

SECTOR MAY BE UP BUT CEO SENTIMENT DOWN



**By Ian Macfarlane, Chief Executive
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Many people were surprised last year when Donald Trump won the United States presidential election, markets initially dived, and a lot of people around the world probably lost money

on what they thought was a safe bet on Hillary Clinton.

Once Trump gave his initial speech however, markets rebounded and confidence buoyed in some. Our latest quarterly survey of resources sector chief executives reflects what many polls around the world have, they are split on whether US President Donald Trump is good or bad for business.

One CEO says: ***"Trump is a wild card. Really don't know whether he will be good or bad for us. In all cases, the uncertainty will create volatility in the markets over the next year."***

Whereas another says: ***"Future of coal more positive. Construction boom in USA will drive resource demand."***

Fifteen per cent of survey respondents said the election of President Trump would not affect them at all.

"There is little he can do – even if minded to do so, that would reflect on our business within the next 12 months."

One company executive has questioned the impact on trade with China.

"There is a new level of uncertainty injected in international trade through the USA leadership's comments in relation to China."

For the five years prior to 2016, policy uncertainty and poor regulation didn't ever top the concerns facing the chief executives of the resources sector. Alarming, the results in each of the four quarters in 2016 consistently ranked policy uncertainty and poor regulation as the number one concern. In fact, over the past two years, not one of the respondents has said policy uncertainty and poor regulation wasn't adversely impacting their organisation. Given the index is a forward looking forecast, the results illustrate the anticipated poor policy environment throughout 2017.

"State regulation is of concern with little consultation and strengthening union position/influence. The federal government needs clearer stance on workplace relations."

Nearly 90 per cent of chief executives said red tape impacted upon their business. The QRC constantly calls on governments at all levels to loosen the red tape that is strangling one of Queensland's economic pillars, from local government rate hikes, to changing state legislative goal posts, to the latest, the Federal Court ruling over the Native Title Act and Indigenous Land Use Agreements.

Some comments include:

"Government red tape is increasing to ridiculous levels with no benefit to anyone except public servant jobs and wasting further money and resources – the level of consultation and through put into recent regulatory changes is less than a preschool level."

"The compounding effect of regulation change is very damaging, particularly for greenfield projects. Under the current approval and political environment, a new mine can take upwards of seven years, which can coincide with three changes of state government and three changes of federal government. There have been instances whereby policies have changed multiple times throughout the approval cycle and then some have changes post approval and not been grandfathered."

Other concerns include the Queensland government's renewable target of 50 per cent. Given the quality of our state's coal resources, some see this target as a populist approach to governing. Other issues of concern are; water licencing, lack of strength against unions and the view that policies are driven by the minority green influence.

Finally, the vexatious litigation from green activists, many of them foreign funded, is affecting the business outlook and confidence of some chief executives. The QRC has been calling on state and federal governments to rein in the legal loopholes over both jurisdictions that enable the continual actions.

SKILLING UP: GET PAROCHIAL AND LOOK LOCAL

The resources sector is one that progresses in waves of activity. It takes a resilient person to surf through the peaks and troughs. It's not surprising then, that employees who have grown up in resource communities will be familiar with activity cycles.

A perennial issue during an activity upswing is a shortage of skilled and experienced workers. With the green shoots of recovery now starting to bloom, now is the time to avoid history repeating itself on skills. The risk of a skill gap emerges from with tight labour supply leading to higher wages and lost productivity.

The Queensland Resources Council latest quarterly sentiment survey of industry chief executives found this is fast becoming an issue as the resources sector rebounds after a few hard years.

“My concern is the industry will return to the unsustainable position of increased salaries to attract and retain skills...”

(QRC's CEO sentiment survey, December 2016)

Growing the skills base in communities is a great investment for the company and the locals and is a valuable part of resource companies' social and economic responsibilities in the areas where they operate.

“Our operation is hurt by the turnover of staff from the competition for skills...”

(QRC's CEO sentiment survey, December 2016)

The sector needs to adopt a concerted approach to fostering skills. The sentiment survey shows that more than 40 per cent of CEOs expect a shortage of skills to impact on their operations in the next 12 months. Skills shortages are different from labour shortages with 44 per cent of CEOs expecting to increase their workforce over the next 12 months.

Only 15 per cent of QRC's CEOs see no problems in accessing talent and experience in the next 12 months; conversely 11 per cent see their workforce reducing over the next 12 months.

