

LEGISLATIVE COUNCIL
Question on notice

Tuesday, 17 February 2015

2338. Hon Robin Chappie to the Minister for Agriculture and Food representing the Minister for Mines and Petroleum.

I refer to the royalty rebate scheme or "temporary assistance" package offered to junior iron ore miners that was announced before Christmas 2014, and I ask:

(a) what criteria are used to select which junior mining companies are eligible for assistance under the scheme:

(i) which companies have been assisted to date and which companies are currently being considered for assistance;

(ii) does this list of companies include BC Iron, Atlas, Mt Gibson, Cliffs and Mineral Resources;

(iii) how much assistance, in dollar terms, per company, has been granted to each eligible applicant;

(iv) which applicants have been found to be ineligible and for what reasons;

(v) what is the repayment schedule applicable to each company assisted under the scheme;

(vi) what are the interest rates applicable to those mining company assisted under the scheme;

(vii) will the Minister make public all aspects of the scheme; and

(viii) if no to (vii), why not;

(b) how did the Government arrive at the figure of \$90 per tonne as an appropriate trigger for the scheme:

(i) will the scheme end once the price of iron ore is again higher than \$90 per tonne; and

(ii) will the scheme continue indefinitely until the price increases to more than \$90 per tonne;

(c) what is the Government's fall-back position if the price of iron ore does not recover to more than \$90 per tonne by the scheme's end; and

(d) what is the public benefit, in dollar terms, of the scheme?

Answer

The Department of Mines and Petroleum advises:

(a) – (d)

The Minister for Mines and Petroleum has received initial applications from a number of iron ore mining companies for temporary financial assistance. The Minister is yet to make a determination as to which applicants should receive this assistance.

The eligibility criteria and application process are outlined in “Iron Ore Financial Assistance Guidelines for Applicants” and the “Financial Assistance Guidance Note” on the Department of Mines and Petroleum website, copies of which will be tabled for the Members convenience.

A handwritten signature in black ink, consisting of a stylized cursive 'W' followed by a horizontal line and a small dot.



Government of **Western Australia**
Department of **Mines and Petroleum**

**IRON ORE FINANCIAL ASSISTANCE
DEPARTMENT OF MINES AND PETROLEUM
WESTERN AUSTRALIA**

**Guidelines for Applicants
December 2014**

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Guidelines will be updated in response to new issues as they may emerge.

1. INTRODUCTION

The Premier of Western Australia announced on 19 December 2014 that the State Government would provide financial assistance for small iron ore (hematite) miners that meet the assistance criteria.

The assistance will be provided as a rebate of 50 per cent of royalty payments on eligible hematite iron ore projects. This assistance is to occur through ex-gratia payments after the Department of Mines and Petroleum (DMP) receives actual quarterly royalty payments. The royalty will continue to be paid under applicable legislation.

The rebate will be available for a period commencing with the royalty payment for the December 2014 quarter and concluding with the September 2015 quarter.

The rebate must be repaid by 31 December 2017.

The Minister is now receiving applications for Iron Ore Financial Assistance.

2. DEFINITIONS

"Applicant" means the applicant, institution or individual submitting an application.

"Department" means the Department of Mines and Petroleum (DMP).

"Director General" means the Director General of the Department of Mines and Petroleum.

"Initial Application" means the application to the Minister for Iron Ore Financial Assistance.

"Iron Ore Financial Assistance" means the financial assistance announced by the Premier of Western Australia on 19 December 2014.

"Minister" means the Minister for Mines and Petroleum.

"Royalty Rebate" means the rebate of 50 per cent of the relevant royalty payment after the receipt of each quarterly royalty payment by the Department.

