incentivising unprofitable R&D, with the effect of (barring a couple of limited exclusions) Government support for R&D being channelled away from company's undertaking profitable R&D and redistributed to those undertaking loss-making R&D.

We believe there are good reasons for the Government to support profitable R&D. New Hope and other successful companies accessing the current program have a history of developing and commercialising good ideas...this is what should be incentivised. Companies with great ideas, the culture to foster the generation of those ideas and the management to successfully develop and commercialise those ideas – these are the

companies and projects generating the biggest and repeated spillovers and where the Government should be channelling support – so these companies can undertake more of the R&D they are successful at.

*Action required:* At this point, only conceptual design has been quarantined and the Government is considering what further costs to exclude from the feedstock calculation. To make the law workable, we believe that labour costs should also be quarantined since this has a spill-over effect into the community from an employment perspective.

### ***New Hope's innovative culture and the R&D Tax Concession***

New Hope has a long history of undertaking R&D activity and is proud of the innovative culture that, to a large extent, the R&D tax concessions have driven in it's workforce to date. We have always encouraged employees to think "outside the box" to achieve a better commercial outcome, and often with that has come innovation and technical risk which the current program has acknowledged and supported.

### ***Conclusion***

If the law is passed in its current state, we do not believe the true intent of the legislation will be achieved. New Hope will most likely undertake less R&D activities than it historically has, with the flow on effect to the local communities being less employment (through contractor activities) and the current innovative culture and thinking of our workforce will be curtailed.

We strongly urge the Government to reconsider the changes it proposes to the R&D Tax Incentive legislation by:

- Removing "pre-production" activities from the exclusion list.
- Quarantining labour costs from the feedstock calculation.

If you wish to discuss any aspect of this submission, please contact me on (07) 3418 0512.

Yours faithfully



Matthew Busch  
Financial Controller / Company Secretary