QUEENSLAND RESOURCES COUNCIL

STATE OF THE SECTOR

DECEMBER QUARTER 09 EDITION 4

VOLUME 1 NUMBER 4

GROWTH OPPORTUNITIES EXIST, BUT SO DO CONSTRAINTS

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The results of our December Quarter 2009 QRC CEO Sentiment Index (page four) indicate that whilst growth opportunities are expected, the perceived hurdles to realising this growth are intensifying.

An issue that has risen very sharply in importance since the September Quarter Sentiment Index is the ability of Queensland resource companies to attract and retain skilled employees.

The resources sector has an ageing workforce profile, and labour demand projections suggest that occupational categories for which demand is expected to grow most rapidly are those for which total economy-wide employment supply is projected to grow most slowly.

These occupations include tradespersons and related sectors, labourers and related workers and intermediate production and transport workers.

Recent studies examining the labour requirements of the Queensland oil and gas and minerals sectors[1] suggest that significant opportunities and challenges exist.

For oil and gas, and the coal-seam gas/liquefied natural gas (LNG) sector specifically, and assuming eight LNG trains each of 3.5 Mtpa capacity, demand for workers (direct and indirect) would exceed 18,000 by 2020.

Similarly, demand for additional operational workers in the Queensland coal, bauxite, copper, lead, zinc and gold sectors could exceed 23,000 by 2020.

In September this year, the federal government announced the launch of the National Resource Sector Employment Taskforce to plan for the delivery of skilled workers to the resources sector over the next five years.

The taskforce, which held its first meeting in November, is chaired by Parliamentary Secretary for Northern and Western Australia Gary Gray. The QRC welcomes the government's initiative, especially since it has long advocated a more strategic focus to ensure the sector has enough skilled workers to sustain growth.

Part of the employment solution is ensuring we have appealing resource communities in which to live and raise families. It is with pleasure that in this edition we release details of the QRC's position on social policy for resource sector communities (see feature article on page 3).

We believe this policy serves as a blueprint for how industry and government can better work together to address the 'who should do what' issues that have led to an inadequate supply of social infrastructure in regional and remote Queensland.

Despite its recent defeat in the Senate, the Carbon Pollution Reduction Scheme (CPRS) remains a front and centre issue with policy discussions to continue in 2010.

Despite the lack of progress at Copenhagen, the QRC remains committed to a scheme that is calibrated to international developments, as well as the promotion of technological research, the development and adoption of new technologies, and sustainable environmental outcomes.

The QRC remains staunchly opposed to the amended CPRS 'compromise' Bills that were negotiated by the major parties, but subsequently defeated. If passed, they would impose in excess of $1.7 billion per annum in direct carbon permit liabilities on the Queensland resources sector (including the black coal generators) in the second year of its operation (at a carbon price of $23 per tonne of CO_2e). This does not include the indirect carbon costs associated with diesel and electricity consumption of which the sector's use is significant.

Under these Bills, the Queensland black coal generators and the very emissions-intensive-trade exposed-industries (the EITEs) will receive approximately $200 million per annum in transitional assistance in the second year.

The net costs are therefore profound. They will likely

IN THIS EDITION:

[1] National Institute of Labour Studies, The Labour Force Outlook in the Australian Minerals Sector, 2008-2020, MCA and Department of Infrastructure and Planning Report into the Viability and Economic Impact Study of the QLD LNG Industry, May 2009.

impede the international competiveness of the EITEs; stymie the adoption of new technologies; and greatly diminish asset values. The result will be carbon leakage, (ie the transfer of Australian emissions and jobs to competing countries), deterred investment, and jobs and royalties foregone.

Still at the federal level, the Henry Tax Review has handed down its report to government. Whilst the contents of the report have not yet been disclosed, and government will respond to the report sometime in 2010, the report is expected to endorse a profits-based royalty regime for on-shore resources.

That is, Henry is expected to say that Australia should move away from the current state-based output-based regimes, to a transparent, nationally consistent regime where royalties are levied on a firm's ability to pay.

The QRC is considering its position, but we strongly encourage government to not use tax reform as a guise for a tax grab. The government should take into account the already significant tax and royalty contributions of the sector, the very substantial risks associated with resource production, and the increasingly mobile nature of capital in an increasingly globalised and competitive supply environment.

THE QRC PRODUCTION INDEX

The QRC production index is a composite weighted index that tracks percentage movements in the total production of Queensland bauxite, alumina, aluminium, coal (all saleable), copper, gold, lead, silver, zinc, oil, gas, and electricity (NEM) quarter to quarter.