3. TIMELINES AND IMPORTANT DATES

Important dates for Iron Ore Financial Assistance:

23 January 2015	Closing date for Initial Application to the Minister for Financial Assistance
13 February 2015	Due date for application for Royalty Rebate for December 2014 quarter
15 May 2015	Due date for application for Royalty Rebate for March 2015 quarter
14 August 2015	Due date for application for Royalty Rebate for June 2015 quarter
13 November 2015	Due date for application for Royalty Rebate for September 2015 quarter

It is the applicant's responsibility to ensure applications are lodged by the specified time. All applications will be acknowledged using the contact details provided on the Application.

4. ROYALTY PAYMENT

Royalty payments are not impacted by the iron ore financial assistance. Royalties must continue to be paid in accordance with the legislation. The amount of financial assistance is based on 50 per cent of the actual iron ore royalty payments that are received by the Department (net of any prior period adjustments).

5. HOW TO APPLY FOR IRON ORE FINANCIAL ASSISTANCE

An Initial Application for consideration for Iron Ore Financial Assistance must be made to the Minister addressing:

1. information requirements specified in the Department's Guidance Note "Requests for Financial Assistance: Evaluation / Information Requirements" (the Guidance Note); and
2. additional information requirements specified in section 6, "Assessment Criteria".

Completed applications must be certified by an external auditor appointed by the Applicant. The certification will provide assurance the information submitted in the Initial Application to the Minister is correct.

6. ASSESSMENT CRITERIA

Iron Ore Financial Assistance is available to mining projects with a commissioned iron ore production capacity of less than 20 million tonnes per annum.

Applicants must be in compliance with all State and Commonwealth legislative requirements including ASX Listing Rules for continuous disclosure under listing rule 3.1.

An Initial Application must include the information specified in the Guidance Note. In addition, the following should be provided:

- Full financial projections based on reasonable assumptions demonstrating long-term project viability against a broad range of economic and market conditions.
- Detailed evidence to demonstrate firm and binding funding support involving adequate sources of debt and equity capital in order to establish the project and sustain it through commissioning to full operations.
- Details of corporate structure demonstrating extent to which project viability can be supported.
- Details of committed market arrangements, adequate to satisfy the requirements of all project funders.
- Details of commitments to local regional communities, including employment and training undertakings, provision of community facilities and ongoing community support and contributions pledged by the proponent.
- Specific financial data comprising:
 - Up to date financials (balance sheet, cash flow statement, profit and loss and forecasts of up to 31 December 2017). Please note that annual reports are insufficient as more up to date information is required.
 - Detailed, itemised costs per tonne (general cost lines e.g. "mining" and "processing" are insufficient).

- Actual price per tonne currently realised on iron ore sales.
 - Itemised other costs: e.g. corporate overheads encapsulating e.g. rent, administration staff etc.
 - Expected costs per tonne for 2015, 2016 and 2017.
 - Staff numbers and grouping (e.g. operations, administration, management)
 - Remaining mine life of all operations.
 - Expected capital expenditure for the next couple of years.
 - Status of expansion plans.
 - Expected exploration budget.
 - Areas under examination to cut costs.
 - Extent of investment in other jurisdictions, i.e. exploration on other projects located outside Western Australia.
 - Ability to repay the Iron Ore Financial Assistance and details of appropriate security for the repayment (e.g. sufficient liquidity and cash reserves).
- Proposed schedule for repayment of the Iron Ore Financial Assistance by 31 December 2017.

The Initial Application must demonstrate that the resource being mined is Western Australian and predominantly hematite iron ore.

If an Initial Application is approved, Applicants must submit further applications each quarter a royalty rebate is sought.

A quarterly application must be submitted by the end of the month following the due date for submitting the relevant royalty return and must include:

- A listing of the free on board prices of the iron ore sold by the applicant and the export sales volume, by shipment, during the relevant royalty quarter.
- A calculation of the weighted average free on board price received by the applicant during the relevant quarter. Conversion to Australian dollars will be consistent with the approach required for royalty returns.
- A calculation of the weighted average cost per tonne of iron ore sold during the quarter.
- The company's cash position at quarter end.
- An update on the progress of cost reduction programs.
- Confirmation of project viability and the company's ability to meet the repayment arrangements agreed with the Minister in the Initial Application.

