

7 May 2009

AFTS Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Secretariat

The Queensland Resources Council's comments to this review are confined to the issue of how losses should be treated (originally raised in the August 2008 architecture paper), and specifically, flow through shares for junior exploration companies.

The QRC strongly supports the introduction of a flow through shares (FTS) scheme to address structural impediments facing junior exploration companies, across all resources, in raising capital for new and increased levels of exploration investment.

Currently, junior exploration companies with little or no taxable income are unable to immediately deduct exploration expenses. Without such deductions, exploration costs are higher resulting in lower levels of activity – and as illustrated in Australia over recent decades – resulting in fewer substantive new discoveries and new resource projects. The immediate deductibility of eligible expenses is a key parameter of Australia's company taxation system and recognises the longer term benefits of exploration and the associated risks of this activity.

Based on Australia's dividend imputation system, the resources sector is advocating a FTS scheme where junior Australian exploration companies exploring in Australia are able to pass 'unusable' tax deductions on to their Australian shareholders. Exploration Tax Credits (ETCs) would be available to shareholders at the Australian company tax rate of 30 per cent. Eligible shareholders would be entitled to use their ETCs to offset tax liabilities.

The changing macroeconomic environment over the past 6-12 months has demanded a dual focus on both longer term reforms along with those capable of providing an immediate stimulus to a substantially weaker Australian economy. The Australian Government has implemented a range of stimulatory policy measures and is considering additional measures in the 2009-10 Budget.

Within this context, a major report by Synergies Economic Consulting and the Centre of Policy Studies released today (attached with accompanying Joint Industry Communiqué) provides strong evidence that the immediate implementation of a FTS scheme for Australian junior exploration companies would result in increased exploration expenditure of 10 to 30 per cent. Further, the analysis concludes that the immediate implementation of a FTS scheme would be a very worthwhile stimulus measure, delivering significant short term socio-economic benefits across Australia.

Coupled with high labour intensities, few impediments and significant spare capacity in exploration and supporting industries, and at an estimated cost to government of approximately \$130 million per year, the report finds that between 2009-10 and 2012-13, a FTS scheme could generate immediate socio-economic benefits across Australia through up to:

- 4,196 new jobs
- \$114.4m in additional Gross Domestic Product
- \$191.2m in additional real private consumption
- \$965.1m in additional real investment

While important, the analysis did not attempt to quantify the substantial 'flow-on' of economic benefits expected beyond 2012-13 when more exploration is inevitably translated into more discoveries, and in turn, new mines, increased minerals and energy production and increased royalties to the States.

Compared with other industries often promoted as vehicles for generating increased economic activity, 'mining exploration' ranks number one in terms of value-adding and number three behind 'residential construction' and 'financial services' in terms of employment generation.

A FTS scheme introduced in Canada more than a decade ago is attributed with significantly increasing capital flows and net exploration and mining activity in that country.

The long-term benefits of a FTS scheme have already been recognised by the Australian Government. The development of a tailored FTS scheme was promised by the Australian Labor Party at the 2007 federal election.

The Government's current position is that the FTS will be looked at in the Australian Future Tax System (AFTS) Review.

Whilst supportive of this comprehensive review, we are concerned that the Review is not *entirely* the correct mechanism for government to pursue this important reform as:

- The focus is not entirely consistent. The bias towards new, large, and more structural longer term reforms conflicts with a FTS scheme, which is a pre-existing government commitment, and a relatively small one at that in the scheme of the other proposed reforms. Whilst perhaps no less significant, the concern is that an FTS will get 'lost' in the sweep of other, potentially more attuned measures.
- Timing will not be consistent with the Industry's desire of having an FTS in place 'sooner than later'. That is, Government's response to the AFTS Review, and in legislating those recommendations, is likely to extend far beyond that of a 2010/11 Budget timeframe.

### ***The imperative for acting sooner, rather than later....***

The contraction in the Australian resources and exploration sectors has been profound with these sectors bearing the brunt of the global downturn – with significant job losses and stalled investment to date. The global macroeconomic outlook remains highly uncertain, a point reinforced in a soon to be released Australian Institute of Geoscientists survey that will report 53 per cent of Australia's geoscientists expect to be unemployed within the next 12 months. It should be noted that a very large majority of these geologists and geophysicists work in the exploration sector.

As noted above, the high labour intensities, few impediments and significant spare capacity within the exploration and supporting sectors at present means that a FTS scheme has the potential to

deliver significant short term benefits to a substantially weaker Australian, and Queensland economy. An expansion in exploration activity, and subsequent flow on effects in supporting industries such as retail, wholesale, technical, scientific and business services, is consistent with the pledge of all Government's to create additional demand and jobs.

In conclusion, industry seeks an approach whereby government delivers an early 'down payment' on the AFTS Review, and where officials work closely with the Review Panel to collaboratively develop an FTS model based on industry's preferred Exploration Tax Credit proposal (for detailed information on the proposed ETC scheme, please refer to the attached report *Joint industry submission: A proposal to introduce 'flow through shares' [FTS] in Australia*).

Consultations with industry should commence as soon as possible, and be concluded in time for 2010-11 Budget considerations (or perhaps even before).

Yours sincerely

A handwritten signature in cursive script that reads "Michael Roche".

Michael Roche  
**Chief Executive**

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