That's an extraordinarily positive outlook for an industry that has faced years of low prices, job losses and cost cutting. The sector sees net job growth in the near term, and expects shortages of skills to constrain that growth.

The problem is that you simply can't train an engineer, electrician, mechanic, or environmental scientist in 12 months. As a result, the sector can't expect to grow the pool of skills available in the short term. A simple solution is to bid up wages, and poach staff from other industries, or from each other. It's a short-term fix, but it leaves other resource companies, local governments and other local businesses smarting. Quite rightly, they resent losing their people.

How does the industry avoid the acrimony of operating a 'hit and run' recruitment process that robs other local businesses? GYOS could be the answer. GYOS may sound like some sort of Greek snack-pack, but it's an acronym – Grow Your Own Skills.

“Local workforce and local content is a major driver for attracting and retaining skilled employees...”

(QRC's CEO sentiment survey, December 2016)

In order to grow your own skills, companies would identify students at the schools in local communities, while ensuring that both teachers and students understand what their businesses have to offer and the skills required. Companies then have the potential to get local kids excited about careers in science, technology, engineering and maths (STEM) and the application to industry – whether that is at the professional or vocational level.

“To prevent an erosion of talent and maintain a strong operational base, we are targeting increased local employment with remuneration structures that provides greater benefit to those located in the region. In return, we get strong local support for our business...”

(QRC's CEO sentiment survey, December 2016)

QRC STATE OF THE SECTOR

The QRC's Queensland Minerals and Energy Academy (QMEA), which has helped train many young people to work in the resources sector over its 11 years, is the perfect vehicle for companies to achieve the connection between local schools and resource companies. QMEA is Australia's longest running and largest partnership between industry and the education system.

"Glencore is committed to supporting the communities in which we operate. QMEA provides unique education opportunities to introduce and attract students to a career in the mining industry..."
(Matt O'Neill, Chief Mining Officer, Glencore North Queensland Copper Assets)

On average since 2005, 21% of QMEA students have entered pathways into the industry compared to just 13% in non-QMEA students.

Last year, QMEA introduced the resource sector to more than 3,000 Queensland school students and worked with 576 Queensland teachers. Those QMEA students liked what they saw, with 81 per cent saying the events had raised their interest in STEM.

"On average since 2005, 21 per cent of QMEA students have entered pathways into the industry compared to just 13 per cent in non-QMEA students..."
(QRC's CEO sentiment survey, December 2016)

QMEA's results speak for themselves. Students from a QMEA school are five times more likely to be employed as an apprentice or trainee. Nine times as many female students from QMEA schools are employed as an apprentice or trainee, and 60 per cent more QMEA students enrol in engineering studies.

Looking locally for skills development additionally delivers a home-grown workforce. That's a workforce that knows and understands the region and is more likely to stay in the sector and remain with the business. It's also a workforce that could attract the next generation of local talent.

"I see 'clean skins' from our local community as a major opportunity to attract and retain the skills my business needs..."
(QRC's CEO sentiment survey, December 2016)

Resource companies that support the local communities in which they operate find that the communities offer their support to them and the resource sector generally, in return. Ongoing investment in skills would also help to level the sharp peaks and troughs in skills that ride on the back of the cyclical commodity cycle.

QMEA – MAKING A DIFFERENCE LOCALLY

IN 2016¹:

OF STUDENTS ENTERING ALL FIELDS OF STUDY OR EMPLOYMENT:

18% QMEA STUDENTS ENTERED ENGINEERING OR RELATED FIELD
COMPARED TO **11%** STUDENTS FROM NON-QMEA SCHOOLS

OF STUDENTS ENTERING A BACHELOR DEGREE:

11% QMEA STUDENTS ENTERED ENGINEERING OR RELATED FIELD
COMPARED TO **9%** STUDENTS FROM NON-QMEA SCHOOLS

OF ALL STUDENTS EMPLOYED AS APPRENTICES OR TRAINEES:

9% QMEA STUDENTS WERE EMPLOYED IN MINING SECTOR
COMPARED TO **1.7%** STUDENTS FROM NON-QMEA SCHOOLS

OF FEMALE STUDENTS EMPLOYED AS APPRENTICES OR TRAINEES:

6.7% QMEA STUDENTS WERE EMPLOYED IN MINING SECTOR
COMPARED TO **0.7%** STUDENTS FROM NON-QMEA SCHOOLS

¹ Students who graduated in 2015. Data source: Next Step Destination Data, Department of Education and Training



