QUEENSLAND RESOURCES COUNCIL

STATE OF THE SECTOR

DECEMBER QUARTER 2013

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THE YEAR AHEAD

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As we report on the state of the resources sector for the final quarter of 2013, it is opportune to reflect on the notable trends and developments over the past 12 months with a view to shaping our sector's 2014 advocacy priorities.

On the back of a record $38 billion in capital and operational expenditures, community contributions and salaries to Queensland-based businesses and workers, the sector has never delivered so much prosperity to both regional and metropolitan Queensland. According to the Australian Bureau of Statistics, full-time employment in the mining (including gas) industry reached a record high 80,000 in the December quarter.

Record high capital expenditures were fuelled mostly by the three LNG plants; the Grosvenor, Eagle Downs, Daunia and Caval Ridge coal projects, and the George Fisher, Lady Loretta and Ernest Henry metals projects in the North West. There was also the completion of a number of brownfield expansions including the Lake Vermont, Broadmeadow, Kestrel, Millennium, Yarrabee and Rolleston coal projects. Maintaining this level of expenditure and prosperity is becoming increasingly difficult, with a number of risks in play (refer to our Sentiment Index findings on page four for more information). While there remains a large number of Queensland resources projects at the pre-feasibility and feasibility stage, there has been a notable cooling in investment sentiment in the state, despite the strength of the long-term demand fundamentals.

The hard decisions of member companies to let workers go, close the Aquila, Norwich Park, Gregory and Wilkie Creek coal operations in the Bowen and Surat Basins and suspend the Mount Margaret copper and Ernest Henry magnetite operations in the North West demonstrate the cost pressures being encountered by current operations and the vigilance now needed by governments and producers alike to keep costs under control to stay globally competitive.

Moves by the federal government to replace the world's highest carbon tax with a more workable regime; abolish the Minerals Resource Rent Tax; introduce a one-stop-shop for state and federal government environmental approvals for new projects and review the Renewable Energy Target are just some of the measures that will greatly assist. Also working in our favour is the expected continued depreciation of the Australian dollar against the US dollar that is giving some relief to producers hit by continuing soft commodity prices. At the state government level, we will continue to work with Premier Newman and his team on reducing green and red tape and ensuring that key initiatives like the regional planning legislation currently before the parliament underpin growth in both the resources and agriculture pillars of the state's economy. We are looking to the Newman government to deliver reforms to the mining health and safety laws that promote safe workplaces, but avoid loading up the industry with new layers of regulation and costs. We have welcomed recognition by the Minister for Natural Resources and Mines Andrew Cripps of the dire state of the exploration sector. We are looking to his Ministerial Advisory Committee on Exploration to deliver some much needed reforms in the first half of 2014. We are also looking to the government's ResourcesQ initiative to provide a platform for long-term growth for the sector.

In the face of increasing environmental activism that continues to mis-represent growth of Queensland's export coal and gas industries as a major threat to the Great Barrier Reef (see feature article on page three), we strongly welcomed the federal government's decision in December to allow capital dredging and dredge spoil disposal for expansions at the Port of Abbot Point.

Despite ongoing contention over this decision, it is important to note that dredging and disposal is restricted to 3m cubic metres of dredge material over the life of the project and 150 percent of the total amount of fine sediments that are potentially available for re-suspension in the marine environment must be offset by a reduction in the load of fine sediments entering the marine environment from the Burdekin and Don catchments. Environment Minister Greg Hunt has also imposed a cap of 1.3m cubic metres of sediment that can be dredged or disposed of in a year. Dredging and disposal activities can only be undertaken between 1 March and 30 June each year to protect water quality during critical times for seagrass growth and coral spawning. To put that 3m cubic metres into perspective, the proposed Abbot Point multi cargo facility project cancelled by the Newman government would have involved dredging and disposal of 38m cubic metres of material.

