

THE QUEENSLAND ELECTION AND THE RESOURCES SECTOR

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Elections abound in threats and opportunities for industry sectors like resources.

Threats surface in the form of unwelcome policy commitments and instant platforms for industry opponents.

Anti-resources activists at The Australia Institute and some conservation groups have been promoting their agenda during the campaign by talking down the value

of the resources sector to the economy and misrepresenting the impacts of port development on the Great Barrier Reef. QRC is continuing to counter claims with hard evidence and real science.

Our analysis [see: Green mist threat to Queensland economy, lifestyle] of the Queensland Greens' policy platform confirms that anyone seeking preference deals with the Greens would have to embrace a set of policies effectively crushing the state's coal and gas industries and undermining the Queensland economy. Our clear message to the major parties: No deals with the Greens.

Unfortunately, the ALP is walking both sides of the street on the reef. Their major reef spending commitment sensibly targets the biggest threat – the quality of river water flowing into the Reef. However, at their election policy launch the ALP effectively closed off all options for development of the port at Abbot Point, stranding the Galilee coal basin and hence the thousands of jobs the basin's projects would generate. The Greens and the anti-resources activists are cheering, not so communities in regional Queensland desperate for some good news about job creating projects.

The oddest intervention in the campaign has been a high-profile Sydney breakfast radio announcer heaping vitriol for an hour a day on the incumbent Queensland government and the mining and gas industries [from his Sydney studio]. QRC has strenuously pointed out that a sector accounting for one in every five jobs in Queensland deserves his support not attack.

QRC has also used the campaign to release [factsheets](#) on the economic contribution of the resources sector by state electorate. They have created a lot of interest and have been well received by candidates.

Early in the campaign the anti-coal lobby tried to get grip for the issue of coal dust along the south-west rail line to the Port of Brisbane. QRC moved quickly to reassure political stakeholders and candidates of ongoing initiatives to minimise coal dust emissions, including coal wagon venering and the 2016 extension of a program of [real time monitoring of air quality along the corridor](#).

On a more positive note the shadow Treasurer Curtis Pitt confirmed no increase in mining and gas royalties under an ALP government. This was announced at the ALP's fiscal and debt strategy launch that sparked a furious debate over who has the most responsible strategy, and the merits of asset leasing.

Over time, both party policies on state assets will be a budget drain of \$1.5-\$2 billion a year. For the LNP, the loss of returns from leased assets is far more than the budget interest savings. For the ALP, from 2018-19 two-thirds of asset returns will be re-directed to debt reduction. Logically, the state must embrace policies to support the growth of sectors like resources to make up the shortfall.

The LNP's asset-leasing policy plus is the opportunity for significant reduction in public debt over a reasonably short period, thereby addressing credit rating agency concerns. Under the ALP policy it takes until 2022-23 to achieve an equivalent reduction in general government debt.

Another LNP policy benefit is the freeing of capital for new infrastructure investment. QRC has reiterated the need for appropriate commercial and regulatory protections to be implemented for leased asset customers. With Gladstone Port Corporation a likely early candidate, customers have looked nervously at the spike in charges at the recently privatised Port of Newcastle. However, we expect a number of the assets up for lease (eg electricity network providers) will be operated more efficiently under private ownership with potential benefit to consumers and the economy. The economy yields the greatest benefit if a large portion of a proposed \$8.6 billion investment program goes into productivity-enhancing infrastructure.

The ALP's assets retention policy means continuing access to dividends and other returns (Queensland Treasury estimate \$2.3 billion in 2017-18). There is probably less risk of price gouging of customers with government ownership of assets but the economy misses out on potential efficiency gains. The state also loses the opportunity of a major infrastructure investment program and keeps the obligation to fund future essential capital programs for the ports and electricity assets.