At the end of the September 2009 quarter, production increases were recorded for alumina, aluminium, gold, and lead, whilst production decreases were recorded for bauxite, coal, copper, silver and zinc.

The net effect of these movements was a two percent decrease in output of Queensland's main resources compared with the June 2009 quarter, bringing the QRC Production Index to 106 index points.

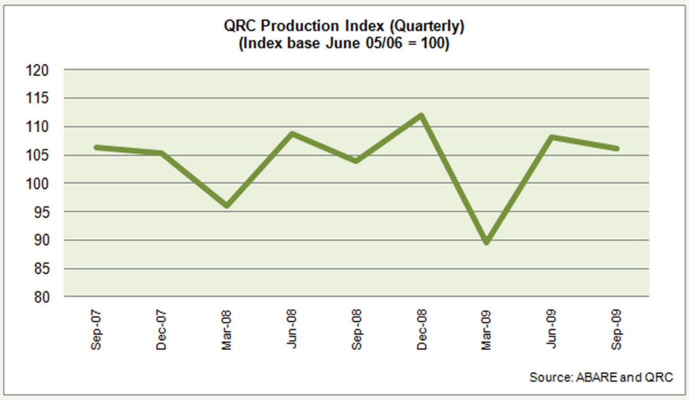
Due to sluggish economic recoveries, resources demand from Queensland's strongest traditional trading partners—Japan and Korea—has not yet reached pre global financial crisis (GFC) highs.

Whilst these countries are actively diversifying their energy mix to address the environmental impacts of energy usage, their coal demand is likely to remain constant in the medium to long term.

For example, a report recently released by the Japanese Government's Institute of Energy Economics[1] states that under a 'maximum [greenhouse gas abatement] implementation scenario' Japan by 2050 would substitute heavily away from oil, substitute marginally away from natural gas and coal, and substitute strongly to nuclear and new renewable energy sources.

Alternatively, considerable new growth in coal and most minerals and metals is expected in much of the developing (non-OECD) world as industrialisation and urbanisation continues and per capita incomes increase. The International Energy Agency predicts that non-OECD countries will account for more than 90 percent of the increase in energy out to 2030.

Offsetting much of the current downturn in coal sales from traditional markets has been the significant increase in coal 'spot' demand from non-traditional markets, notably China, as their steel mills stockpile Australian iron ore and metallurgical coal in response to government investments in steel-intensive infrastructure and renewed demand for consumer durables.



THE QRC PRICE INDEX

Comprising the same basket of goods as the QRC production index, the QRC value of production index combines domestic production and average global prices to track percentage increases and decreases in the total value of production.

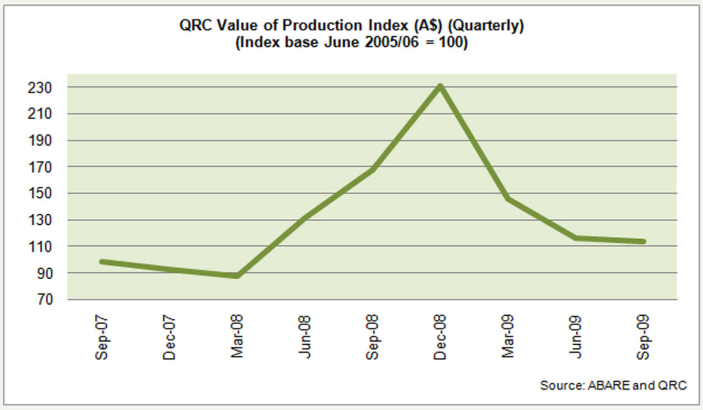
The QRC value of production index at the end of the September 2009 quarter (latest available data) reached 114 index points (June 2005/06 = 100) or in real terms A$7.9 billion. This represents a six percent decrease in the value of output of Queensland's main resources compared to the June 2009 quarter.

Whilst demand, production, and US dollar prices for almost all commodities have generally recovered from their GFC lows, these gains have been largely offset by the appreciation of the Australian dollar against the United States dollar, which most commodities are traded in.

The impact of a sustained appreciation of the Australian dollar cannot be underestimated. The QRC estimates that every one cent appreciation of the Australian dollar relative to the US dollar decreases the sales revenue of the Queensland resources sector by $88 million, and about $3.5 million is lost in royalties, per quarter.