IN THIS EDITION:

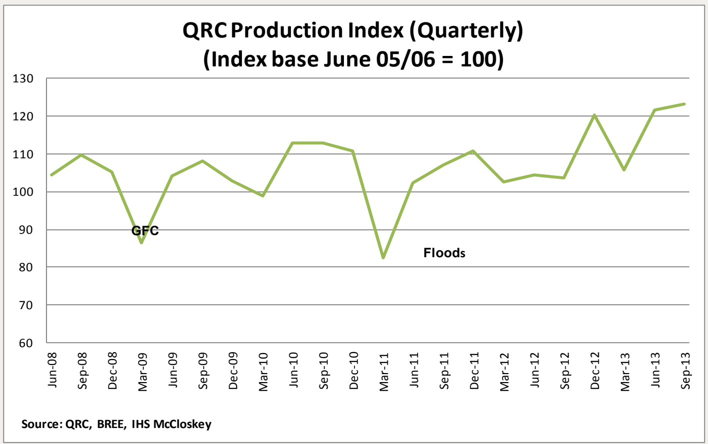
KEY INDICATORS

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, copper, gold, lead, silver, and zinc quarter to quarter.

Weightings are on a value of production basis; hence changes in coal production (representing 70 percent of the Queensland resource sector's total value of production) have a proportionately larger impact on the index than changes in silver production for example (representing 5 percent of total value of production). Note – because Queensland is not yet producing significant quantities of additional coal-seam gas, this output has not been included.

The index at the end of the September 2013 quarter (latest available data) reached 123 points. This is an increase of one percentage point from the June 2013 quarter (June 2006=100).



Record amounts of coal are passing through Queensland ports. The total volume of Queensland coal exported in the September quarter was up 3 percent from 49.3 million tonnes (Mt) to 50.8Mt (preliminary port data demonstrates that this trend continued in the December quarter with a notional figure of 54.3Mt recorded). Exports for the 12 months ending December 2013 were 196Mt.

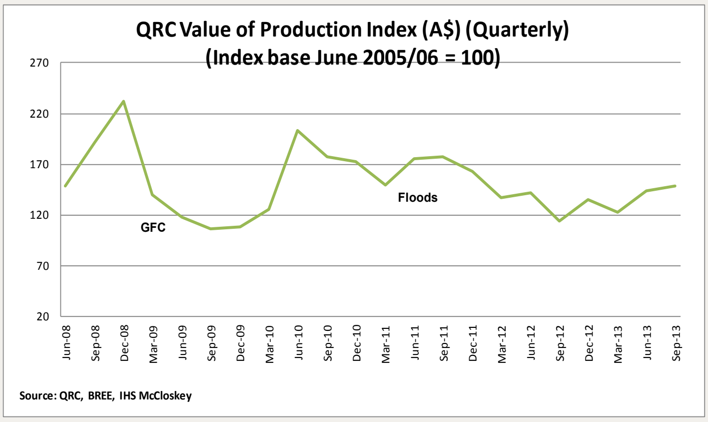
A number of commodities including aluminium (139kt to 140kt), bauxite (6800kt to 6971kt), copper (68kt to 77kt), gold (4t to 5t) and lead (105kt to 125kt) also recorded higher production volumes over the September quarter. Zinc (279kt to 245kt), alumina (1492kt to 1476kt) and silver (397t to 337t) recorded decreases in production.

QRC VALUE OF PRODUCTION INDEX

Comprising the same basket of goods as the QRC production index, the QRC value of production index is also a weighted index. It combines domestic production and average global benchmark prices to track percentage increases and decreases in the Queensland resource sector's total value of production.

The index at the end of the September 2013 quarter (latest available data) reached 149 index points, up from 142 in the previous quarter. In aggregate, the resources sector recorded sales of A$9.4 billion in the quarter, up from A$9.0 billion in the June 2013 quarter.

The increase was primarily on account of higher coal export volumes despite (perversely) falling metallurgical coal prices and stabilising thermal coal prices. Spot thermal coal prices continued to stay very low at around US $78/t (Newcastle FOB marker, high CV and 6000kc NAR basis) while Australian prime hard coking coal traded in the spot market for around US$148/t by the end of September 2013.



