

**The Future of Mining**

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Good morning ladies and gentlemen

To begin my remarks, I would like to acknowledge the traditional owners of the land upon which we meet today.

May I also acknowledge the organisers, Reed Exhibitions, and the conference sponsors, the Mackay Area Industry Network, and of course, my fellow presenters and delegates from near and far.

I see it as a sign of the resource sector's confidence and increasing influence that an event of this nature is being convened in regional Queensland as a complement to one of the largest mining and engineering exhibitions in the southern hemisphere.

For those of you unfamiliar with the Queensland Resources Council, it is the peak representative body for minerals and energy companies operating in Queensland.

As Chief Executive of the QRC, I sit with an elected Board of Directors representing explorers, contractors, miners, minerals processors, oil and gas producers and electricity generators.

The organisation currently enjoys a membership of 70 full members and more than 80 service members.

From alumina to zinc, the QRC works with governments, non-government organisations and communities to secure an environment conducive to the long term sustainability of the minerals and energy sector in Queensland.

The topic of my presentation today is the Future of Mining and that is central to the agenda and activities of the Queensland Resources Council.

The QRC's role in supporting long term sustainability of the resources sector revolves around three key objectives:

- Building strong community and stakeholder support for the minerals and energy sector's social licence to operate.
- Promoting a sustainable regulatory environment, and
- Implementing strategies to secure key resources including skills, economic and community infrastructure.

Under these headings, there are a range of organisational goals that I will allude to in the course of this presentation, which our members regard as fundamental to consolidating the dividends to Australia flowing from a period of unparalleled opportunity.

The outlook for export mining in Australia – and Queensland in particular – can be described as exciting, challenging and daunting in the same breath.

Certainly, the most recent outlook reports from Access Economics and BIS-Shrapnel confirm an extended supercycle of growth in minerals and energy exports.

As Access Economics states in a report for the Minerals Council of Australia released in May:

'Half the world is having an industrial revolution that is raising not merely global growth, but doing so in a particularly commodity hungry manner. The rapid evolution from farm to factory-based economies has generated the most sustained burst of global growth since the 1950s, with China and India leading the charge.'

For a minerals and energy rich country like Australia in close proximity to these rapidly transforming economies, the opportunities are clear.

Access Economics says that by 2020, global coal production will need to be around 45 per cent higher than 2006 production levels.

Iron ore and aluminium production must grow by more than half over the same period.

This report was followed up early this month by BIS-Shrapnel's analysis of Mining in Australia out to 2023.

As well as helping to insulate the Australian economy from recession for at least the next five years, the forecaster predicts strong export growth.

This growth will be driven mainly by the mining sector and will see Australia's trade deficit swing back into positive territory over the next two years for the first time since 2002.

BIS-Shrapnel also sees the strongest growth ahead for energy and steel-driven commodities, including two that we have at hand in Queensland – coking coal and gas, especially in the form of coal seam methane.

Certainly, recent announcements here support a high level of confidence.

At last count, there were no fewer than six proposals for export liquid natural gas processing facilities to be constructed in central Queensland.

Industry consensus is that at least two of these \$7 to 10 billion projects have a strong chance of proceeding, securing lucrative overseas markets for ever-expanding reserves of coal seam gas now estimated at more than 10,000 petajoules.

To put that figure into perspective, Queensland currently uses around 150 petajoules of gas annually from both conventional and coal seam sources.

Just last week, Premier Bligh announced that the first new Australian coal port in 25 years was under consideration for the Shoalwater Bay area, north of Yeppoon. Emerging producer Waratah Coal is looking at the feasibility of a 100 million tonnes per annum port serviced by a 500 kilometre rail line from the Galilee Basin.

With a price tag of more than \$5 billion, it is in addition to an expansion program in the Bowen Basin consisting of two new mines at Daunia and Caval Ridge and organic growth of the existing Goonyella-Riverside Mine north of Moranbah.

BMA Coal is behind this 20 million tonne per year expansion and I am sure Mick Madden will have more to say about that later this morning.

And of course, there's the Wandoan Project in the Surat Basin – a 30 million tonnes-a-year open cut coal operation from Xstrata Coal with the promise of new investment in port and rail infrastructure worth up to \$10 billion.

