QUEENSLAND resources COUNCIL

QRC **STATE OF THE SECTOR**

DECEMBER QUARTER 2019


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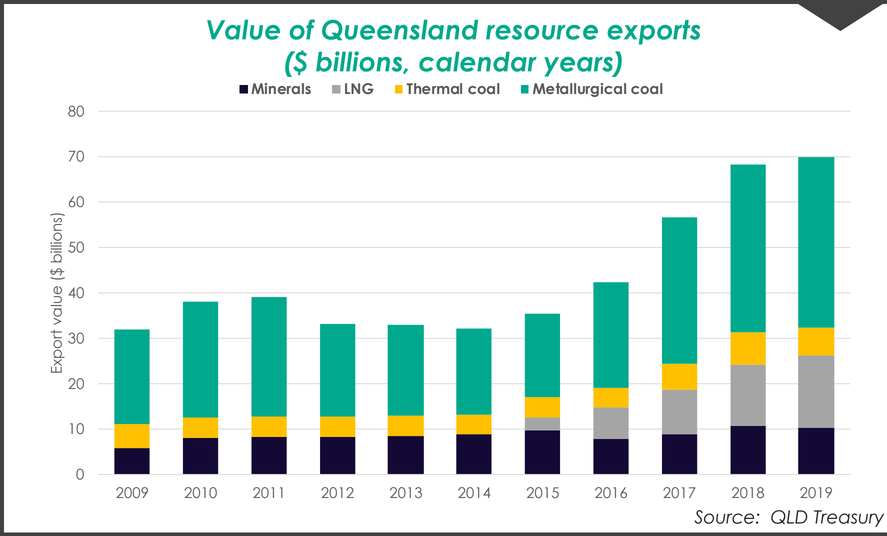
DIVERSIFIED EXPORTS DELIVER FOR QUEENSLAND

2019 saw yet another record for the value of Queensland resource exports, meaning the Queensland resources sector has achieved a new record each year since 2015. As evidence of Queensland's increasingly diverse resource base, the real growth story since 2015 has been LNG. Since 2015, Queensland's LNG exports grew from $3 billion to nearly $16 billion – about one and a half times the size of Queensland's entire rural exports for 2019 (chart 1). Every time the value of Queensland exports increases, so does the State Government's royalty revenue. The sound of resource exports growing is music to the Treasurer's ears.

To meet the world's growing demand for resources, Queensland must continue to grow its own operations and workforce. The Minister for Natural Resources, Mines and Energy, The Honourable Dr Anthony Lynham recently recognised the demand for jobs in the resources sector is on the rise[1] and most QRC member CEOs agree. According to the latest QRC CEO Sentiment Survey, 55 per cent of QRC member CEOs expect to increase their workforce, with 20 per cent expecting substantial increases of more than 25 per cent. Meanwhile, only 15 per cent expect a decrease in their workforce over the same period (chart 2).

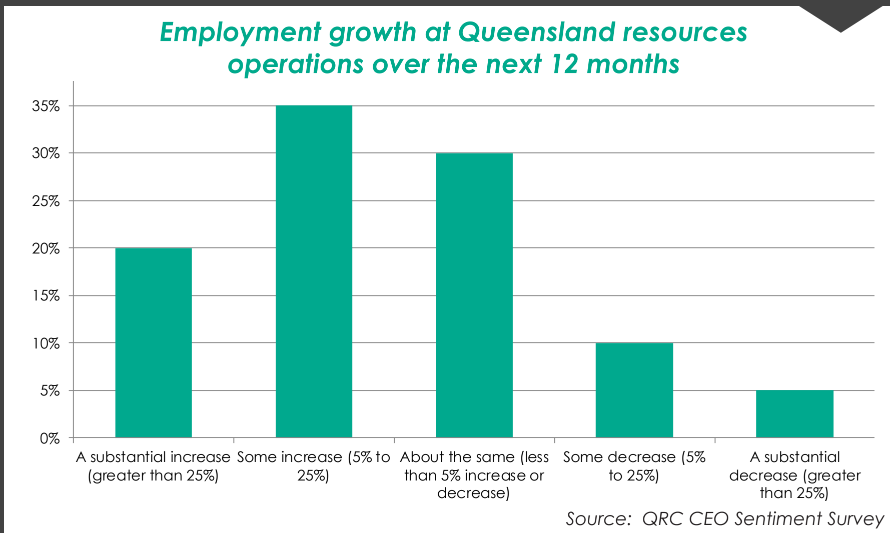
CHART 1: QUEENSLAND'S GROWING RESOURCE EXPORTS



Source: QLD Treasury

The good news is the job opportunities created by the sector are typically high quality and high paying. As of November 2019, the mining industry had the highest full time average weekly earnings in Australia at $2,616.90—or about $136,000 per annum. At 6.1 per cent, Queensland began 2020 with the highest unemployment rate in the country[2]. So the forecast jobs growth will be particularly welcome.