PRICE OUTLOOK

While Queensland coal exports remain high by virtue of high fixed costs such as domestic port and rail take-or-pay commitments, a benign wet season, and improved global competitiveness, global prices for thermal and coking coal continue to remain low due to strong global supply.

Spot prices for seaborne Australian hard coking coal continued to fall in early 2014 reaching a low of US$133/t. This represents the lowest level in half a decade and is a decrease of 60 percent over the past three years. The ongoing weakness is partly because metallurgical coal stocks in China remain relatively high, both at the mills and ports and the country's steel market is seeing ongoing concerns about overcapacity and tightening environmental regulations. Given reports that global buyers will push for further discounts in 2014, producers are likely to maintain their focus on cost reduction to remain globally competitive.

In relation to thermal coal, Australian producers have settled December-expiry Japanese Power Utility (JPU) contracts at US$87.40/t FOB. This is a step up from the US$85.80/t benchmark for larger tonnage September-expiry JPU contracts. Recent currency movements have also favoured Queensland producers. The recent dip in the A$ to circa US$0.88, has resulted in an A$98.20/t price for the latest settlement. This compares with the scenario 12 months ago when the contract price was US$90.60/t and the A$ worth US$0.96 resulting in a price of A$94.40/t.

In relation to metals, prices are expected to continue to weaken given the slowing of the Chinese economy and lower than anticipated global economic growth. However, there are signs that supply deficits may emerge in key markets given the lack of new global supply coming on over the next few years.

Prices for domestic gas are also expected to continue to increase in line with tight supply, increasing export prices and increasing discovery and conversion costs. The federal government has turned its attention to domestic gas market concerns with the release of the Domestic Gas Market Study and an issues paper as part of the process of producing an Energy White Paper in September 2014.

THE RISE OF DIGITAL ACTIVISM

Recently, a journalist asked the QRC secretariat for a rundown of organisations either critical of or opposed to minerals and energy sector operations in Queensland. The journalist's own tally of 16 was dominated by established bodies such as the Australian Conservation Foundation and The Wilderness Society – the latter having just declared that it is abandoning its native forest protests of the past 30 years to focus on opposing fossil fuels.

The secretariat had little trouble adding another 25 organisations, and notably, new entrants such as the US-based 350.org and Sierra Club who are making big plays to extend their influence to Australia.

They have ample capacity to be casting beyond their borders. Like Greenpeace and WWF, they have secured major funding through both substantive private donations (nyti.ms/1duk5kR) and ongoing linkages to philanthropic organisations such as the Rockefeller Foundation and Pew Charitable Trusts.

It's ironic that both of these charities are products of US oil family wealth, making their support for anti-coal and gas campaigns in Australia – notably Stopping the Australian Coal Export Boom (bit.ly/1dNSiC1) – all the more intriguing.

It was not coincidental that after this funding blueprint for anti-coal and gas legal challenges and media campaigns became public, 350.org's founder and chairman Bill McKibben made a capital city speaking tour highlighting the need for 'fossil fuel divestment'.

The Sierra Club teamed with local activists from Beyond Zero Emissions and Sunrise Project to host a three-day meeting with '...participants involved in training and skill-shares in fundraising, media and legal processes.'

Also in 2013, Cellarmasters founder turned philanthropist David Thomas (bit.ly/1eRyqL0) joined Wotif's Graeme Wood as a banker for environmental activism. In 2010, Wood donated $1.6 million (bit.ly/1aJQDrw) to bankroll the Greens' election campaign and was represented at the activist gathering that sponsored 'Stopping the Australian Coal Export Boom.'

From the Thomas Foundation website: 'Fight for the Reef is the first major marine project to benefit from a significant Thomas Foundation grant. The project is jointly run by the World Wildlife Fund (WWF) and the Australian Marine Conservation Society (AMCS) in a coalition initiated by the Foundation. As well as bringing the two groups together, this is also the first time the Foundation has funded an advocacy program - a significant shift from the science-based grants programs that were the focus of the Foundation's terrestrial conservation activities over the previous decade.' More is the pity that science-based programs are now taking a back seat to political activism that continues to dishonestly represent forecast growth of Queensland's export coal and gas industries as a major threat to the Great Barrier Reef.