A quarterly application must be certified by the Applicant's external auditor.

If the free on board price of the iron ore sold by the applicant during the relevant royalty quarter averages below \$A90 per dry metric tonne, the Applicant qualifies for the Royalty Rebate.

The normal royalty payment will be made within 30 days of the end of each quarter, in accordance with legislation. Only royalty payments made after approval by the Minister of the Initial Application will be eligible to receive the Royalty Rebate.

The Royalty Rebate will be paid by the Department after approval by the Director General.

The first Royalty Rebate will be paid in February 2015 in relation to the royalty payment received by the 30 January 2015, relating to the quarter ended 31 December 2014.

7. APPLICATION ASSESSMENT

The Initial Application will be submitted to and assessed by the Minister on a project by project basis. On completion of the assessment process, the Applicant will be notified in writing of the Minister's determination.

The agreed schedule of repayments and Minister's determination will form the basis of a formal repayment agreement between the Applicant and the Government of Western Australia.

It is the responsibility of the Applicant to inform the Minister of any substantial change in factors affecting the accuracy and/or relevance of information supporting the Initial Application.

If the free on board price of the iron ore sold by the Applicant during the relevant royalty quarter averages below \$A90 per dry metric tonne, the Applicant qualifies for the Royalty Rebate.

8. IMPORTANT FINANCIAL ASSISTANCE PAYMENT INFORMATION

Assessment and payment of the Royalty Rebate will be made after:

- the quarterly royalty payment is received by the Department; and
- the application for Royalty Rebate is approved by the Director General.

The Department will calculate the Royalty Rebate and arrange for payment to the Applicant.

The first Royalty Rebate will be paid in February 2015 in relation to the royalty payment received by the 30 January 2015, relating to the quarter ended 31 December 2014.

The Royalty Rebate will only relate to shipments of iron ore in the relevant quarter, adjustments for shipments that took place in previous quarters will not be included.

The Royalty Rebate amount will take into account all audit adjustments for royalty payments relating to shipments within the project financial assistance period.

Royalty payments made by the project in regard to other minerals are not included.



Requests for Financial Assistance: Evaluation / Information Requirements

1. Overview

Western Australia (WA) has a diverse range of minerals and energy resources in production, with an equally diverse range of investor and ownership groups actively operating and sustaining this globally competitive industry.

Successive WA Governments have fostered the development of the resources sector, which has evolved in a highly competitive and dynamic environment. The sector continues to face increasing competition and strongly fluctuating commodity price conditions, which currently includes subdued prices for certain resources.

The WA Government focuses on actively facilitating projects through the approvals processes. It works closely with proponents and other tiers of government to ensure that viable and responsible projects and their associated supporting infrastructure are not delayed or frustrated through ineffective coordination. This approach has successfully placed WA as a leading global resources producer.

This highly competitive and efficient resources sector culture, together with WA's consistent and reliable stewardship approach to its minerals and energy resource endowment, provides investors and financiers with an attractive low sovereign risk environment, conducive to supporting ongoing development and expansion in accordance with market conditions.

As with other Australian States, there are no prescribed programs or schemes for financial assistance to WA's minerals and energy sector. Unsolicited proposals or requests for financial assistance from this sector are considered on a case by case basis, against a consistent set of principles, and involve relevant agencies across Government.

2. Evaluation Approach

Any request for financial assistance in such a highly competitive, commercial environment, involves a detailed evaluation by the Government against a range of key principles -

Maintaining an Efficient and Highly Competitive Industry Structure: WA's ongoing success in attracting strong investor interest in this sector is dependent on maintaining an efficient and highly competitive resources industry structure.

This approach leverages off the resource sector's competitive advantages, which represent an enduring positive feature for investors, rather than face the uncertainty of projects which resort to public funding subsidies to establish or sustain operations. Close scrutiny is therefore exercised over any financial assistance request in this sector, in order to ascertain whether exceptional circumstances exist.