Individually, these projects are impressive. Collectively, they are staggering. The driver for all this is the transition from poverty to prosperity of billions of people, mostly in the Asia-Pacific region.

I could go on about the sector's rosy future, but as Access Economics is at pains to point out, while Australia might be arguably the world's best supplier of minerals and energy to the developing nations of this world, our infrastructure was caught napping by the suddenness and by the pace of this global revolution.

It's well known – and confirmed by the 2007 review of the Goonyella chain commissioned by the QRC – that Queensland's coal export infrastructure has been badly lagging industry demand over the past 4-5 years.

Macarthur Coal founder Ken Talbot has described the first decade of this century as Queensland's lost decade, and that's borne out by lost global market share across several key minerals between 2002 and 2007.

Coal in Australia has lost 10 per cent of its global market share – to countries like Indonesia which were able to more quickly gear up their exports in the face of stronger than expected demand.

As reported by reviewer Stephen O'Donnell, the root cause of the Goonyella coal chain's under-performance was a lack of trains and over-optimistic assumptions regarding port capacity after the next expansion.

Stephen O'Donnell's recommendations are now works in progress but it's not a problem confined to just one coal chain.

Indeed, Queensland's coal export infrastructure has become legend for consistently failing to perform consistently.

The question for us all is that if we have spent the last decade in the supply chain wilderness, what are we going to do differently to correct habitual under-performance?

What are we going to do differently to disprove what Leighton's Wal King told a Brisbane audience recently: 'In Australia, we deliver infrastructure in arrears'.

First, let me say that the coal industry is not looking for subsidies or handouts. It pays its way, every step of the way.

Over the past four years alone, coal companies have directly underwritten investments in the state's rail and port infrastructure capacity worth more than \$7 billion.

Projected capital investment over the next five years has been estimated at around \$11.5 billion, with industry potentially underwriting a further \$9 billion worth of coal transport infrastructure.

What we are looking for is a new approach from governments. There is real opportunity – or should I say in political-speak 'leadership potential' – for state or federal governments to step in and take the early risk on projects.

Their involvement in both timing and scope would ensure that projects are delivered on or ahead of time, and at the scale needed.

This seems like a perfect role for the Federal Government's \$20 billion Building Australia Fund. We're not talking big volumes of money, just taking some risk away from the early stages of the project where a lot of time can be lost.

In recent times it has become accepted practice for western governments to assert their economic credentials through budgetary accountability.

This is typified by minimising public debt, the sale of public assets and transferring investment opportunity and risk – for example, finance and infrastructure – to the private sector.

But you have to ask where the public assets of the future are going to come from, if not from calculated, bold and visionary investments by governments of the day.

Where would we find the political will today to build a railway line between Townsville and Mount Isa five years ahead of the mine's scheduled start to production?

But government sharing of this investment risk should not imply a corresponding role in ownership or management of the asset.

When sufficient commercial contracts have been signed up with users, the Building Australia Fund could withdraw their funds and move on to the next set of projects.

I think I have covered enough ground already in today's presentation to suggest there are plenty of new resources projects in the pipeline, but there are others worthy of consideration in the national interest.

These are not just in the coal regions but also in areas such as the North West, where one of the world's richest mineral provinces is being constrained by infrastructure investment conservatism by governments, at complete odds with the region's global potential.

Ladies and gentlemen.

A key component of the resource sector's social licence to operate is its good reputation across a number of fronts and these are what I would like to spend a few minutes canvassing with respect to the future of mining.

Mining may be perceived as being primarily about big money and big machines, but it's nothing without skilled people building careers in a sector that is without geographical borders and offers great rewards.

Queensland is fortunate in having its head in front in the quest to attract more young people into the resources sector.

Initiatives such as the Queensland Minerals and Energy Academy, the Mining Industry Skills Centre and the resource sector's increasingly close association with tertiary education and training providers are laying foundations for the future.

There's no second prize in attracting talented people to our industries.

According to the latest estimates prepared for the Minerals Council, just to maintain our global share of minerals production, by 2020 the Australian minerals industry will need to employ an additional 90,000 people.

Queensland's minerals industry labour force is forecast to grow by 50 per cent.

