

18 July, 2018

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To whom it may concern,

**RE: Request for feedback and comments on the Exposure Draft Treasury Laws Amendment (Research and Development Incentive) Bill 2018**

This submission is made in response to the Australian Government's 2018-19 Budget measure – *'Better targeting the research and development tax incentive'* and the above draft exposure legislation.

The \$4million cap on Research and Development (R&D) rebates will have a negative impact on ground breaking critical mineral resource projects in Australia.

Without access to the uncapped R&D rebate (as currently legislated), Northern Minerals may not have been able to construct the pilot stage of the Browns Range Heavy Rare Earths Project. The proposed cap will force innovative projects, such as Browns Range, to develop very slowly and result in missed opportunities for Australia.

**The Browns Range Heavy Rare Earths Project**

The Browns Range Heavy Rare Earths Project will provide a critical commodity vital to current technological development and jobs in one of the most remote parts of Australia. The Project is located 160 kilometers south-east of Halls Creek and 50 kilometers south east of the Yaruman Community at Ringer Soak in the East Kimberley. See map at the end of this letter.

The Project will produce a mixed rare earth carbonate which includes a high grade of Dysprosium and Terbium and will be the first heavy rare earths producer outside of China. The pilot trial stage of the project will commence operation and this month. It presents exciting potential for new economic activity in the Kimberley, employment and training opportunities and diversification of the Australian minerals industry.

Dysprosium and Terbium are a key component of highly energy efficient permanent magnet motors used in electric vehicles, wind turbines, air conditioning, and industrial robots. Construction of the pilot processing plant and mining for the experimental trials commenced in 2017.

Beyond producing a mixed rare earth carbonate from June 2018, Northern Minerals is actively pursuing plans for downstream processing. In 2018 and 2019 the company is focused on establishing ore sorting, moving towards producing separated oxides which will allow products to be sold to a greater range of markets globally.

**Geopolitical importance of product**

There is growing global demand for the critical minerals used in the technologies that save energy and produce low cost or renewable energy – including Dysprosium and Terbium. Governments and companies in the US and Europe are increasingly focused on ensuring reliable supplies of such minerals.

In December 2017, the United States Geological Survey published its first critical minerals assessment since 1973. The report flagged the lack of domestic and secure sources of a range of minerals that are expected to be used increasingly in critical technology. Later that month US President Donald Trump signed the *'Presidential Executive Order on a Federal Strategy to Ensure Secure and Reliable Supplies of*



**Powering Technology.**

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*Critical Minerals*'. The order states: "It shall be the policy of the Federal Government to reduce the Nation's vulnerability to disruptions in the supply of critical minerals, which constitutes a strategic vulnerability for the security and prosperity of the United States."

In February this year the US Department released a draft list of 35 minerals deemed 'critical' to US national security. A following report by the Centre on Sustainable Investment at Columbia University noted that of the six minerals "most critical for the transition to the green economy", the US only has domestic supplies of two – Tellurium and Indium.

According to the Centre of Sustainable Investment – those minerals are: Lithium, Cobalt, Neodymium and Dysprosium. Australia has deposits of all four of these minerals.

Also in February, President Trump met with Australian Prime Minister Malcolm Turnbull where the countries agreed to form a partnership on critical minerals. The Prime Minister's press release following the meeting announced a new partnership between the two countries:

*"We launched the Australia-United States Strategic Partnership on Energy in the Indo-Pacific, and intend to work together on strategic minerals exploration, extraction, processing, and research and development of rare earths and high-performance metals."*

### **Financing the Project and the R&D Tax Incentive Scheme**

The Browns Range deposit is found in hard rock where the Chinese deposits are mined from ionic clays. Hard rock mining processing of this type has not been done before.

The Browns Range Heavy Rare Earths Project is a beneficiary of the current Commonwealth Government's R&D Tax Incentive Scheme arrangements and the pilot plant may not have been constructed had a cap on the rebate program been in place over the past two years.