The Australian dollar is expected to remain strong on the back of Australia's relative economic health, an improving global economy and further depreciation of the USD.

[1] Japan's Long-Term Energy Demand and Supply Scenario to 2050, IEEJ: August 2009



FEATURE: QRC'S SOCIAL POLICY POSITION

Adequate social infrastructure and services, including health, education, housing and emergency services, are essential to ensuring ongoing industry viability in regional Queensland.

Queensland is heavily dependent on the resources sector for income, investment and employment. Resource companies, in turn, are heavily dependent on the regional and remote communities that host and support their operations.

The appeal of resource communities as places to live and raise families is greatly influenced by the level and standard of social services they offer.

In recent years, most resource companies have experienced first hand the difficulties of attracting and retaining skilled employees in regional and remote areas where social services are perceived to be inadequate.

Health care infrastructure and services are often the primary concern. Frequently, stories are relayed of families being separated for months as some family members are forced to remain in regional centres to access health services, while another family member remains elsewhere in the region to continue work. This separation places great strain on families, and particularly children.

The inability to access adequate maternity services in many rural Queensland locations acts as a deterrent for young families. In addition, waiting lists of several months for essential services such as dental checks are common.

A shortage of available and affordable accommodation often constrains the ability of workers to move to resource communities. Limited housing supply when coupled with a substantial growth in demand often associated with industry growth and new projects in the region, can lead to increasing rental and purchase prices. High costs, especially of rental accommodation, can place accommodation out of reach of potential and existing residents, particularly those working in broader community and support roles.

In communities from Mount Isa to Moura, adequate childcare services are a significant constraint to maximising workforce participation. Due to a significant shortfall in childcare services in many communities, the available workforce is constrained as one family member is forced to stay home and care for children.

This restricts not only the workers available to the resources sector, but often limits valuable and much needed staff from taking up other roles in the community such as health care and education professionals. In one central Queensland community, the single community-based childcare centre has a waiting list of more than 200 children. With more than 60 percent of these children aged under three years, it highlights the large number of families awaiting childcare to return to work following leave or to begin employment.

Ensuring adequate levels and standards of social services is essential to making and maintaining livable, resilient resource communities. This requires well informed and considered planning, and coordination among the different levels of government and with industry.

Of key importance, QRC strongly advocates that ensuring an adequate base level of social services in resource communities is a government responsibility, with relative responsibilities across all levels of government.

Government obligations are to provide base levels of service in areas such as health, education, emergency services, civic facilities and roads and related transport infrastructure. Communities should reasonably expect that levels of service should be no lower in resource communities than in other communities of comparable size.

Resource regions generate substantial revenue for the state in the form of royalties and taxes, and this should be recognised and factored into decisions about the allocation of social service funding to these regions. Spending on social infrastructure in resource communities should be looked on as a form of re-investment of public 'profits' in maintaining the productive potential of the state's minerals and energy assets.

However QRC also recognises that industry has a role to play, and through QRC's recently developed position on social infrastructure and broader social policy functions, encourages cooperative and partnership approaches between governments and industry. Such approaches and models should recognise the distinct but complementary roles of stakeholders in the provision of social services in resource communities.

Planning for social infrastructure and services should anticipate medium and long-term resource community needs and be informed by the provision and rigorous analysis of accurate and reliable data. In the past this has not consistently occurred, resulting in declining livability and attractiveness of the communities, and in some cases individual companies have been forced to play the inappropriate role of providing core government services.

Recognising the importance of credible and reliable planning data, the QRC has endorsed comprehensive data collection by Queensland Treasury.

For more information on QRC's Social Infrastructure position or broader social policy matters, please contact QRC's Community Development Adviser, Elizabeth Yeo on elizabethy@qrc.org.au