CHART 2: GROWING OPPORTUNITIES IN 2020



Source: QRC CEO Sentiment Survey

The sector's challenge is to maintain its competitiveness and grow exports to keep the opportunities coming for Queenslanders. According to the Fraser Institute's Annual Survey of Mining Companies 2019, Queensland dropped two places to number 15 in the world for investment attractiveness[3]. It's a clear message that Queensland can't become complacent in a field of intense global competition.

> *We have identified growth opportunities in QLD for 2020 and this will create employment."*
>
> QRC member CEO sentiment survey, December 2019

[1]http://statements.qld.gov.au/Statement/2019/11/19/new-investment-will-further-open-north-west-minerals-province
[2]ABS [3]Fraser Institute

PURPOSE BEYOND PROFITS: QRC MEMBERS LOOK TO A SUSTAINABLE FUTURE

Last year's federal election showed the economic contributions of the sector have deep resonance with local communities, particularly in regional Queensland. However, it's the sector's commitment to sustainability that is increasingly attracting attention.

QRC member CEOs accept climate change as a critical global challenge and recognise the need to reduce emissions while remaining globally competitive. The good news is QRC member CEOs are upbeat on their chance of success. According to the latest QRC CEO Sentiment Survey, 84 per cent of CEOs said they believe Queensland can balance meaningful action on climate change with a thriving resources sector.

But commitments alone are not enough and industry faces increasing pressure to show what sustainable practices look like in action. In February 2020, Deloitte highlighted this scrutiny for the sector:

> *Vocal investors are challenging mining companies to rethink their portfolios and future capital investments and amp up disclosure of their sustainability performance."*
>
> *"To thrive, some companies are addressing climate change and investor concerns through decarbonisation and uncovering new opportunities through joint ventures."*
>
> Deloitte, Tracking the Trends 2020[4]

A large part of the solution to balancing emissions and economics is technology. Investing in low emissions technology allows Queensland to position itself as a sustainable and innovative resources powerhouse, cementing the competitive position of the sector and future opportunities for Queenslanders.

This technological push by the sector is already underway. Anglo American recently announced its partnership with ENGIE to develop the world's largest hydrogen-powered mine haul truck. The operational performance of the hydrogen-powered trucks is expected to be match or better their diesel equivalents, with the additional benefits of cleaner air, less noise and lower maintenance costs[5].

Similarly, BHP's Broadmeadow mine near Moranbah is piloting the use of electric vehicles in its operations with the end goal being to eliminate all diesel-powered machines from the underground mine[6].

But there's more innovative opportunities just over the horizon. The low emissions technology fund, COAL21, is funding Australia's first commercial scale carbon capture hub in Queensland. The project, a $230 million industrially-scalable carbon capture and storage facility in the Surat Basin, is expected to remove the equivalent of 25,000 cars worth of emissions every year for up to thirty years[7].

Further ahead, the CSIRO's Low Emissions Technology Roadmap points to technology that captures ventilation air methane (VAM) from underground coal mines could reduce VAM emissions in underground coal mining by up to 80%[8]. The CSIRO expects the technology could be ready for commercial deployment by as soon as 2030.

It's clear that QRC members have turned to a range of technologies to reduce costs and deliver a lower emission economy. If given a chance through a stable and supportive policy environment, these technologies can drive a sustainable future for the sector and just as importantly, deliver more opportunities for Queenslanders.