Some guidance to what constitutes a significant grant from the Thomas Foundation can be surmised from 'Fight for the Reef's' TV campaign.

After screening extensively on regional and metropolitan stations over several months, it was booked into 2013's most expensive air time of the year – Nine's coverage of the State of Origin rugby league decider.

The 'Fight for the Reef' campaign backers did not feel at all constrained by facts. They had a well-meaning minor celebrity spouting lies such as 'there are going to be 7000 coal ships going across the reef.'

The facts are that at the upper end of forecasts, ship calls adjacent to the reef might number 6000 by 2020, with only half of these carrying coal and gas, and the other half carrying tourists, exports of sugar, beef, processed minerals and imports of essential supplies such as oil for central and north Queensland communities. Never will you hear about ships supporting tourism or agriculture because that does not suit their underlying anti-coal, anti-gas agenda.

Some other facts: Ships travel through the reef area along natural deep channels, are monitored 24 hours a day by the REEFVTS navigation system and carry pilots in the narrower channels. REEFVTS has been operating for more than 10 years and in that time there has been just a single incident.

None of these facts have troubled the 'Fight for the Reef' campaign, nor its lookalikes promoted by groups like Greenpeace or Get!Up. Social media platforms such as Facebook and Twitter have given activist groups global voice. Many – but especially Greenpeace and GetUp! – have perfected the art of corralling so-called 'slacktivists' (supporters whose only commitment is clicking a mouse) to reach tens of thousands more people through 'retweets', message posters and online petitions.

Agility is key to social media campaigning. For example, Stop Brisbane Coal Trains is a Facebook group that has at various times involved Friends of the Earth, Six Degrees, Quit Coal and now Lock the Gate Alliance through a spin-off called the Queensland Clean Air Alliance.

Despite no legitimate claim to community concern over air quality along the South West-Metropolitan rail corridor, SBCT convinced media outlets that it had achieved just that through a series of minor public meetings.

Following a comprehensive scientific response to rail corridor dust issues commissioned by the South West Users' Group and promoted by the QRC, Stop Brisbane Coal Trains

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has decided to re-form as a climate action group (to all intents and purposes, its origins).

In the new media landscape, the KPI is how many clicks and likes are earned. With an estimated 83 percent of Australians between 18-29 and 77 percent between 30-49 using social media, it is a powerful force that industry can neither ignore nor provide only lip service through corporate announcements that have traditionally targeted journalists.

Social media is the new soapbox cum flatbed truck election rally platform, with the significant advantage of having a potential audience 24 hours a day, anywhere in the world. For further reading on social media, this article (bit.ly/LDTfkc) by Peabody Energy communications adviser Sophie Birse is highly recommended.

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.

The top six areas of concern for resource sector CEOs include:

