

SUBMISSION TO THE PRODUCTIVITY COMMISSION

DRAFT REPORT – REMOTE AREA TAX CONCESSIONS AND PAYMENTS – October 2019



Introduction

Thank you for the opportunity to comment on the Draft Report on Remote Area Tax Concessions and Payments – August 2019.

About AMEC

As the peak national industry Association representing hundreds of mining and mineral companies across Australia the Association of Mining and Mineral Exploration Companies (AMEC) has a direct interest in this Productivity Commission Inquiry.

AMEC position

AMEC does not support any changes to the current design of the remote area tax concessions or payments which will detrimentally impact investment and business decisions made by Australian mining and mineral exploration companies.

These investment and business decisions have, to a certain extent, been based on long-standing arrangements supported by the remote area concessions and exemptions available in the Fringe Benefits Tax (FBT) legislation.

State of the Industry

It is undeniable that the resources sector (including mining and mineral exploration activity) has underpinned Australia's economic growth, wealth creation and employment opportunities over several decades. The long-term health of the Australian mining industry remains crucial to the nation's future economic landscape.

While we continue to increase our overall mineral production volumes we are not replenishing the mines that are coming to their natural end with new discoveries. Contemporary research shows that Australia's rate of mineral discovery is falling despite the fact that there remains incredible prospects for further mineral discovery across the continent. The Geoscience Australia Mineral Exploration Review 2017/18 clearly shows that there are still large areas of the Australian continent that have never been explored, or are under explored.

Without new discovery, Australia's current production levels will begin to decrease, as existing mines exhaust their reserves and close. New mines are needed to sustain current production levels and Government revenue streams. New mine developments are needed to deliver increased employment and social dividends. Australia's natural resources potential is still enormous. However, much of our known resource reserves are deeper, under considerable cover and are not currently economic to exploit. This opportunity is also significantly constrained, because exploration in 'greenfields' areas struggles to attract private investment in a globally competitive environment.

Greenfields mineral exploration in Australia is mainly undertaken by small companies, which rely on raising investment capital to undertake this work, or in entering joint venture partnerships. 'Greenfields' exploration is largely unattractive for private investment because of the high-risk profile,

with roughly only 1 in 100 'greenfields' exploration projects leading to a discovery. These odds aside, few private investors seek such long-term returns, with the average mine taking 13 years to go from discovery to production in Australia.

There can also be an additional long lead time during the initial land access, approval and exploration phases prior to any discovery.

The fact is that our rate of discovery and grades are dropping, and consequently the probability and our ability to develop economic new mines has significantly reduced. This is further accentuated when it is noted that existing mines will come to their natural end and must be replaced.

Current mining operators are closely monitoring their cost base in a globally competitive business environment. These companies are also experiencing fluctuating commodity prices and tight margins.

These issues were all brought to the attention of the Resources 2030 Taskforce and highlighted in the National Resources Statement released by the Minister for Resources and Northern Australia in February 2019. The Statement received broad bi-partisan support from the Labor Party. It is now time to fully implement the 29 proactive recommendations made by the Taskforce, which were also brought to the attention of the COAG Energy Council in December 2018.

As the peak national industry body for mining and mineral exploration companies, the Association of Mining and Exploration Companies (AMEC) has developed a number of key public policy initiatives which are complimentary to the Taskforce recommendations in order to *Maximise Australia's Natural Resources*¹ potential and aim to:

- ✓ Increase economic growth, mining and mineral exploration activity (greenfield and brownfield), and
- ✓ Reduce regulatory red tape and the cost of doing business in Australia.

These policy drivers compliment the work being undertaken by the Productivity Commission in this Inquiry, and the current Inquiry into Resources Sector Regulation.

Detrimental impact of the draft recommendations on industry and regional growth

Industry needs clarity, certainty and predictability in respect of public policy settings, and especially those that relate to taxation matters and impact on decision making. Any removal or reduction to existing concessions and payments will have a significant adverse effect on the social and economic development of remote and regional areas in Australia.

Adoption of the Productivity Commission's draft recommendations will undoubtedly result in increased costs to industry, be contrary to Government objectives to build sustainable communities and regional development and may give rise to unintended inequitable consequences to the industry's state of play.

The major proportion of the AMEC membership are mining and mineral exploration companies with project interests in remote and regional areas, many of which are long distances from civilisation. There is therefore a fundamental requirement for employee attraction and retention purposes that working conditions employers can afford to offer are flexible and provide capacity for labour mobility. This will give employers access to staff with the appropriate and diverse skillsets and experience in a globally competitive environment to level the playing field with other industries.

¹ www.amec.org.au

Members have advised that any tightening of the FBT treatment of remote area employer-provided housing and/or housing assistance, as proposed by the Commission, could potentially result in the closure of localised housing programmes and the sale of company owned housing located in remote areas, potentially unwinding all the investment that has been poured into developing and supporting communities in regional Australia to date. In turn, companies will be forced to consider alternative strategies to cater for skilled labour demand, including increased use of transient Fly-In Fly-Out (FIFO) arrangements and re-deployment of staff away from regional centres; options of which the Government has traditionally been encouraging employers to adopt only as an option of last resort.

This is likely to negatively impact local property markets and employment of local workers. One member has advised that changes to the FBT arrangements surrounding employer provided housing assistance will also directly affect programs designed to create a workplace which supports and promotes Aboriginal employment in regional areas. In this case, a number of Aboriginal employees are 'residential FIFO' in a major regional centre and fly to nearby mine sites. These arrangements would need to be reviewed if there was any tightening of FBT treatment of remote area employer provided housing assistance.

These industry views are contrary to the observations made by the Commission that "*FBT exemptions for FIFO workers, while widely used, are likely to have only a minor influence on decisions to maintain a FIFO workforce.*"²

This statement appears to be mis-informed and without commercial reality when noting that the Commission has stated the exemption for employer provided housing could cost in excess of \$400 million per annum.³

Detrimental impact on employees

In addition to mining companies being directly affected, members have pointed out that employees who receive the benefit of the FBT remote area concessions through salary sacrificing will be at a further disadvantage if the exemption is removed or reduced to a 50% FBT concession.

Detrimental impact of changes to boundaries

We further note the Commission's Finding that remoteness areas published by the Australian Bureau of Statistics would be a more suitable basis for defining boundaries. AMEC considers that great care needs to be taken in making any such changes as areas that are currently eligible for concessional treatment may become ineligible, thereby creating unintended financial, economic and project related consequences for existing and future mining operations. As an example, the Commission has highlighted that Kalgoorlie would no longer be considered remote.⁴ This would be a disastrous outcome for the gold fields community. In the event that changes were made to boundaries consideration would need to be given to a long transitional process in order that the impact could be built into planning and business decision making.

Extend and increase the concessions and payments

² Draft Report – page 203

³ Ibid – page 294

⁴ Ibid – page 211

Members consider that Governments should be expanding the range and increasing the FBT concessions⁵ and other programs⁶ offered to work, live and invest in regional and remote areas, and not the disincentives as proposed by the Commission.

Reduced administration and compliance costs

As detailed by the Commission⁷ and the Henry Tax Review⁸ previous reviews have identified issues with the complexity and design of FBT arrangements. Members have indicated a strong desire for the resultant existing administration and compliance burden to be significantly reduced, and not increased.

For further information please contact:

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⁵ Including extending the FBT housing exemption to all rental accommodation for residential employees

⁶ Examples include the Northern Australia agenda, the Northern Australia Infrastructure Facility, Royalties for Regions, improved Government infrastructure and services (health care, police, education)

⁷ Draft Report – page 206

⁸ Henry Tax Review 2009 – page 41