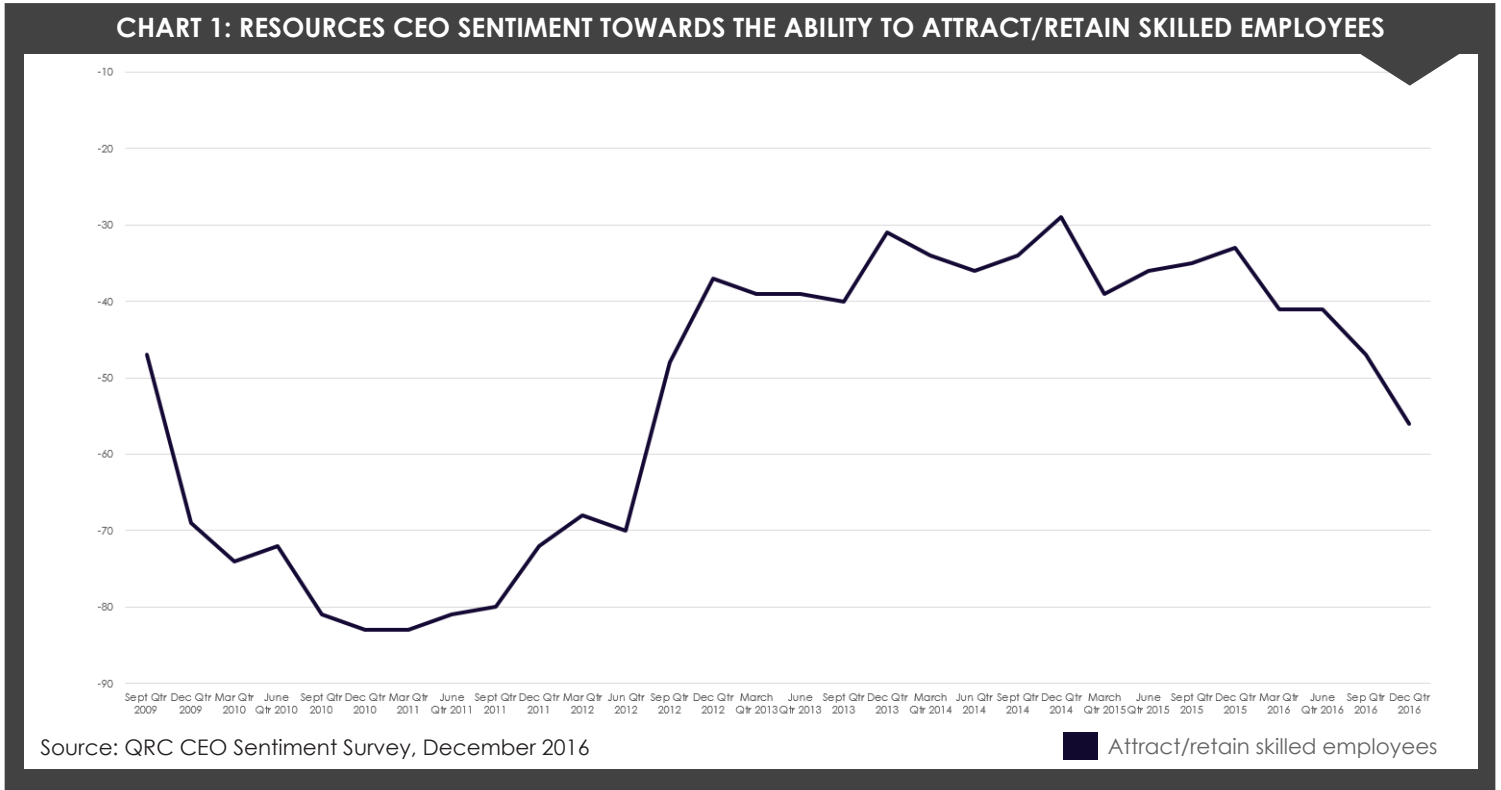
QRC CEO SENTIMENT INDEX

The QRC CEO Sentiment Index is a quarterly survey of QRC's producer and explorer members with the typical response rates between 20-35 companies. The companies surveyed cover mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

Each quarter the respondents are asked to nominate to what extent they expect a series of eleven factors will impact on the objectives of their organisation over the next twelve months. All responses are weighted to arrive at a single sentiment value for that factor. The weighting means the factors generating the greatest concern receive the lowest scores and are lower down on the negative axis.

