

QRC submission

Working together for a shared future



2010 Federal Election Policy Agenda

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au

www.qrc.org.au



Introduction

It is fitting that Queensland has emerged as a frontline state in which the contest of policy ideas will be played out between the major parties in the campaign leading up to the 21 August 2010 federal election.

The future of the nation and the resources sector are entwined.

The resources sector in Queensland already accounts directly and indirectly for 20 percent of Queensland's economic output and one in eight jobs. If the Queensland resources sector can keep pace with growth in global demand for resource commodities, growth of 60-100 percent is achievable over the next decade.

Now more than ever the next Australian Government must act on the settings to deliver the policy framework to underpin that huge potential. The risk is that the sector's potential is strangled by a lack of vision and commitment to sustainable growth.

QRC calls on the major parties to reveal their policy intentions for the emerging resources supercycle. International competitors and customers will simply not wait for policy complacency in domestic Australian politics.

Now is the time for our politicians and governments to lead, demonstrate real policy vision and boldness, and to spurn rhetoric in favour of action – just as the resources sector itself, across every company, at every site, and on every shift strives in an increasingly competitive global market.

Today, the leaders of Queensland's \$50 billion a year resources sector are putting a shot across the bows of the national election policy debate, questioning the major parties' policy commitment to deliver the enabling framework for the coming resources supercycle.

The Queensland Resources Council (QRC) is a not-for-profit peak representative body for the commercial developers of Queensland's minerals and energy resources.

The QRC's 77 full members comprise explorers, miners, mineral processors, site contractors, oil and gas producers, and electricity generators.

The QRC also has 100 service members who provide goods or services to the sector.

www.qrc.org.au



Priority issues revealed

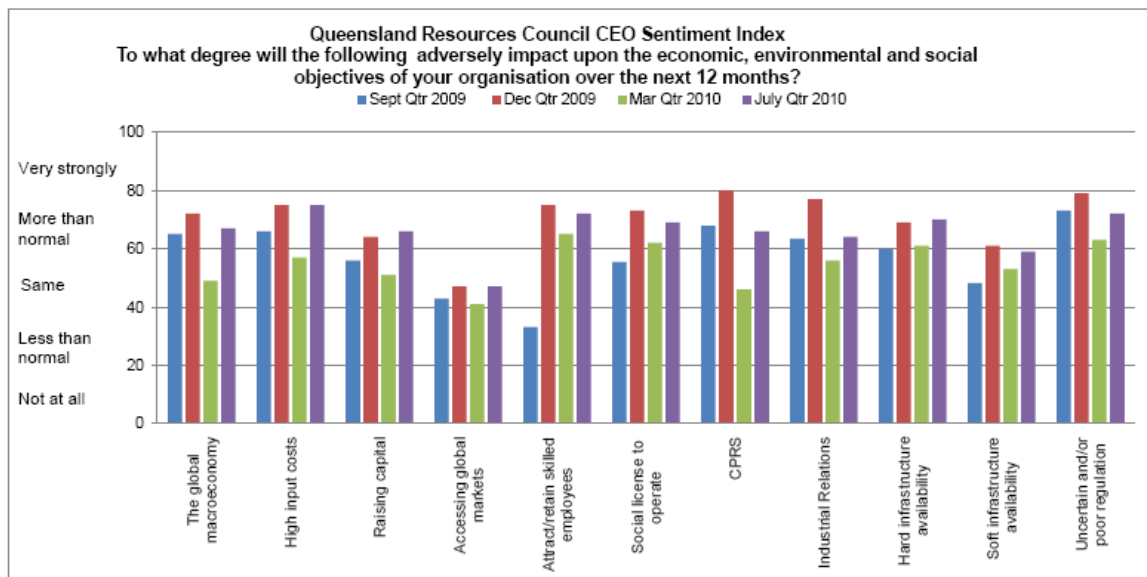
QRC member company chief executives completed their responses to the QRC's quarterly CEO Sentiment Index survey on 24-25 July.

The results are highly pertinent to the approaches taken by the parties in the federal election campaign.

Higher order issues emerging from this latest survey are:

- concerns about high input costs and skills shortages (and associated workplace relations issues)
- hard infrastructure availability
- uncertain and poor regulation.

Also apparent are nervousness about the global macro-economy, uncertainty around climate change policy and ongoing challenges to the sector's social licence to operate.



Higher order issues have an index score of 60 or higher. Key findings on these included the following:

High input costs (75), attracting and retaining skilled employees (72) and industrial relations (64) recorded a very large increase in concern, likely reflecting increasing wage costs associated with a looming skills shortages and the more prominent role of unions in bargaining negotiations under the *Fair Work Act*.

