

QRC LAUNCHES ELECTION POLICY AGENDA

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With the unofficial campaign under way, the QRC has launched its 2012 state election policy agenda for the next Queensland Government.

The document sets out a comprehensive agenda with a key emphasis for the next government to clearly and publicly articulate a long-term vision for minerals and energy sector growth in Queensland as one of the key pillars of a successful economic growth strategy.

Headline components include the restoration of a stand-alone minerals and energy department under the direction of a senior cabinet minister and a whole-of-government approach to reinvigorating Queensland's reputation for minimal sovereign risk, supported by a world-class regulatory framework for minerals and energy sector development.

In concert with the Local Government Association of Queensland, the QRC is also calling for the specific allocation of \$750 million over five years to support a dedicated community infrastructure funding program for resource sector host communities.

The document available for download from the QRC website was delivered to the ALP and LNP in late September 2011 with the unambiguous goal of encouraging a policy contest among the parties expecting to form the next Queensland Government.

Since then, the sector's role in Queensland's future has taken on greater significance with the publication in November of the QRC Growth Outlook Study and the updating with 2010-11 data of the sector's socio-economic contributions website: www.queenslandeconomy.com.au.

In summary, under a full-growth scenario, the sector is set to spend up to \$142 billion on 66 projects out to 2020, creating up to 40,000 direct new jobs in the process.

The 2010-11 update of the sector's socio-economic contribution to the state confirmed that its \$25 billion spend on local wages, salaries and goods and services reached almost every postcode in Queensland.

The QRC is looking to the next state government to develop a progressive mix of policies combined with a reinvigorated government structure and public sector capability to help secure Queensland's long-term prosperity.

This includes a commitment from both sides of politics to the merit-based assessment of all resource projects, guided by the principles of ecologically sustainable development (ESD), as enshrined in the state's environmental impact statement (EIS) process. We are looking to that EIS process to be overseen by a revitalised Office of the Co-ordinator General (for significant projects) and a strong, accountable environmental regulator, which has a real-world understanding of the industries that it regulates.

The QRC is in consultation with the ALP and LNP over their formal responses to the policy agenda, although we should note that the LNP has released a comprehensive Resources and Energy Strategy, which does address several aspects of the QRC agenda, including the re-establishment of a stand-alone mines and energy department.

GLOBAL FINANCIAL INSTABILITY

QRC's latest CEO Sentiment Index (page 4) shows the highest order concern is a global downturn associated with debt and banking issues in the Euro zone.

CEOs say that global uncertainty is sapping confidence, in turn reducing demand for resources. With demand for steel and therefore metallurgical coal softening, market prices are generally moving south. Lower demand for other Queensland exports such as thermal coal (a Japanese tsunami legacy), aluminium, alumina and some base metals is also occurring in some markets.

IN THIS EDITION:

- Key indicators: QRC Production and Value of Production Indices
- Main Feature: The Economic Benefits of the resources extraction
- QRC CEO Sentiment Index



Our sentiment index also reveals that concerns over access to capital continue to escalate. The impact of this on debt refinancing and new project development is being closely monitored by QRC.

While the resource sector remains confident about the longer-term demand outlook, we are mindful that the risks of global economic malaise are real and the Queensland and federal governments must promote the competitiveness, efficiency and productivity of the sector.

RESERVE BANK AND QRC ON SONG

This edition's feature article outlines the economic benefits of the 'resources boom' assessed recently by the Reserve Bank of Australia.

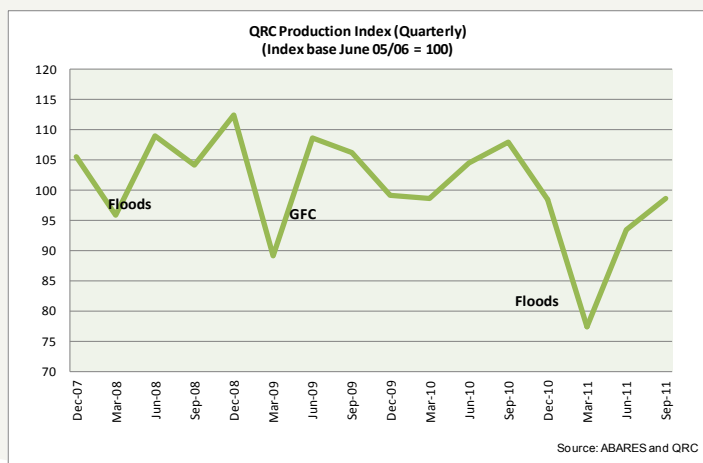
In a strong endorsement of QRC research, the RBA estimates that more than half the revenues from Queensland resource operations accrue to Queensland residents. This article also contains interesting data on how the sector is benefitting Queensland regions not traditionally associated with resource development.

QRC PRODUCTION INDEX

The QRC production index is a composite weighted index that tracks percentage increases and decreases 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.

The index at the end of the September 2011 quarter (latest available data) reached 99 index points, 6 percent higher than the previous June 2011 quarter (June 2006=100).