For this edition we've focused on a trend in the declining sentiment towards attracting and retaining skilled employees and industrial relations. Chart 2 also provides a summary of the top 3 concerns facing resources CEO's in 2016.

Chart 1 below reveals changing sentiment towards attracting/retaining skilled employees. This trend over time illustrates the historical periods of labour shortages as shown in 2010-2011, the plateau for much of 2013 until the recent decline in sentiment during 2016. This concern is consistent with qualitative comments provided by CEOs below.



QRC CEOs called out specific concerns including:

“Labour market has noticeably tightened in Queensland...”

“On industrial relations, challenges to conditions, pay rates and retention will be a live concern in the next 12 months...”



QRC STATE OF THE SECTOR

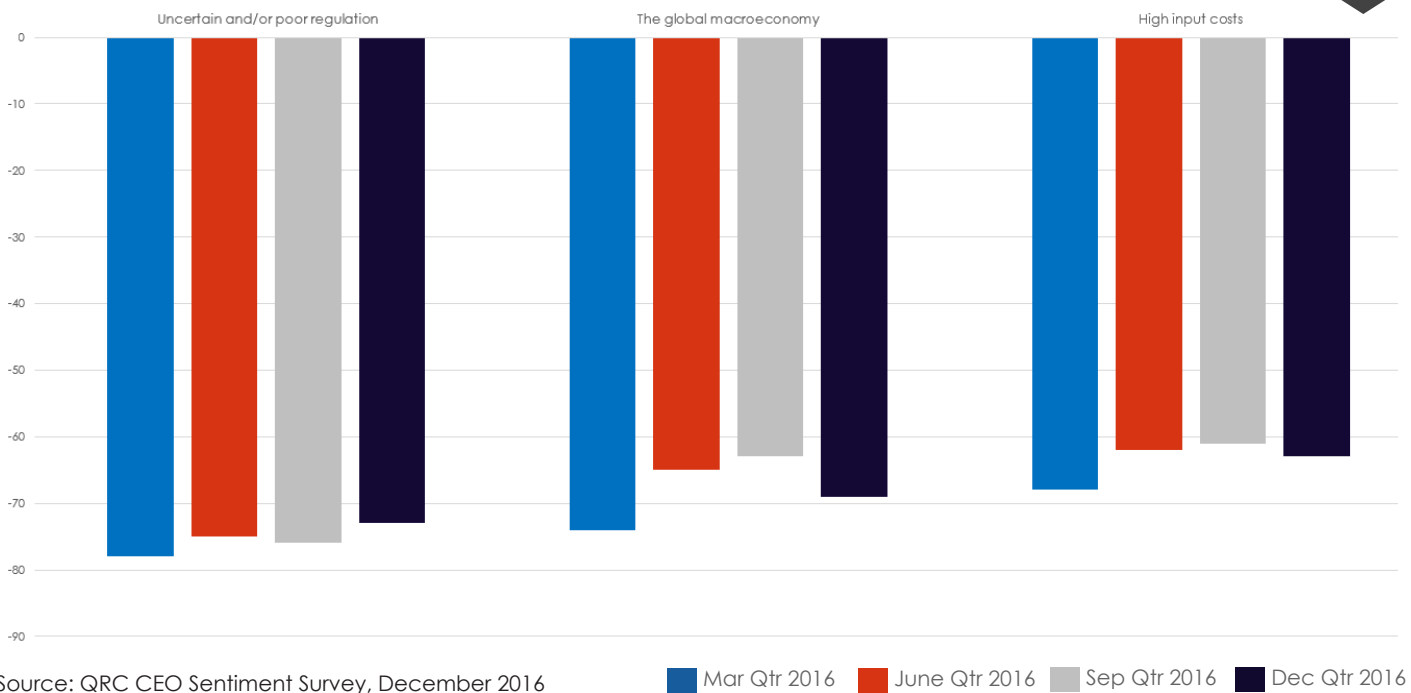
Chart 2 below illustrates the sentiment towards uncertain and/or poor regulation has been consistently the greatest concern for CEOs over 2016. Prior to March 2016, policy uncertainty and/or poor regulation had not been the highest concern for five years.

QRC's survey allows CEOs to provide comments, which helps understand the issues that have driven such a deterioration in sentiment around regulation. Issues CEOs called out include:

“Associated water licence legislation has injected more uncertainty and delay into an already prolonged, uncertain and costly approvals process...”

“Continued concerns regarding lack of a broad federal energy policy and the uncertainty that this absence creates...”