In other words, our current employment level of almost 44, 000 people is projected to grow to 67,000 by 2020 – just 12 years from now.

To put this challenge another way, right now we have to interest many thousands of school-age children in pursuing careers in the resources sector.

Against an industry-wide skills wish-list, that means we have to get a large number of those children seriously interested in mathematics and science in an era where I am being told by the experts that the breadth and quality of teaching both subjects is in a sad state.

The QRC is determined play its role in helping turn this sad state of affairs around. We have committed substantial resources to 'teaching the teachers' through online resources at a website called Oresome Resources.

It's presented and maintained by former teachers with a passion for science and mathematics, and there are encouraging signs that lessons with a distinctive resource industry feel are hitting the mark with state and private school teachers around the state.

But industry initiatives alone cannot be expected to solve this maths and science crisis. And our industry has a vested interest in lobbying hard to get State and Federal Governments behind a concerted effort to turn this situation around.

Winning the hearts and minds of our young people will not be enough if we are going to grow our workforce by 50 per cent by 2020.

We also need skilling and recruitment programs targeting women (of all ages), indigenous communities and skilled migrants.

The QRC's Women in Resources Action Plan is seeking to double the ratio of women working in non-traditional resource sector jobs by 2020 – lifting the participation rate from six to 12 per cent, with a particular emphasis on the professions, trades and operational areas.

There is no logical reason to overlook half the country's population in filling jobs and mining companies need to be working across the board to identify and remove potential barriers to the recruitment of women and to encourage their retention as life and family circumstances change.

Mining has traditionally been the largest employer of indigenous Australians, but we have also recognised that there is considerable room for improvement.

This is not only in the industry's interests but the interests of indigenous communities – often remotely located and with limited opportunities to advance economic and social well-being.

I am proud to say that the QRC, the Queensland and Federal Governments and QRC member companies are working as one on a pilot project in the North West to deliver higher levels of indigenous employment and greater financial security for the communities from which these new employees are drawn.

Success in the North West will see this program extend into other mining regions such as the Bowen Basin.

Ladies and gentlemen, despite such initiatives, we are also pragmatic enough in this business to recognise that the skills challenge ahead of us will demand a range of responses. These are likely to include greater calls on the Federal Government's skilled migration program.

QRC is working to ensure that the current Federal Government's review of the 457 visa program does not result in 'throwing the baby out with the bathwater'.

As much as we want to maximise opportunities for our young people, our women and our indigenous communities, there is no escaping the fact that some skills gaps will have to be plugged in the next few years through skilled migration mechanisms such as 457s.

Labour productivity also has to be part of the overall solution. The forecast doubling of coal production by, say, 2020 cannot rely on maintaining the same manning levels. There is going to be more investment in new technologies, including advanced automation and robotics.

We are seeing automation technologies being rolled out in the iron ore industry in WA and we would be kidding ourselves to pretend that the Queensland mining sector won't be too far behind.

In this area, Queensland is fortunate in having the Queensland Centre for Advanced Technologies.

This is where Queensland's next generation of 'rocket scientists' are working to create devices and systems that will continue reducing the margin for error between machines and people.

Mining has an undeserved reputation as being a dangerous industry – a label most recently and disappointingly attached to it in the state budget papers.

No-one denies that mining is hazardous but it has a record of continuous safety improvement that is the envy of many other industries.

As a recent independent report to the Queensland Minister found, mining in Queensland is a stand out industry for its standard of reporting of health and safety performance.

Public recognition of our safe practices and workplaces will play a large part in maintaining our social licence to operate as well as ensuring we continue to attract and retain the services of the best people.

One of the keys to continuous safety improvement in mining safety in Queensland since the mid 1990s has been the tripartite input of companies, the mining unions and the state government.

While contributing to policy development and review, the state government maintained a respected independence as the industry's health and safety regulator through a taxpayer-funded Queensland Mines Inspectorate.

But without warning, the government announced in the June state budget that funding of the Mines Inspectorate would be transferred immediately to industry

Well beyond the budget demands of an expanded Mines Inspectorate, the government has slugged the industry \$800 per employee per annum under the mantle of a health and safety levy.

Raising in the order of \$26 million in its first full year of operation, we now find the levy is going to pay for the mines inspectorate, the explosives inspectorate, the safety in mining testing and research station (SIMTARS) and a heavy load of departmental overheads.