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- Key Indicators: QRC Production Index, QRC Value of Production Index and Price Outlook.
- Feature article: Green mist threat to Queensland economy, lifestyle
- QRC CEO Sentiment Index



KEY INDICATORS

QRC PRODUCTION INDEX

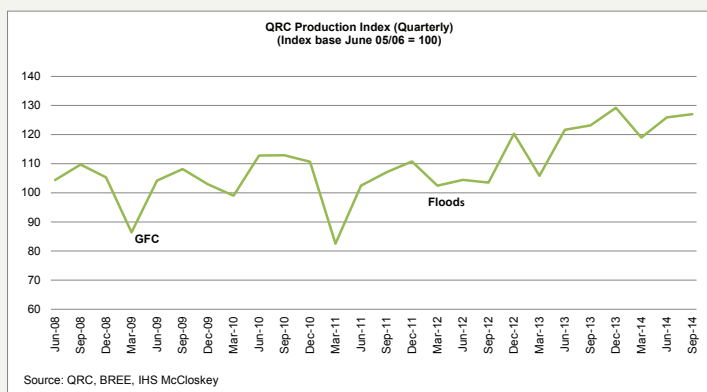
Has the volume of production changed?

QRC's quarterly production index tracks changes in the total production of Queensland's key resources: bauxite, alumina, aluminium, coal, copper, gold, lead, silver and zinc. The index is weighted by the value of production. This means changes in the volume of coal produced (which is 70 percent of the value of Queensland resource production) has a proportionately larger impact on the index than, for example, changes in silver production (which represents just 5 percent of total value of production).

As Queensland was not yet exporting significant quantities of LNG in the September 2014 quarter (latest data), gas production is not included.

Total production volume grows

The index at the end of the September 2014 quarter (latest available data) reached 127 points. This is an increase of 1 percent from the June 2014 quarter and an overall increase of 4 percent over the year (Sept '13 - June '14). The index base is June 2006 = 100, so the total volume of production has grown 27 percent since that time.



While coal exports in the September quarter were slightly down to 54.5 million tonnes (from 55.2 million tonnes in June quarter), annual Queensland coal exports in 2014 still reached record volumes of 216 million tonnes. This equates to a 10 percent increase on the 2013 year.

Most commodities recorded higher volumes over the September quarter including alumina (1,496 kt to 1,582 kt) aluminium (136 kt to 143 kt), bauxite (6,363 kt to 6,844 kt), and copper (63 kt to 75 kt). Gold (4 t) production remained constant and only lead (119 kt to 108 kt), silver (381 t to 340 t) and zinc (240 kt to 228 kt) saw reductions in production volumes.

Weighing up the net result of these changes in production volumes generate the 1 percent increase in the QRC Production Index.

QRC VALUE OF PRODUCTION INDEX

Has the value of production changed?

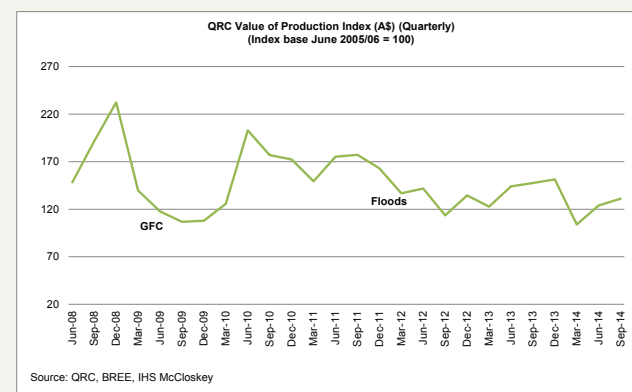
QRC's value of production index reflects changes in Queensland's resource production and average global benchmark prices. The weighted index reflects the same mix of commodities as the QRC production index.

Total value grows

The index at the end of the September 2014 quarter (latest available data) reached 131 points up from 129 in the previous quarter. In aggregate, the resources sector recorded sales of A\$8.2 billion in the September 2014 quarter, up from A\$8.1 billion in the June quarter.

This slight increase was primarily on account of the price increases in alumina, aluminium, copper, lead, and silver. These increases were offset by further declines in average coal prices for both thermal (US \$68 from \$73) and metallurgical coal (US \$114 from \$115). The depreciation of the Australian dollar against the US dollar will have also contributed towards the increased index.