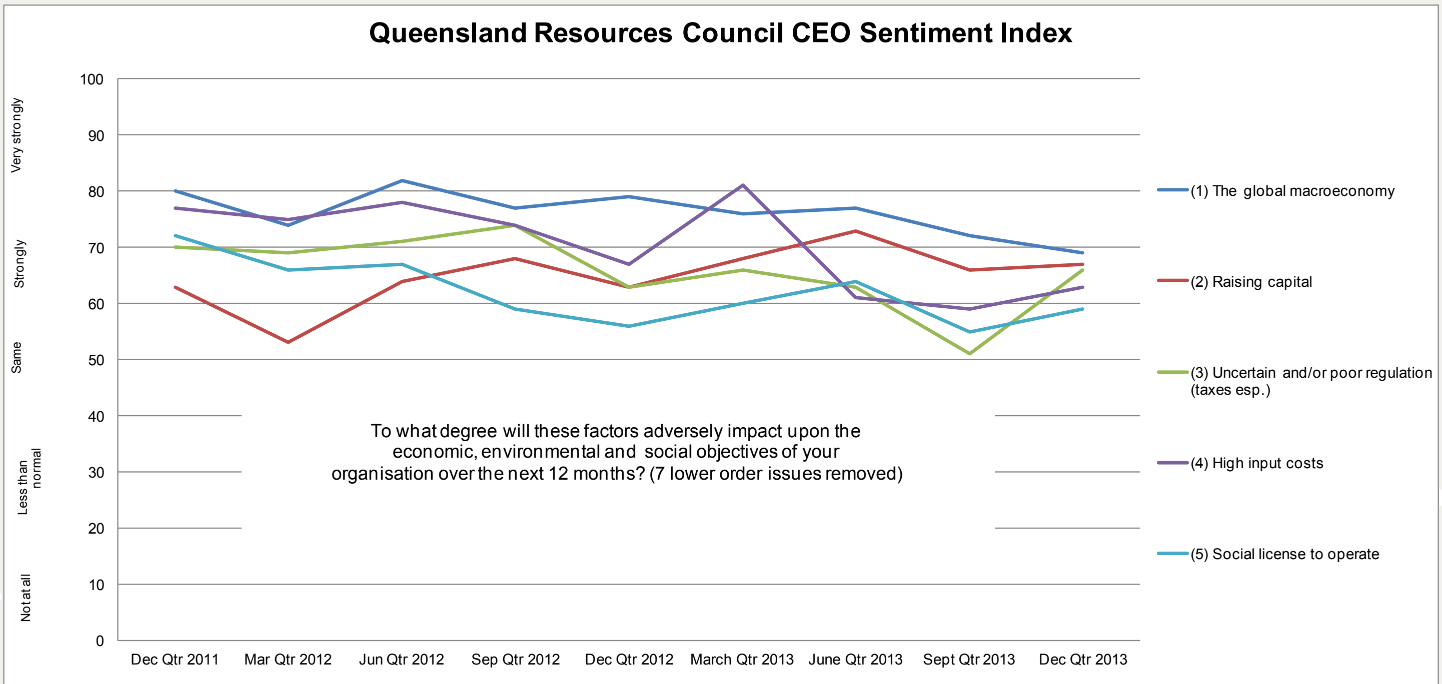
1 Global macroeconomy = continued global economic uncertainty and weak economic conditions, including in the United States, Europe and the slowing of growth in China. This is resulting in oversupply in some markets which is depressing commodity prices.

2 Raising capital = raising capital on the debt and equity markets is increasingly difficult given low commodity prices, regulatory burden and perceived sovereign risk responses noted recent Cape Alumina decision). Securing internal funding within the larger corporates also difficult as shareholders request larger dividends, higher returns.

3 Uncertain and/or poor regulation = Despite continued political rhetoric about red and green tape reduction, the regulatory approvals process, both state and federal, remains complex and uncertain. The rushed introduction of new legislation and the inclusion of circular loops within regulatory processes provides no certainty for developers or investors. Increasing concern that the likelihood of long-term structural budget deficits will result in governments seeking additional revenues from the sector.

4 High input costs = whilst softening, continued high AUD against the USD results in high historical costs; high effective tax and royalty burden and the general increase in the array of increased government charges recently (eg local government rates); high labour costs as a legacy of the 'boom'; energy costs increasing mainly on account of high network and green costs and domestic gas scarcity; and declining productivity.

5 Social licence to operate = Mobilisation of the environmental activist groups, including unfounded claims re the potential impacts of resources extraction (eg ship movements anchoring and dredging on the health of the Great Barrier Reef).



Written and prepared by the Queensland Resources Council, which is the peak representative body for 269 companies with interests in the state's minerals and energy sector. The data and information for this publication comes from a number of public sources – notably members directly, mccloskeycoal.com, the Bureau of Resources and Energy Economics and the Australian Bureau of Statistics. For more information, contact the Queensland Resources Council on (07) 3295 9560 or www.qrc.org.au.