Of that \$26 million to be raised by the levy, just \$3.5 million represents new money for additional resources.

Of gravest concern is that our industry already had to deal with the lingering perception that the inspectorate is unduly influenced by industry. That perception is now being reinforced by the industry becoming the sole funder of the regulator.

In a report published just after the state budget, the Queensland Ombudsman found there was no evidence to support this perception, but he did warn the government about the risks of giving it oxygen by transferring inspectorate funding to industry.

The really sad part of all of this is that, in a budget that is pulling in billions of dollars in additional mineral royalties, the government is risking a fundamental change to the state's health and safety regime for the sake of less than \$30 million in health and safety tax revenue.

The Queensland mining industry is proud of its safety performance and we believe that is due in no small part to the state's mine safety legislation.

However, well-intentioned Federal Governments have long wanted to meddle with state mine safety laws. Their buzz-words are national harmonisation and national consistency.

Don't get me wrong, on the issue of national health and safety harmonisation, I would like to place on the record that the QRC is fully committed to a National Mine Safety Framework as the instrument for achieving national consistency or harmonisation of mining legislation.

The framework offers the promise of delivering the benefit of Queensland's approach to other States. However, the new Federal Government is enthusiastically pursuing a regulatory reform agenda left sitting around by the previous government.

Included in that agenda is the proposal for a national OH&S law for all industries. QRC, the mining unions and the Queensland Minister for Mines would seem to be as one in arguing that the National Mine Safety Framework has the prospect of delivering better health and safety outcomes for mining industry employees than a single uniform national OH&S model with mining-specific content effectively relegated to regulations and codes of practice.

The specialist nature of mining requires regulatory specialists. Their proposed integration with more generic OH&S regulators will potentially dilute the role of mining regulators.

Safety legislation outcomes must improve the competency not only of industry but also of safety regulators.

Furthermore, there is no convincing case that harmonisation through nationally consistent model OH&S laws will improve safety. There should be no change just to increase efficiency and cost of administration. Any changes must have improved safety at its heart.

We also believe that risk-based management of safety represents a real future for enhanced safety, not the strict liability and reverse onus of proof exhibited by New South Wales legislation.

If timing is important in politics, perceptions are critical.

Perceptions flowing from the state government's budget measures are a real blow to global confidence in Queensland ability or willingness to deliver a developed-country investment environment.

The average 22 per cent increase in the coal royalties in one hit, without warning and without consultation is not what one should expect from a government focused on the long term attractiveness of the investment environment for mining.

The existing 7 per cent royalty regime provided the government with full exposure to the upside in pricing, with the gains being shared.

The imposition of the additional royalty will now eat into capital available for new investment and into the confidence of investors in the long term stability of Queensland's royalty regime.

The \$100 per tonne threshold for the 10 per cent rate fails to take this into account, especially when lined up alongside steep rises in industry costs such as materials, labour and energy.

There are mines in Queensland for which \$100 is – at best – a break even point.

More broadly speaking, government actions here have a ripple effect across the global mining community. Government decisions can be favourable; they can be unfavourable – but they are always noted.

Queensland is currently ranked as the least attractive Australian jurisdiction for minerals exploration by international exploration managers. That's despite our world-class mineral resources and proud history as a magnet for both mining and exploration.

If Queensland's 30th ranking in the latest Fraser Institute survey of international mining jurisdictions is worrying, its position is obviously under further pressure as word of sudden and unprecedented royalty increases moves around the world.

We should take no comfort from learning that Queensland is twice as attractive for mining investment as Zimbabwe – because it is half as attractive as Finland.

It also comes as a shock for potential coal mine developers to learn that in Queensland, the coal royalty calculation includes the cost of the rail haulage from mine to port.

This tax on rail freight charges has been on the books since 2002, when the state government also turned to the coal industry to dig itself out of a fiscal hole. This is a classic example of government double-dipping.

Under the new two-tier arrangement, coal royalties are now the single largest source of state-based revenue for the Queensland Government, easily outperforming stamp duties and payroll tax.

Coal royalties are forecast to grow from \$1.03 billion this financial year to \$3.2 billion in 2008-09, trebling taxpayer returns from the industry.