CHART 2: 2016 CEO SENTIMENT - TOP 3 CONCERNS IN DECEMBER 2016



“The Queensland Government is focused on compliance rather than reducing red tape. The consequence is they focus on assessments and audits (which soak up both business and government resources) but deliver little or nothing in the way of actual business improvement...”



KEY INDICATORS

QRC PRODUCTION VOLUME INDEX

QRC's quarterly production index tracks changes in the total production of Queensland's traditional commodity exports – alumina, aluminium, bauxite, coal, copper, gold, lead, silver, and zinc. Please note, due to data limitations, we are yet to integrate LNG prices and volumes into the index.

The production volume index is weighted by the value of the commodity. This means changes in the volume of coking coal produced (which is more than half the total value of Queensland resources production) has a proportionately larger impact on the index than, for example, changes in thermal coal production (representing approximately 10-15% of total value).

The index at the end of the September 2016 quarter (latest available data) remained consistent at 124 points as compared to 125 points in the June 2016 quarter. The index base is June 2006 = 100, so overall the total volume of production has grown 24% or around 2.4% a year since that time.

Production volumes throughout the September 2016 quarter remained relatively flat with a number of marginal production increases in alumina, bauxite, lead and gold. Other commodities including copper and coal production were lower than the previous quarter. The cumulative result of these changes in production volumes, weighted by value, generates the 1-point decrease in the QRC Production Index over the September quarter.

COAL EXPORTS

The September quarter coal exports totalled 55.3 million tonnes and 2016 calendar year exports totalled 221 million tonnes. This compares to the previous record of 220 million tonnes in 2015.

LNG EXPORTS

The LNG export volumes for the September 2016 quarter totalled 4.5 million tonnes.

The 2016 calendar year exports were approximately 17.5 million tonnes in total to 14 countries including China (45%), South Korea (19%), Japan (13%) and Singapore (10%).

Chart 4 illustrates the quarterly increase for LNG during 2016.

CHART 3: QRC PRODUCTION INDEX (A\$) (QUARTERLY)
(INDEX BASE JUNE 05/06=100)

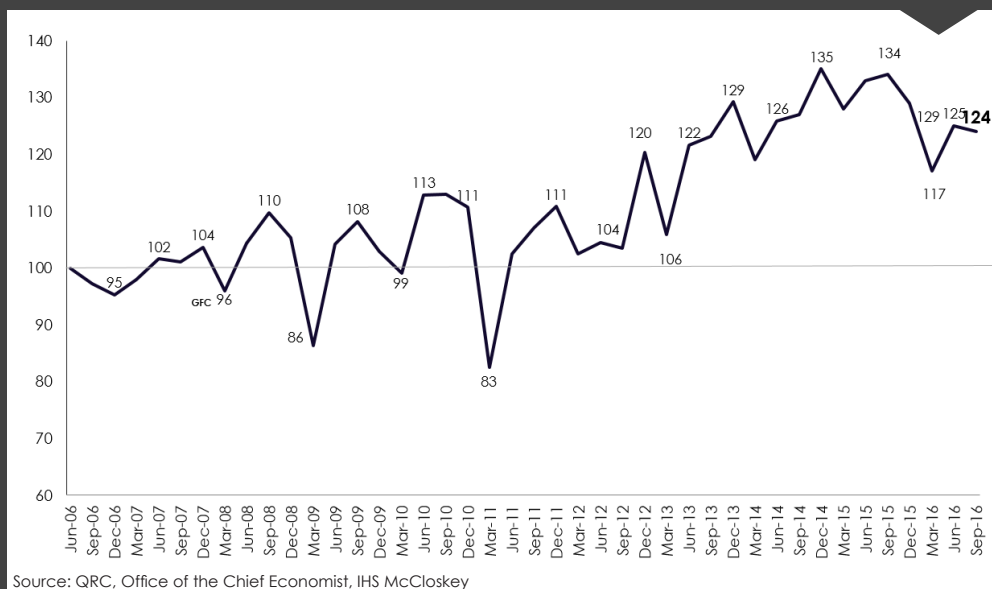
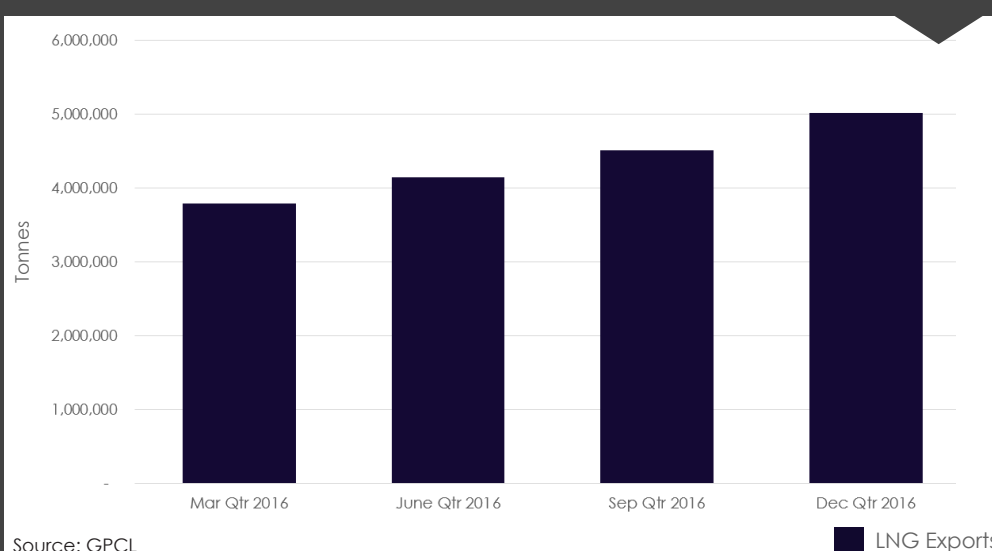