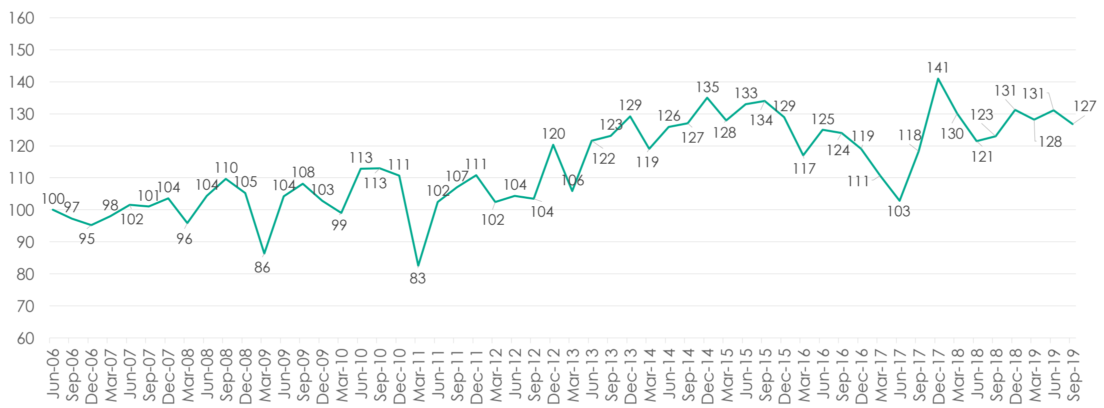
[4]Deloitte [5]Anglo American [6]BHP [7]Coal21 [8]CSIRO

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX

PRODUCTION EASES OVER THE QUARTER

CHART 3: QRC PRODUCTION VOLUME INDEX - SEPTEMBER 2019 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



Source: QRC, OCE, EnergyQuest, IHS McCloskey

The QRC's quarterly Production Volume Index tracks changes in the total production of Queensland's major commodity exports—alumina, aluminium, bauxite, coal, copper, gold, lead, LNG, silver and zinc.

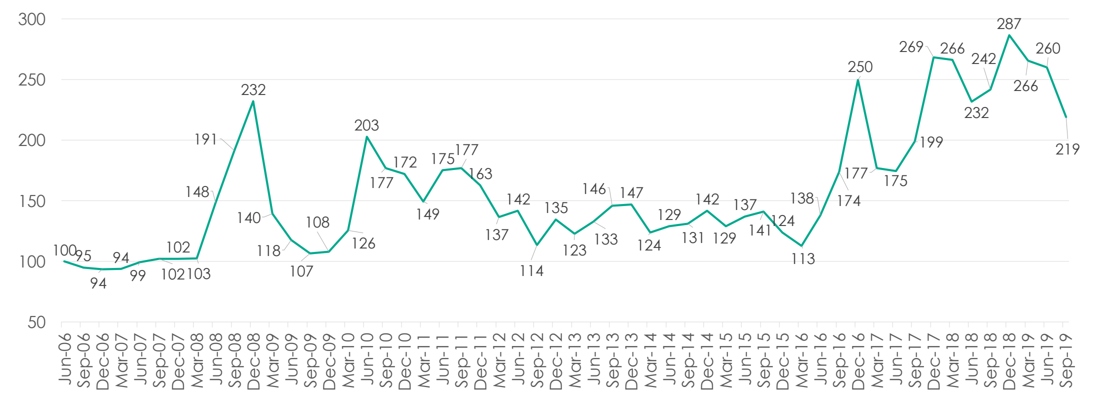
The Production Volume Index is weighted by the value of each commodity. This means changes in the volume of coking coal (which is over half of the total index value) has a larger impact on the quarterly index result than, for example, changes in thermal coal volumes (representing approximately 10–15 % of total value).

For this quarter, the QRC's Production Volume Index decreased to 127 points, four points down on the June 2019 quarter, but still four points above the same quarter in 2018. Despite the decrease, Queensland's resources production is now 27% higher than when the index first began in 2006.

Queensland's diverse portfolio of resource exports shone through over the quarter. In the September quarter—bauxite led the pack achieving a 36% production increase while zinc production also achieved strong growth, increasing by 16% for the quarter. However, coal production decreased by 8% and copper production decreased 12%, weighing down the production index overall.

QRC VALUE OF PRODUCTION INDEX

CHART 4: QRC VALUE OF PRODUCTION INDEX - SEPTEMBER 2019 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



Source: QRC, OCE, IHS McCloskey

QRC's Value of Production Index reflects changes in the prices of the resources that Queensland produces. The weighted index reflects the same mix of commodities as the QRC production volume index, which includes LNG production from the December 2016 quarter.