Total mineral royalties are budgeted to exceed \$3.6 billion. To put that number into greater context, mineral royalties will go close to matching the state's outlays on Main Roads, Police and Housing.

Despite claims to the contrary, we've noticed little evidence of any significant portion of the additional revenues from the surge in royalties – roughly \$2.2 billion – being reinvested in the regional communities so vital to the growth of the industry.

The taxpayers of this state, and particularly those in regional Queensland, do have a right to know how much political spin they are expected to swallow.

In promoting budget highlights to the people of the Mackay-Whitsunday region, the government says it is investing more than \$1 billion in coal industry infrastructure.

That's about half the total Budget outlays for the region, and as everyone knows here today, all that infrastructure is being paid for by the coal industry.

The people of the Mackay-Whitsunday region are being thrown a line that the government is investing their royalty returns in coal industry expansion, while in the south-east of the state, cities

are being drought-proofed and having traffic congestion eased.

People living in Mackay could be forgiven for thinking that they are getting the short end of the straw. QRC members are naturally concerned about the shortcomings of government services and facilities in resource communities throughout regional Queensland.

This is another increasingly important component of the QRC's role in securing key resources for the future of mining.

Mining communities have got to offer present and prospective workers more than just a place to rest their head after a shift.

Sadly, some mining towns are no longer places where employees and their families want to live, simply because they are not prepared to trade wages for second-class facilities and services.

While accepting that a certain number of employees will always opt to put lifestyle on the coast ahead of community belonging, the interests of the state and the nation are going to best served through long-term government support for these mining communities.

Resource sector growth in Queensland should not be seen as an imposition but rather an opportunity for governments to do more than just talk about decentralisation and the need to reduce population pressure in the south-east.

Here's a thought. Why not encourage people to move to other parts of Queensland?

And here's an example. The Dalby Regional Council is currently considering an application for a 520-lot residential subdivision near Wandoan. That's a big increase in the permanent population of that part of the Surat Basin.

It's a circumstance that the QRC has brought to the attention of Deputy Premier and Minister for Infrastructure and Planning, Paul Lucas. The main point of our concern is the absence of any coordinated planning for the future growth of the Surat Basin.

With anticipated industry development, the region's employment growth rate is running at around 18 per cent. And as we have learned from experience in the Bowen Basin and North West Minerals Province, more thorough regional planning would have delivered more coordinated and timely infrastructure services.

Currently in the Surat Basin, regional planning stops at Toowoomba.

A plan is also being drafted for the Maranoa and District, leaving what can be best described as a huge planning white space covering towns such as Dalby and Chinchilla.

And in the midst of the next major Australian energy province, the closest Department of Mines and Energy offices are located in Brisbane or Quilpie.

Frankly, this should be meat and potato stuff for a state government with its finger on the pulse. And frankly, you have to wonder if the spending frenzy on pipelines, bridges and tunnels in the south-east and their subsequent cost blow-outs has not taken a much larger toll than reported to date.

As well as seeking solutions to obvious shortcomings in social infrastructure provision in resource communities, we also want to see a plan that everyone can work to.

In coming weeks, we're hopeful of seeing movement from the state government on a compact with mining companies and local governments to ensure that everyone has a clear grasp of responsibilities and obligations for nurturing sustainable resource communities.

We are cognisant of the need for greater attention to planning and the provision of services to resource communities across the state, and that extends to larger service centres such as Mackay, Townsville and Rockhampton.

Mackay is an example of a city crying out for a long term plan to underpin its ongoing role as a major service centre for the mining industry.

Ladies and gentlemen.

I could hardly be expected to escape this room without a few comments about the Rudd Government's Green Paper on a national emissions trading scheme.

As the Prime Minister has gone to great lengths to explain, this is not policy, but the starting point for discussion about how we might best achieve significant reductions in greenhouse gas emissions.

In the interests of clarity, it's worth summarising the QRC's position:

Addressing the challenges of climate change in a least-cost manner requires a coherent set of energy and climate change policies.

This is vitally important in a Queensland context, given its significant energy reserves, growing energy exports, and emissions-intensive industries.

Queensland is particularly exposed to the risk of any hastily conceived or implemented emissions trading scheme.