Verifying Market Sales Arrangements: The existing industry is generally characterised as having well developed market channels and relationships, which effectively reduce long term business risk associated with commodity demand cycles. The WA Government actively supports the development of market relationships through its trade and investment activities in targeted markets. Market risk assessments are however, required for new or emerging resource products, particularly where proponents are seeking to advance projects in the absence of firm off-take arrangements on adequate commercial terms.

Protecting WA's Interests: It is in the public interest that any request is subjected to a thorough risk and cost exposure assessment so that the full extent of potential public funding exposure is established. This will enable an objective understanding of the potential cost to government to be considered against the claimed benefits by the project proponent.

Assessment of Broad Industry Benefits: This involves consideration of the potential for a broader industry benefit to arise through, for instance, the funding of common user infrastructure. This aspect involves a detailed assessment of the likelihood that near term investment will proceed in projects of close proximity to, and which will also benefit from access and use of the subsidised infrastructure.

Precedence, Equitable Treatment, Consistency and Fiscal Responsibility: Investor confidence in the sector may be significantly eroded through perceptions of inconsistent or ad hoc approaches to supporting projects. In times of difficult market conditions, the risk of exposing the WA Government to expectations that financial assistance will flow on to the broader resources industry must be carefully considered, due to the serious impact that could represent to WA's finances, and also to the ability of the WA Government to balance the many competing needs facing it.

Financial Assistance

Guidance Note

Effective Stewardship of the State's Finite Resources: WA's rich endowment of mineral and energy resources is finite. The WA Government must closely assess any deviation from usual policies and standards which apply to resource management and regulation. Preservation of WA's status as a premium location for resource investment is therefore a key principle. Developers of WA's finite resources are expected to demonstrate best practice in planning and managing all aspects of the mining process.

Community Wellbeing and Advancement: Projects are expected to be configured on a life cycle basis whereby communities benefit from resource development activity, notwithstanding commercial and other pressures which may be encountered through a commodity cycle. The "need" for WA Government intervention by providing financial assistance is generally regarded as a signal that a project is unable to sustain itself in the prevailing market conditions, and the case for intervention requires close scrutiny. Projects which are not commercially viable may cause ongoing community disruption and uncertainty which could be associated with, or exacerbated through, inappropriate intervention assistance by the WA Government, particularly in the initiation of the project.

3. Whole of Government Evaluation

Consistent with the broad nature of factors to be considered in evaluating any unsolicited request for financial assistance, a range of agencies will contribute to the evaluation. These would typically include the Department of State Development, and the Department of Treasury. Other agencies may also be included, depending on the nature and details of any request.

4. Information Requirements

An unsolicited request for WA Government financial assistance should provide all information required for the WA Government to undertake a comprehensive evaluation against the key principles outlined in Section 2 above. The information requirements will generally include -

- Demonstrated fulfilment and compliance with all State and Commonwealth requirements.
- Full financial projections based on reasonable assumptions, endorsed by a recognised and accredited advisor and the Company's Board, demonstrating long term project viability against a broad range of economic and market conditions.

- Detailed evidence to demonstrate firm and binding funding support involving adequate sources of debt and equity capital in order to establish the project and sustain it through commissioning to full operations.
- Details of committed market arrangements, adequate to satisfy the requirements of all project funders.
- Details of commitments to local regional communities, including employment and training undertakings, provision of community facilities and ongoing community support and contributions pledged by the proponent.

The information requirements cannot be fully anticipated ahead of understanding the context of a request for financial assistance. It is likely that agencies involved in the Whole of Government evaluation may have additional specific information requirements which may be issued as a follow-up to an initial request.

5. Submission of Requests

An unsolicited request for financial assistance should address the key principles outlined above, and be submitted to the Minister for Mines and Petroleum. Any information which is Commercial in Confidence or subject to regulatory protocols such as those of the Australian Stock Exchange, should be clearly identified. The submission will be subject to release in accordance with the *Western Australian Freedom of Information Act 1992*.

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