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QRC CEO SENTIMENT INDEX

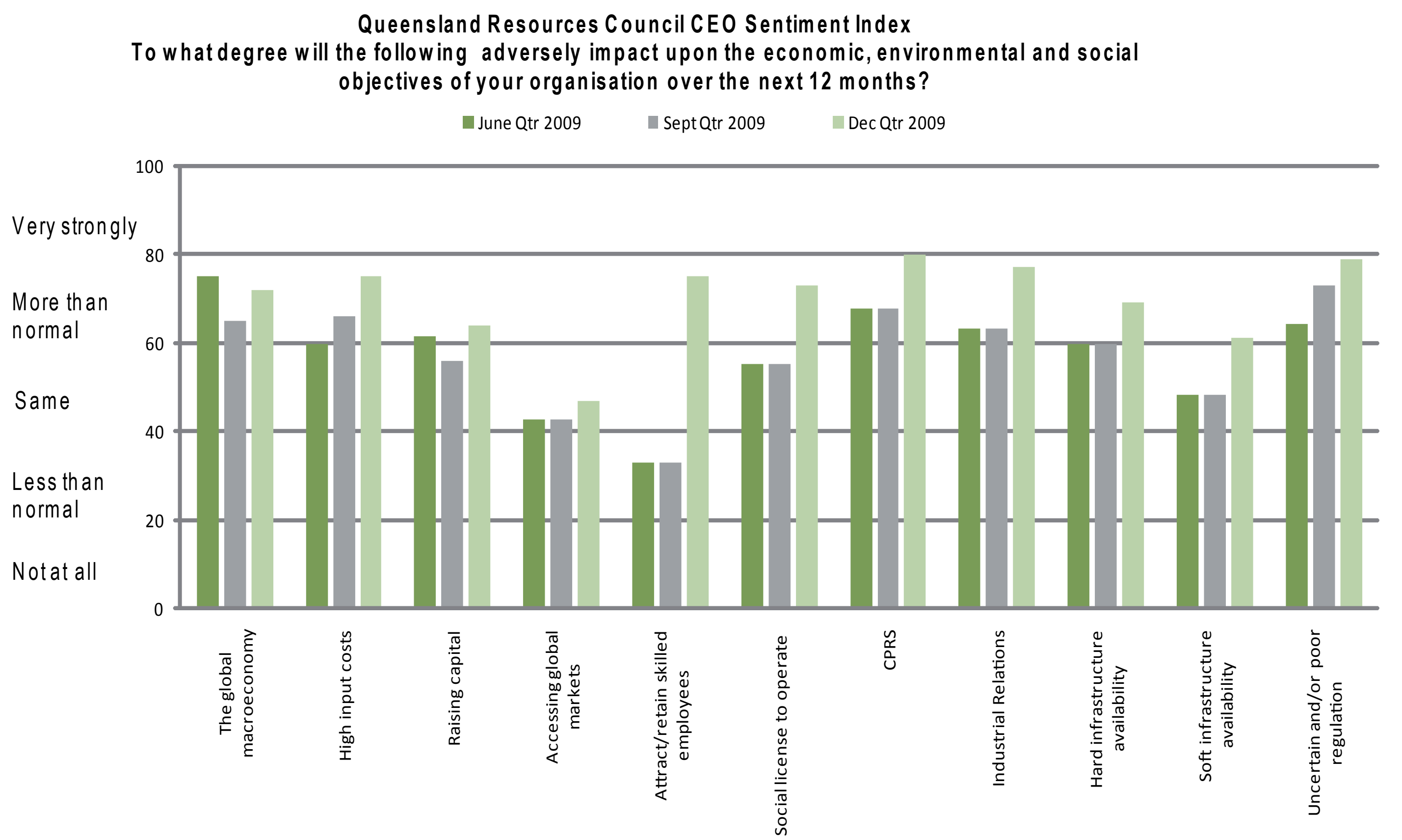
The QRC CEO Sentiment Index is a survey of the QRC's 77 full member company chief executives.

These companies cover the majority of mining, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

Summary of key findings December Quarter 2009
In priority order, issues that will 'very strongly' and 'more than normal' impact on the Queensland resources sector over the next 12 months are:

- the CPRS
- uncertain and/or poor regulation
- industrial relations
- high input costs
- attracting and retaining skilled employees
- maintaining social licence to operate
- the global macroeconomic environment
- hard infrastructure availability
- raising capital
- soft infrastructure availability.

The only issue that is not of immediate concern to companies is access to global markets. Compared to the September Quarter 2009 findings, concerns about all issues have increased.



QRC PROFILE

The Queensland Resources Council is the peak representative body for more than 160 companies with interests in the state's minerals and energy sector. The QRC's 77 full-member companies comprise explorers, miners, contractors, mineral processors, oil and gas producers and electricity generators. QRC service companies cover the gamut of professional services provided to the resources sector in the four corners of Queensland.

Written and prepared by the QRC. The data for this publication is sourced from a number of public sources–notably the Australian Bureau of Agricultural and Resource Economics and the Australian Bureau of Statistics. For more information, contact the QRC on (07) 3295 9560 or http://www.qrc.org.au