Electricity and water costs are on the rise and diesel is more expensive against a depreciating Australian dollar.

Uncertain and/or poor regulation (72) includes the aftermath of the Resource Super Profits Tax (RSPT) debacle and ongoing uncertainty on climate change policy.



Hard infrastructure availability (70) includes concerns about delays in finishing new projects and cost blow-outs as well the general inadequacy of essential items such as ports, rail, roads, airports and telecommunications.

The global macro-economy (67) suggests post-GFC blues persist (including oversupply in some commodities), together with concerns about Europe and US public debt, continuing financial institution wobbles and signs of the Chinese government applying the economic brakes.

Raising capital (66) has come up in the rankings on the back of debt concerns abroad, strong demand for capital and fallout from the super profits tax sovereign risk assessment.

Climate change policies concerns (66) are increasing, reflecting uncertainty in relation to a future carbon price and a lack of clarity as to the trigger for its introduction, and a lack of carbon price consensus abroad.



QRC 2010 election agenda priorities

Skills

This is a long-standing core challenge to sector growth.

The National Resource Sector Employment Taskforce Report *Resourcing the Future* released in mid-July 2010 provides a national industry-centric framework for the first time to help address the challenge.

The report identifies resource sector skills needs and shortfalls including:

- 45,000 construction phase jobs (eg LNG projects) over the next few years
- 61,600 new mining jobs and 3,200 operational jobs in the LNG sector by 2015
- shortfalls in key skills areas by 2015 including 36,000 tradespeople, 1700 engineers and 3000 geoscientists.

While the major parties seem to be at pains to emphasise which has the lowest immigration intake target, there is silence on these important skills issues.

With the challenge of filling 45,000 construction jobs in the next few years, what do the parties have to say about the taskforce proposal for Enterprise Migration Agreements to meet short-term spikes in workforce requirements?

Industry needs certainty and clarity on when, where and how the next Australian Government proposes to lead and engage with industry and other stakeholders to deliver a growing workforce, if the anticipated resources supercycle is not to be squandered.

QRC calls on the major parties to declare their position on the taskforce report and their election commitments to funding industry-enabling implementation of the recommendations, particularly those recommendations proposing Australian Government actions in Queensland.

Uncertain regulation and resource taxation

Elimination of the deadweight costs of regulation and compliance on industry viability, and its consequences for the economy and employment, must be a constant focus for the next Australian Government.

Resource sector leaders remain wary of the national taxation context in the aftermath of the failed RSPT and proposed implementation of a Minerals Resource Rent Tax (MRRT) and expanded Petroleum Resource Rent Tax (PRRT).

The QRC will be active in scrutinising progress of these issues through the campaign, any subsequent public debate, and through the Parliament in the next term of government.

The QRC calls on both parties to commit to resource tax reform that meets the industry's long-held principles to ensure the nation continues to build future prosperity for the industry and the nation. These are:



1. **Prospective:** Changes in taxation and royalties arrangements must not undermine the basis upon which long-run investment decisions have been made. Applying changes only to prospective investments achieves this objective; applying changes to past investments does not.
2. **Internationally competitive:** The taxation burden on the industry (resources, local, state and federal taxes and levies) should be internationally benchmarked and be competitive against other global investment destinations, recognising the mobility of capital and that Australia competes for foreign investment in a highly integrated global industry.
3. **Differentiated:** Capital investment and financial return characteristics differ across resources commodities, starkly between oil and gas and minerals commodities, but also significantly between minerals commodities. Achieving a competitive taxation and royalty regime for different resources products requires different designs and taxation/royalty rates specific to the characteristics of each resources product group.
4. **Tax only the primary resource:** Resources taxation and royalties should be levied on the primary resource value only, and not on value added in downstream transport logistics and industrial processing and smelting etc.
5. **Equitable and efficient:** Genuine reform of taxation and royalty arrangements should promote economic activity and improve the efficiency, simplicity and fairness of the tax system without compromising neutrality, and in minimising the deadweight loss to the economy of taxation and royalty collection.

The parties also need to acknowledge the falling productivity of the Australian mining industry, and not proceed with the proposed amendments to the *Tax Laws Amendment (Research and Development) Bill 2010* as these amendments will significantly limit eligible R&D tax credit claims in large mining R&D projects, thereby hampering industry productivity improvements.

Supporting resource communities

In 2008-09 the resource sector poured \$22 billion into state and federal coffers in company taxes and resource royalties, with \$7.6 billion from Queensland alone.

The Labor Government says that the proposed new resource taxation arrangements will raise in their first two years a further \$10.5 billion in federal taxes.