Prices increased for alumina (US \$306/t to US \$316/t), aluminium (US \$1,772/t to US \$1,910/t), copper (US \$6,787/t to US \$7,020/t), lead (US \$2,091/t to US \$2,182/t), silver (US \$1.961/troy oz to US \$1,975/troy oz) and zinc (US \$2,058/t to US \$2,311/t) while only gold (US \$1,289/oz to US \$1,284/oz) recorded a price decrease over the quarter.



PRICE OUTLOOK

Metals

It is encouraging that almost all metals saw price increases in the last quarter reported. The medium term price outlook remains positive with incremental price increases anticipated as the formerly oversupplied market rebalances. According to December 2014 resources and energy quarterly, falling investor purchases of physical gold have placed downwards pressure on gold prices throughout most of 2014. In 2015, further falls are forecast as US monetary policy begins to step towards normal settings with the US Federal Reserve expected to raise interest rates at some point in the year.

STATE OF THE SECTOR

Smelter closures and curtailments implemented throughout the year are beginning to reduce oversupply and contribute to higher prices. However, rising input costs, spare capacity and tapering consumption growth in China will remain key challenges to the aluminium market in 2015.

Zinc has bucked the bearish trends of other commodities in 2014. Prices increased steadily through the year as the market balance tightened in response to slow supply growth. Prices are forecast to continue to increase in 2015 until they reach a level that will stimulate new project development.

Coal

There remains considerable uncertainty in coal markets about the impact of domestic Chinese policies. According to the latest McCloskey Coal Report, the new quality controls introduced for all coal on January 1 has stifled trading, led to cargoes being delayed at ports and pushed prices up for the few still doing business. The confusion surrounding the testing of coal quality and the discrepancy between ports and regions remains a concern as China is the largest coal importer. Although China's imports of thermal coal declined during 2014, Australia increased its market share displacing imports from other large suppliers including Indonesia and South Africa. While China's coal use is forecast to increase in 2015, the volume of imports will be heavily influenced by policy directives.

Metallurgical coal

Quarter one 2015 pricing for metallurgical coal (met coal) has concluded reaching \$117/t for premium brands, down \$1.50 on quarter four 2014, and \$116.50 for mid volatile brands, up \$1.50 on the previous quarter. McCloskey has reported that 'met prices are at, or near, bottoming, although sluggish steel sales and recessed industrial output in leading economies suggest recovery may be slow'.

Thermal coal

The oversupply in the thermal market is expected to persist in 2015 keeping a downward pressure on prices. According to the latest Resources and Energy Quarterly (Department of Industry), benchmark prices for the Japanese Fiscal Year 2015 (JFY, April 2015 to March 2016) are forecast to settle 14 percent lower, at around US\$70 a tonne.

FEATURE: GREEN MIST THREAT TO QUEENSLAND ECONOMY, LIFESTYLE

For readers who usually rely on political discourses to treat insomnia, the Queensland Greens' policy platform for the 31 January state election is something out of the box.

But with the real prospect of preference deals playing an important role in the Queensland election outcome, the Green manifesto can't be dismissed lightly.

We recall how a union of the Greens, independents and ALP delivered the second Gillard government in 2010 – testament to the adage that politics makes for strange bedfellows.

In the run-up to the state poll, the QRC's message to the major parties is clear: No deals with the Greens. The reason for this position becomes very obvious, very quickly.

Broadly, the Queensland Greens' resources policy shows a poor understanding of the mainstream issues facing the export-focused resources sector in Queensland.

But that is barely a deficiency in a platform that bans all new coal and coal-seam gas activity in Queensland; bans uranium mining and for good measure, sand mining on North Stradbroke Island.

The phase-out of Queensland's thermal coal industry (also noting there is to be no new gas) is the pointy end of the Greens' agenda, set against a seamless transition to clean energy sources that cannot provide baseload electricity, and as a result, has not been achieved by any other state or nation.