Encouraging post-flood increases in thermal and metallurgical coal production underpinned the increase in the production index with minor rises in alumina, bauxite, copper, silver, lead and zinc also recorded. Gold production was constant from the previous quarter.



Shipments from Queensland coal terminals in calendar 2011 were 152.78MT, down 17.8 percent or almost 33MT on 185.76MT in 2010. In part, this reflects flood impacts and lacklustre buying interest from Asia especially over the past three months as customers exhaust stockpiles and hold out for softer prices in 2012.

QRC VALUE OF PRODUCTION INDEX

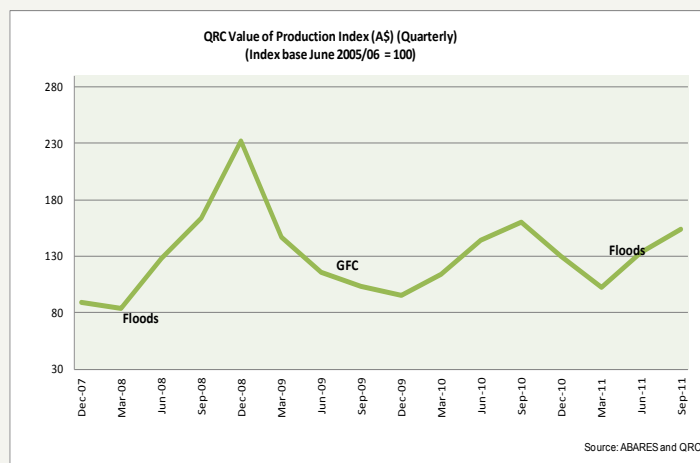
Comprising the same basket of goods as the production index, the QRC value of production index combines domestic production and average global benchmark prices to track percentage increases and decreases in the total value of production.

The index at the end of the September 2011 quarter (latest available data) reached 154 index points, 20 percent higher than the previous quarter (June 2006=100).

In real terms this is an increase of \$1.6 billion in sales from the June quarter 2011 (\$AU9.7 billion to \$AU11.2 billion). Average thermal coal prices have increased in the quarter from \$AU99/t to \$AU107/t. Metallurgical coal prices weakened during the quarter (average of \$AU265/t). Coal value of production rebounded from a March quarter flood impact low of \$AU4.8 billion to hit \$AU\$8.3 billion in the September quarter.

Other significant developments during the September quarter:

- Prices for alumina (\$AU336/t), copper (\$AU9,120/t), lead (\$AU2,617/t), nickel (\$AU20,946/t), and zinc (\$AU2,327/t) softened compared with the June quarter 2011 reflecting bearish market conditions.
- The gold price strengthened during the quarter to \$US1,701 per ounce from \$US1,505 in the June quarter reflecting the continued safe haven sentiment investors are affording gold over concerns in cash and equity markets.
- In an interesting move the National Development and



STATE OF THE SECTOR

Reform Commission in China has set a price cap for thermal coal out of Qinhuangdao at \$US126/t FOB from 1 January 2012. While hard to know what impact the cap may have on imports, it may create a useful approximate reference price for Australian producers to compete.

ECONOMIC BENEFITS FROM THE 'MINING BOOM'

Despite political claims that the mining industry is 85 percent foreign-owned and the bulk of its benefits are heading offshore, the Reserve Bank of Australia¹ has recently estimated that over half of total receipts from current mining operations accrue to Australian residents.

The main channels through which benefits are accruing to Australian residents are:

- direct labour costs (around 10 percent of total mining operational revenue)
- the mining industry's demand for domestically sourced intermediate inputs especially services (perhaps around 25 percent of total revenue)
- tax and royalty payments (close to 15 percent of total revenue in recent years)
- the share of after-tax profits owned by Australian residents (through dividends etc; around 5-10 percent of total revenue).

For the past two years, QRC has analysed the labour cost, goods and services, dividends and taxes and royalties spend of resources companies in Queensland.² The RBA analysis is generally consistent with the QRC's findings, albeit more conservative. Our analysis shows that in 2010-11, approximately 69 percent of sales values by Queensland resources companies accrued to Queensland and Australian residents.

A comparison of the RBA and QRC findings:

Table 1: Spend by resource companies as a percentage of revenue

	RBA	QRC (2010/11 data)
Domestic labour costs	10%	10% (\$4.7b)
Domestically sourced intermediate input costs	25%	33% (\$15b)
Dividends paid to Australian residents	5-10%	10% (est. \$4.5b)
Taxes and royalties paid to Australian governments	15%	15% (est. 6.75b)
Total	55-60%	69% (\$31b from \$45b revenue/sales)

¹ The Mining Industry: From Boom to Bust (<http://www.rba.gov.au/>)

² See <http://www.queenslandeconomy.com.au/>

Australia and Queensland in particular are benefitting greatly from the increase in resource development activity, with the sector's spend increasing strongly over the past two years.

As www.queenslandeconomy.com data shows, the spend is also reaching non-traditional resource regions including the Gold Coast, Sunshine Coast and West Moreton – further dispersing socio-economic benefits.