The Labor Government's proposed \$2 billion Infrastructure Fund return to Queensland over 12 years is a meagre \$167 million per year, and therefore, a totally inadequate return to the communities of Queensland who generate this wealth for all Australians.

Curiously, the recipients of this wealth in the major population centres enjoy the essential social infrastructure denied to those communities which generate the wealth.

Policies that will deliver affordable housing and wider essential community infrastructure in health, education, childcare and amenity in these communities are what the major parties have failed to reveal to date.

Queensland's current and imminent growing pains from \$100 billion-plus of new resource project investment presently under consideration or feasibility study demands more than a response of election slogans and empathy.



The QRC calls on the parties to commit to a greater tangible return of resource sector taxes and royalties to those resource communities generating resource wealth and taxation revenues for the Commonwealth. This response needs to demonstrate a commitment not just to those communities in marginal seats but also in areas like the Galilee and Surat Basins where several 'mega' coal mines and associated major infrastructure projects are proposed.

Climate change and energy security

QRC seeks a comprehensive and measured transition to a low emissions global economy.

Such a transition requires the support and alignment of three key policy pillars:

- A global agreement for greenhouse gas emission abatement that includes emissions reduction commitments from all major emitting nations.
- Market-based policy measures that promote the abatement of greenhouse gas emissions at the lowest cost, while minimising adverse social and economic impacts, including the competitiveness of our export industries.
- Substantial new government and industry investment in a broad range of low carbon technologies and adaptation measures, including continued support for the Carbon Capture Storage and Solar Flagships programs, the National Low Emissions Coal Initiative and the Global Carbon Capture and Storage Institute.

As a very large consumer of energy, industries represented by the QRC have a significant interest in energy policy to ensure ongoing access to reliable and affordable energy.

Reliable and affordable energy is a critical source of Australia's competitive advantage in global markets.

QRC calls on the parties to position energy efficiency as a foundation climate change response and for transition to a low-emissions economy.

A 'first-class' national future will not just happen, particularly without a vibrant growing resources sector, and, the great sleeper issue of this campaign – energy security.

Queensland's Energy Supermarket is an apt description for the state's wealth of coal and coal seam gas; and the as yet unrealised potential of coal to liquid and gas to liquid fuel technologies, uranium, oil shale, geothermal and renewable energy resources.

By 2015, Australia's annual import bill for liquid fuels is forecast to be around \$30 billion a year, equivalent to removing the entire value of our agricultural exports from the balance of payments ledger.

This forecast assumes those liquid fuels will even be accessible in the volumes required by us, and not directed to meet exponential demand growth from markets including China and India.

The next federal election in 2013 will be too late to provide policy solutions to this challenge.

Failure to rise to this great challenge will not be avoided by the timid politicians of 2010 who turn their back on the fact that Australia's standard of living is grounded in an energy-dependent economy.



QRC calls on our political leaders to outline their plans securing Australia's energy security including their plans to address Australia's looming \$30 billion a year liquid fuels import bill.

Export and enabling infrastructure

While the resources sector pays its way on export infrastructure such as rail and ports and key enabling infrastructure such as energy and water, history shows that there is a role for governments to address market failures.

Examples in North and North West Queensland of where federal government action could make a real difference include:

- A reliable, sustainable and affordable energy supply for North West Queensland businesses and communities. Labor's commitment to funding for transmission infrastructure to connect renewable energy sources to the national grid could be crucial to a go-ahead for a proposed transmission line from Townsville to Mount Isa.
- Upgrading of the Townsville-Mount Isa railway, ranked highly under value criteria by Infrastructure Australia but yet to attract any federal support.

The QRC calls on the parties to demonstrate their commitment to addressing market failures in the provision of essential export and enabling infrastructure, particularly in more remote regions.

Raising capital: an exploration tax credit scheme

Both Labor and Coalition administrations have examined the introduction to Australia of a Flow-Through Shares scheme similar to the one that has positioned Canada as a world leader in exploration and capital-raising for exploration over the past decade.

In its 2007 election campaign, Labor committed to such a scheme and in response, industry has endorsed a targeted Exploration Tax Credit (ETC) scheme to address impediments faced by junior resource companies in raising capital.

The industry's ETC model can be implemented at a modest cost of \$150 million a year compared with a forecast \$600 million per year for the now-abandoned Resource Exploration Rebate included in the RSPT package announced on 2 May 2010.

An ETC can also be better targeted towards greenfields exploration where Queensland and Australia are underperforming.

Action is required now because junior resources companies are responsible for a large percentage of essential greenfields exploration and yet are continually lured offshore in pursuit of higher returns.

QRC calls on the major parties to commit to working with industry to fast track implementation of an Exploration Tax Credit (ETC) scheme early in the next term of government.