Over the September 2019 quarter, the QRC's Value of Production Index decreased 41 points —from 260 points to 219 points. For the quarter, strong price increases in silver (14%), gold (13%) and LNG (8%) were more than offset by declines in coking coal (21%), zinc (15%) and thermal coal prices (15%). Despite the drop in the value of production, this index result shows Queensland's resources production value is still over twice the size it was in 2006.

QRC CEO SENTIMENT INDEX

Each quarter, the QRC prepares its CEO Sentiment Index by surveying its full member CEOs. The survey typically receives between 20-35 responses from mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction members in Queensland.

Each survey asks CEOs to nominate the extent they expect a series of eleven factors will impact on the objectives of their organisation over the next 12 months. The QRC weights the responses to create 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.

The December 2019 quarter marked a turning point for the sector. The global macroeconomy became the number one concern for QRC member CEOs—up from fourth at the beginning of 2019. That's no surprise given the global events of 2019 with the US–China trade and technology disputes having made way for a COVID-19 outbreak as the new source of uncertainty for the global economy.

QRC CEO sentiment towards the global economy may decline further. The QRC collected these results in early February, prior to CEOs understanding the full impact of COVID-19.

Alongside global economic uncertainty, QRC member CEOs pointed to their social licence to operate and difficulty raising capital as the next two major concerns:

Several CEOs referred to difficulties in attracting skilled employees to their organisations in the quarter:

I'm concerned about the lack of capital due to activism"

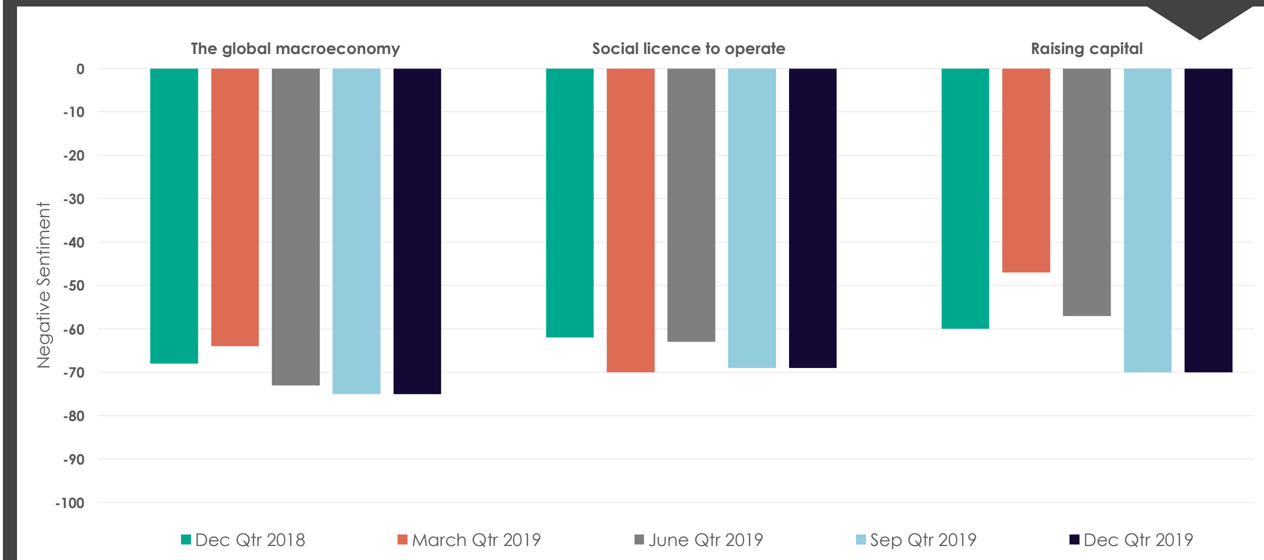
"The continued pressure on the link of coal mining and climate change is shifting the view of us as an employer and it is seeing investment moving away from our sector."

"We've seen higher hurdle rates for new coal investment"

QRC member CEO sentiment survey, December 2019

It's clear from CEOs that world class and abundant mineral resources are not enough. Queensland must work harder to attract international investment in the projects that create jobs and support regional communities.

CHART 5: CEO SENTIMENT INDEX RESULTS-TOP 3 CONCERNS FOR QRC MEMBER CEOS



Source: QRC CEO Sentiment Survey, December 2019

Chart 5 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.

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