Table 2: Queensland resources companies, total spend (wages, goods and services and community contributions - \$million)

Statistical Division	2010-11	2009-10	Change %
Brisbane	12,441	10,383	19.8
Central West	36	35	1.7
Darling Downs	708	585	20.9
Far North	303	308	-1.5
Fitzroy	4236	3660	15.7
Gold Coast	203	142	43
Mackay	4365	4023	8.5
North West	1237	1446	-14.4
Northern	1043	1001	4.2
South West	171	179	-4.2
Sunshine Coast	252	207	21.9
West Moreton	51	40	26.8
Wide Bay-Burnett	156	302	-48.3
Total	25,202	22,311	13

Lawrence Consulting for the QRC estimates that this spending, coupled with the associated multiplier benefits, means the Queensland resources sector is currently accounting for one in every five dollars of Gross State Product and one in every eight jobs.

To the extent that Australia has a two (or more) speed economy, empirical research continues to challenge the populist political notion of 'winners and losers'.

The mining boom should be embraced for what it is—the mechanism by which we are capitalising on our external good fortune and delivering higher living standards for all Australians.

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QRC CEO SENTIMENT INDEX

The QRC CEO Sentiment Index is a survey of the QRC's 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.

Issues that will 'very strongly' adversely impact operations over the next 12 months (score 80 or above):

- Global macroeconomy (80). European and to a lesser extent US debt issues and fears of a global slowdown are undermining the confidence of lenders and customers, and in turn, resources demand and capital availability.

Issues that will 'more than normal' adversely impact operations over the next 12 months (score 60-79):

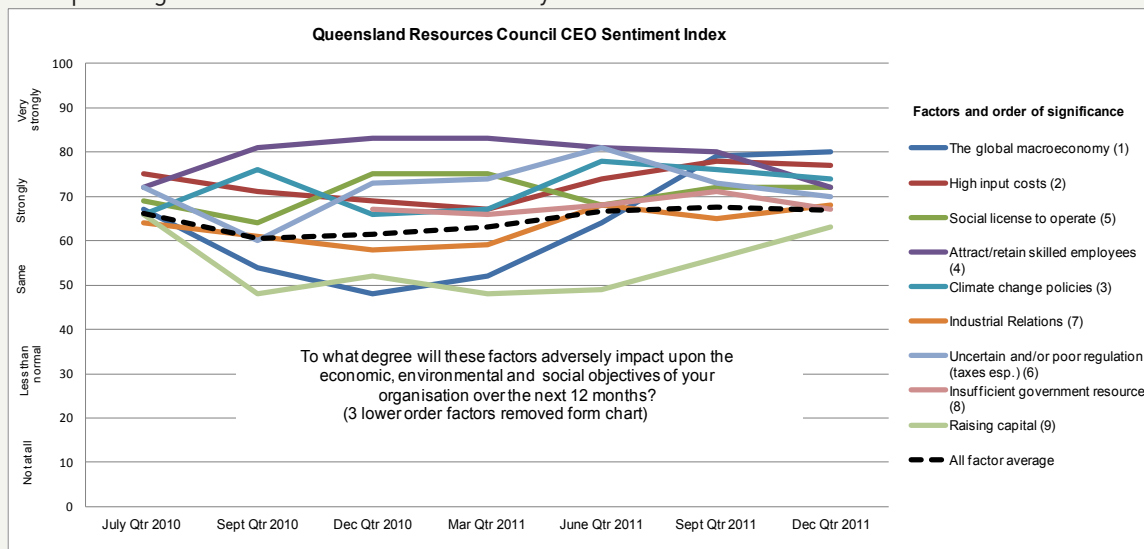
- High input costs (77). A combination of a high Australian dollar, salaries, the cost of capital and increasing scarcity of intermediate inputs (e.g. fabricated metal products) are leading to substantial increases in operating and construction costs and delays. One CEO

suggests construction projects are running over cost and time by 25 percent and up to 18 months late.

- Climate change policies (74). Concerns that federal Clean Energy Acts will place Australia far ahead of competitors on global cost curves, and without adequate transitional assistance, will risk driving investment offshore. Concern also about the impact on industry from higher electricity costs and threats to new baseload generation capacity.
- Attraction and retention of skilled employees (72). Intense competition for skilled labour in certain occupational categories with salaries being pushed to unsustainable levels. CEOs say engineers in particular are in very short supply.
- Social licence to operate pressures (72). Belief that community concerns are driving governments to respond to issues without factual foundation.
- Uncertain and/or poor regulation (70). Concern over state and federal regulations that impose unnecessary costs and restrictions on projects and developments.
- Industrial relations (68). Concern over potential for

significant increases in industrial disputes based on the flexibilities afforded bargaining agents under the Fair Work Act.

- Raising capital (63). Concerns that a global slowdown lead by the Euro zone problems will restrict access to and increase costs of debt and equity capital.



QRC PROFILE

The Queensland Resources Council is the peak representative body for more than 200 companies with interests in the state's minerals and energy sector. The QRC's 90 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 www.qrc.org.au