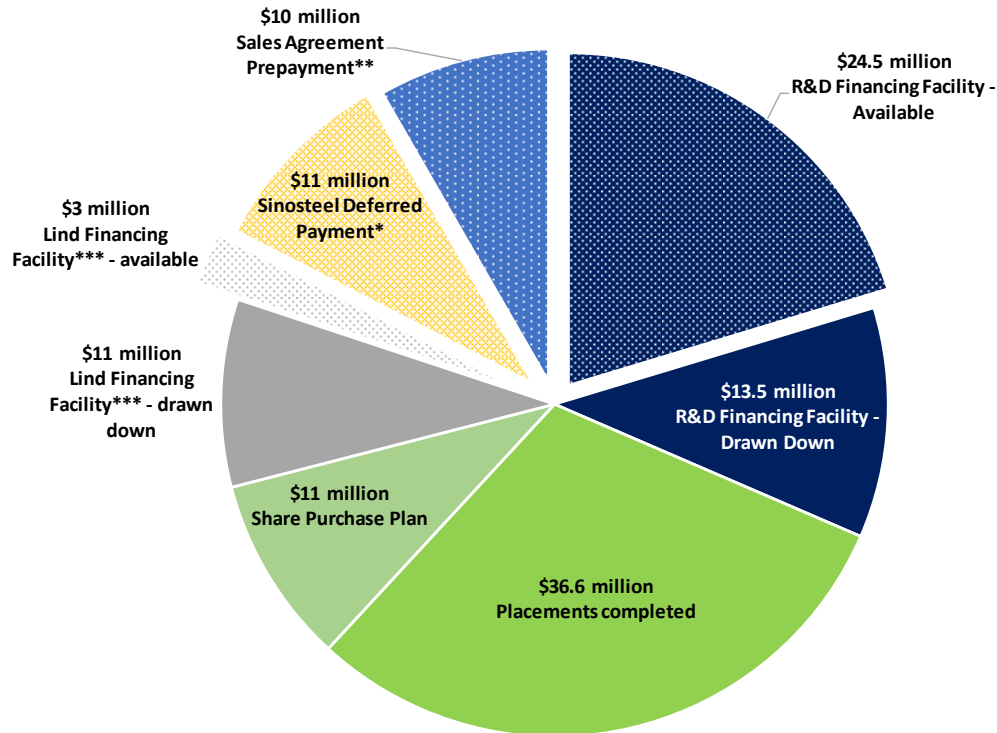
Given the product specifications and market for Australian Dysprosium and Terbium are yet to be proved, financing for the pilot stage of this project presented many technical challenges and has been achieved through a number of sources. The R&D rebate has been a vital part of financing the establishment of pilot stage of the Project.

The pilot plant development provides the opportunity for Northern Minerals to assess the economic and technical feasibility of the larger full-scale development and to conduct further research and development on the process.

The full-scale plant, if economically and technically feasible as we aim to demonstrate by the pilot plant, will be the first commercial scale production source of heavy rare earths outside of China. The Federal Government's R&D rebates has been a vital component in funding the development of what will be a new export industry for Australia.

The funds accessed by Northern Minerals through the R&D rebate have added to the company's confidence in undertaking detailed studies into hard rock heavy rare earths mining and processing. This has resulted in several innovative enhancement initiatives as the project has progressed through its development phases.

As you can see from the graph following, the Browns Range Heavy Rare Earths Project pilot stage has been financed from a number of sources, however the Government's R&D rebate has been a major contributor. The graph shows the financing of the project between 30 June 2012 and 30 June 2017.



- \* Sinosteel MECC has agreed to defer 20% of its contract amount for 24 months, with the ability to convert into Northern Minerals' shares at a conversion price of the lesser of \$0.15 per share or 20 day VWAP prior to conversion notice
- \*\* JFMAG has agreed to prepay \$10m. JFMAG will be issued 40m unlisted options upon receipt of the loan advance with a \$0.25 exercise price.
- \*\*\* Northern Minerals has drawn down \$11m of a \$14m financing facility.

### Economic Analysis

Analysis by Deloitte Access Economics indicates the full-scale stage of the Project will boost the gross regional product (GRP) of the Kimberley region over the period 2017 to 2030 by \$393 million, create 406 FTE jobs during construction in 2021 and an average of 135 FTEs during operation, and provide mining, construction and services contracts to Western Australian businesses worth \$773 million.

The current pilot stage of the Project is a stepping stone to the full-scale stage. The pilot stage will boost the GRP of the Kimberley region over the period 2017 to 2020 by \$33 million, provide an additional 80 FTE jobs during construction and an average of 50 FTEs once in operation, and provide mining, construction and service contracts to Western Australian businesses worth \$74million.

The Project will also contribute royalties and payroll tax to the State and GST and company tax to the Australian Government.

## Northern Minerals' Request

### *Preferred amendments*

Northern Minerals asks the Federal Government to amend the *Exposure Draft Treasury Laws Amendment (Research and Development Incentive) Bill 2018* to either remove the proposed \$4million cap on R&D rebates or scope out projects that support the development of critical minerals and those associated with energy production and efficiency from the cap.

Under the draft exposure legislation, clinical trials have been scoped out of the \$4million cap. Like clinical trials, the critical minerals sector has been identified by the Prime Minister and the Government as of national and international importance. Northern Minerals is firmly of the view that the proposed rebate cap will have a negative impact on the development of innovative critical minerals projects in Australia. The proposed cap will force projects, such as Browns Range, to develop very slowly and result in missed opportunities for the country.

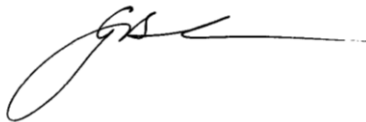
### *Alternative amendments*

Should the Government insist on legislating a \$4million per annum cap on R&D rebates then an alternative amendment could be to allow eligible expenditure on R&D, over and above the \$4million annual cap, to be carried forward and claimed in subsequent years i.e. up to \$4million per year until the full eligible expenditure has been rebated. This would enable projects to progress but more slowly.

A fourth alternative amendment would be to allow existing projects, where the current R&D arrangements have been used to finance the project, to be grandfathered in 2018-19. This would allow projects such as Northern Minerals to be completed according to their planned financing structure. This option would support advanced existing projects but not future projects.

Thank you for considering this submission. I can be contacted on (08) 9481 2344 or [gbauk@northernminerals.com.au](mailto:gbauk@northernminerals.com.au)

Yours sincerely



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