

26 July 2018

The Hon Michaelia Cash  
Minister for Industry, Innovation and Science  
GPO Box 9839  
Canberra ACT 2601

Dear Minister

**Background:**

On 6 August 2016, Latrobe Magnesium Limited (LMG) received an Advance Ruling to develop an experimental plant for environmentally friendly production of magnesium and supplementary cementitious material from brown coal fly ash produced from the power stations in the Latrobe Valley.

**Existing Approval:**

The Activities approved by Innovation Australia are currently estimated to cost more than \$46m, but by the time the experimental plant is built the cost is likely to exceed \$50m.

Our understanding at the time of the Finding was that it will give us certainty that LMG will receive 45% of this amount through R&D Tax Incentives (45% of \$50m = \$22.5m). This certainty is a necessity for LMG to be able to raise the balance of the funding for the project to enable it to proceed.

**Exposure Draft for the 2018 Budget:**

The proposed changes in the 2018 Budget included a reduction to the R & D %'s from 43.5% to 41% for small companies. This means that LMG's R & D Tax Incentive benefit for \$50m will drop from \$22.5m to \$20.5m. This change introduced a degree of uncertainty.

**Current Concern:**

The proposed change to: "Introduce a cap in the order of \$4 million on the annual cash refund payable under the R&D Tax Incentive, not including clinical trials, with remaining offsets to be treated as a non-refundable tax offset carried forward for use against future taxable income".

We do not understand why clinical trials have been excluded to the detriment of some other industries?

If our R&D Tax Incentive is eligible for payment over two years, enacting this Recommendation would reduce the cash component of our tax incentive from \$21.75m to \$8m. This would put the raising of funding and therefore the entire project in total jeopardy, notwithstanding the existence of an Advanced Ruling.

**Impact:**

The announced changes will mean that the project will be stalled until a decision is made.

The project is unique and the first of its kind in the world. It is environmentally friendly and sustainable and produces much needed jobs for the Latrobe Valley, one of the highest unemployment areas in Australia.

The Victorian Government is happy to receive our grant application for financial support of the project under their Regional Jobs Program but no doubt they will also now wait until these changes have been decided.

**Recommendation:**

Whilst we acknowledge the need for budget restraint, we would recommend that a decision should be made, and announced, that regardless of any future changes to the R & D Legislation, cash benefits from any Advanced Findings already made by Innovation Australia should be honoured.

We request that the Government remove this uncertainty as soon as possible as it will affect not only our project, but many similar significant experimental projects and potentially destroy Australia's ability to continue as an Innovation Nation.

**Conclusion:**

The retrospective nature of this change should be eliminated as it could effectively bankrupt companies that have already entered into lending arrangements on the basis of an Advanced Finding.

We are in discussion with a number of funders who are interested in supporting the project but will not commit until these proposed changes have been decided.

We welcome the opportunity to discuss this with you in more detail at your earliest convenience. I have copied both Darren Chester MP and Richard Broadbent MP, our local members in the Latrobe Valley, with this letter as they both know of our project and have been long term supporters.

I look forward to receiving your response.

Yours sincerely



**David Paterson**  
CEO