However, a well-designed scheme that provides for an economically efficient, environmentally effective and equitable regime could be a watershed in Australia's efforts to address market failures that arise from the global challenges associated with managing emissions.

As Australia looks to take a lead the development of a global consensus on climate change, it is important to recognise that Australia's decisions need to be taken in the context of this emerging global transition.

In order for our actions during this transition period to meet the triple test of being economically efficient, environmentally effective and equitable - we need to conserve the international competitiveness of our energy and emissions-intensive industries.

We must recognise that we are imposing an emissions constraint before our international trading competitors.

If we ignore our industrial base in negotiating the transition to a consistent international emission trading scheme, we risk inadvertently providing a counter-example for other resource-intensive countries considering following our lead.

I am pleased to acknowledge that the Federal Government's emissions trading Green Paper recognises the need to avoid an export of jobs and carbon emissions from Australia's emissions-intensive trade-exposed (EITE) industries.

But there is much more work to do to ensure the final package of assistance to EITE industries gets the balance right.

Based on the criteria set out in the Green Paper, sectors like black coal production have more work to do to provide a case for assistance.

We are also concerned that the Green Paper proposes including fugitive emissions from coal mining in the scheme when it is clear that there are significant problems with the accuracy of the current methods of calculating emissions from open cut mines.

Unless these emissions are measured accurately it could lead to serious overcharging or undercharging for individual mines and that, in turn, could create issues of equity and distort competitiveness between mines.

Through the Australian Coal Association the coal industry is working on the development and implementation of an accurate measurement methodology for fugitive emissions.

The ACA position is that inclusion of these emissions in the ETS should await the completion of this task.

Notably, the Green Paper does not accept the Garnaut Review case for no compensation to coal fired generators.

There is scant detail on the nature of the proposed Electricity Sector Adjustment Scheme but QRC welcomes the paper's recognition of the need to shore up the investment environment in the generation sector.

Emissions are the most highly magnified cross-hairs aimed at the coal industry at present, and I suggest they will be in the frame for some time to come.

Every day sees a new stunt from Greenpeace and another media release from sections of the conservation movement decrying the latest evidence of growth in the coal sector in Queensland.

Greenpeace and its fellow travellers are yet to move alongside the Intergovernmental Panel on Climate Change, Al Gore, Sir Nicholas Stern, Professor Ross Garnaut, Prime Minister Kevin Rudd, Premier Anna Bligh, WWF-Australia and the Climate Institute in recognising the global necessity to develop low-emission technologies for coal and gas-fired electricity production.

On this subject, you will hear today from one of the world's most respected authorities, Dr Kelly Thambimuthu.

As I am sure Kelly will agree, the world will need every piece of energy technology that we can muster to meet the expectations of billions of people in developing nations who are yet to take electricity for granted.

If I may quote Peter Huber and Mark Mills from their 2005 book, *The Bottomless Well*: 'Economic growth marches hand in hand with increased consumption of electricity – always, everywhere, without significant exception in the annals of modern industrial history.'

This is what China, Indonesia, Malaysia, South Korea and the United Arab Emirates have in common with their rapidly expanding economies.

In the 15 years to 2006, their power generation grew by more than 244 per cent.

The coal industry knows that in the long term, its social licence to operate does depend on successful commercialisation of low emission coal technologies.

Professor Garnaut points out that this will require a huge investment of public funds, alongside

industry funds, over the coming decade.

The government's Green Paper was very light on for detail about the Federal Government's further plans for investment in low emissions technologies.

These are technologies that could revolutionise the use of coal in electricity generation; technologies which we can export to the rest of the world and technologies that secure the future of the Australian coal industry.

And here's another slant on the debate close to everyone's heart right now. Iran is burning more than 200,000 barrels of its oil every day to produce electricity.

Wouldn't it be great if Iran was instead using Queensland coal in a new generation coal-fired power station using IP developed in Queensland?

Energy security and conservation are not mutually exclusive but more mental rather than physical agility will be needed to reach a globally acceptable landing.

Perhaps if Greenpeace hired more scientists and fewer circus performers, they could join WWF-Australia and the Climate Institute in being part of the solution to the challenges ahead.

ENDS