While conceding retention of a metallurgical coal industry in Queensland, the Greens want a ban on all fossil fuel exploration. The last time we checked, metallurgical coal was a fossil fuel.

The Greens are convinced that resources activities cannot co-exist with other land uses despite ample evidence to the contrary over the past 154 years of statehood. Scholars don't ponder why a pick and shovel and a sheaf of wheat hold equal places on the state's coat of arms.

In tandem with axing of the Coordinator-General from the resources project approvals process and adoption of (chaotic) NSW-styled planning laws, the Greens demand a 'Special Commission of Inquiry into the environmental, social, governance and economic impact of the industry'. Clearly this manifesto has been put together by a set of people with a visceral hatred for all things resources.

A very clear theme running through the platform is its prescriptive nature with the document heavy on new legislation, mandatory standards, bans and prohibitions. They don't want to see our sector grow – they want to strangle it with green and red tape, hoping that this will achieve the outcome sought of driving away investment.

The resources sector's contribution to Queensland is acknowledged with the puffery that also contends oddly that 'resource extraction will remain an important part of the Queensland economy.'

But without question, the biggest policy contradiction of all is the creation of a sovereign wealth fund from the proceeds of minerals and energy royalties.

Given the flight of capital from the state would be neck and neck with the devastation of communities from the Darling Downs to Far North Queensland, it's a symptom of the Greens' reality that they expect a return from something they are in the process of destroying.

For a full analysis of the Greens' policy platform compiled by QRC policy experts, click [here](#).

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QRC CEO SENTIMENT INDEX

The QRC CEO Sentiment Index is a survey of 80 chief executives of QRC's 80 production members. These companies cover the majority of mining, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

The following charts focus on the change in sentiment towards key issues for 2014 (Chart 1) and over a four year period beginning December quarter 2010 (Chart 2).

Chart 1 demonstrates continuing high levels of concern with the global operating environment, particularly surrounding Chinese policies as well as the difficulty in raising capital.

Chart 2 reveals the key issues with the highest positive and negative net change over a four year period. The labour demand issues at the beginning of the period have considerably declined as shown below by the 57 percent improvement in sentiment. Sentiment towards input costs, government resources and industrial relations have improved over the period, while sentiment towards the global macroeconomy and accessing capital has deteriorated.

Chart 1: Macroeconomic concerns

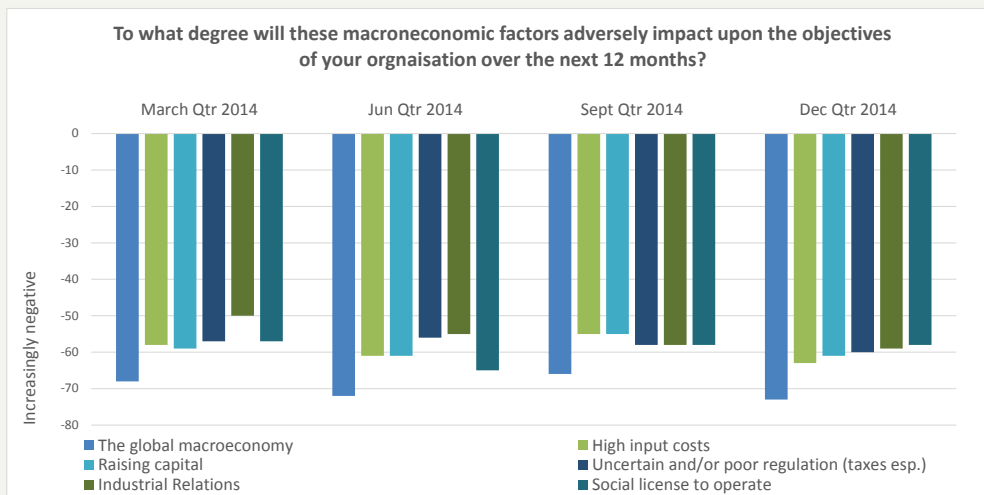


Chart 2: Net change in response (Dec 2010 - Dec 2014)