CHART 4: 2016 LNG EXPORTS



QRC STATE OF THE SECTOR

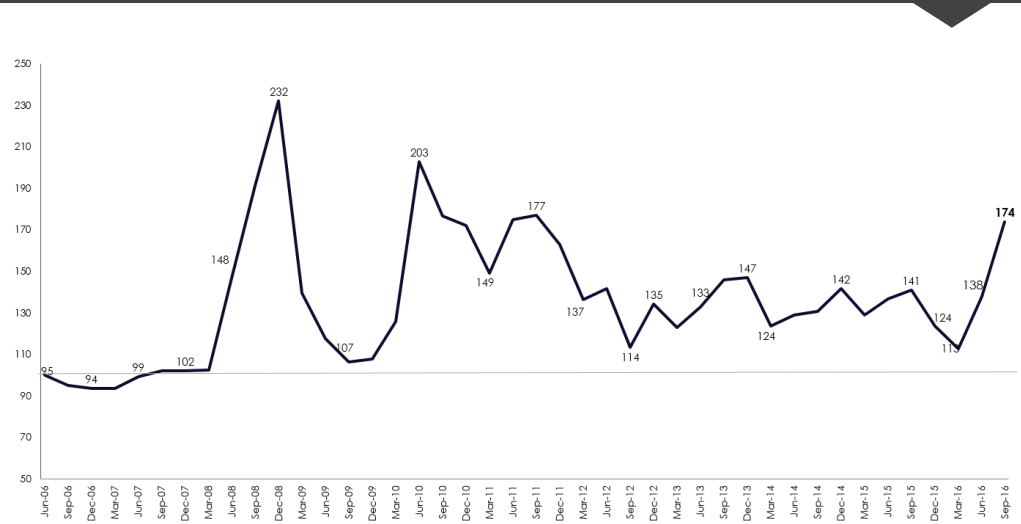
QRC PRODUCTION VALUE INDEX

QRC's production value index reflects changes in the prices of the resources Queensland produces. The weighted index reflects the same mix of commodities as the QRC production index. Once again, limited data means LNG export values are not yet integrated into the index.

The index at the end of the September 2016 quarter (latest available data) significantly increased from 138 points to 174 points largely due to price increases for coking (up 33%) and thermal coal (10% increase). The September quarter average price for thermal coal was US\$66/t up from \$60/t the previous quarter and Australian prime hard coking average was US\$130/t up from US\$98/t.

In addition, many other commodity also saw price increases during the September quarter including aluminium, copper, gold, silver (18% increase) and zinc (18% increase). In aggregate, the resources sector produced goods valued at \$AUD11.1 billion in the September quarter, up from \$AUD8.7 billion in the June 2016 quarter.

CHART 5: QRC VALUE OF PRODUCTION INDEX (A\$) (QUARTERLY)
(INDEX BASE JUNE 05/06=100)



Source: QRC, Office of the Chief Economist, IHS McCloskey





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PUBLISHED FEBRUARY 2017