QUEENSLAND resources COUNCIL

QRC STATE OF THE SECTOR

DECEMBER 2022 QUARTER


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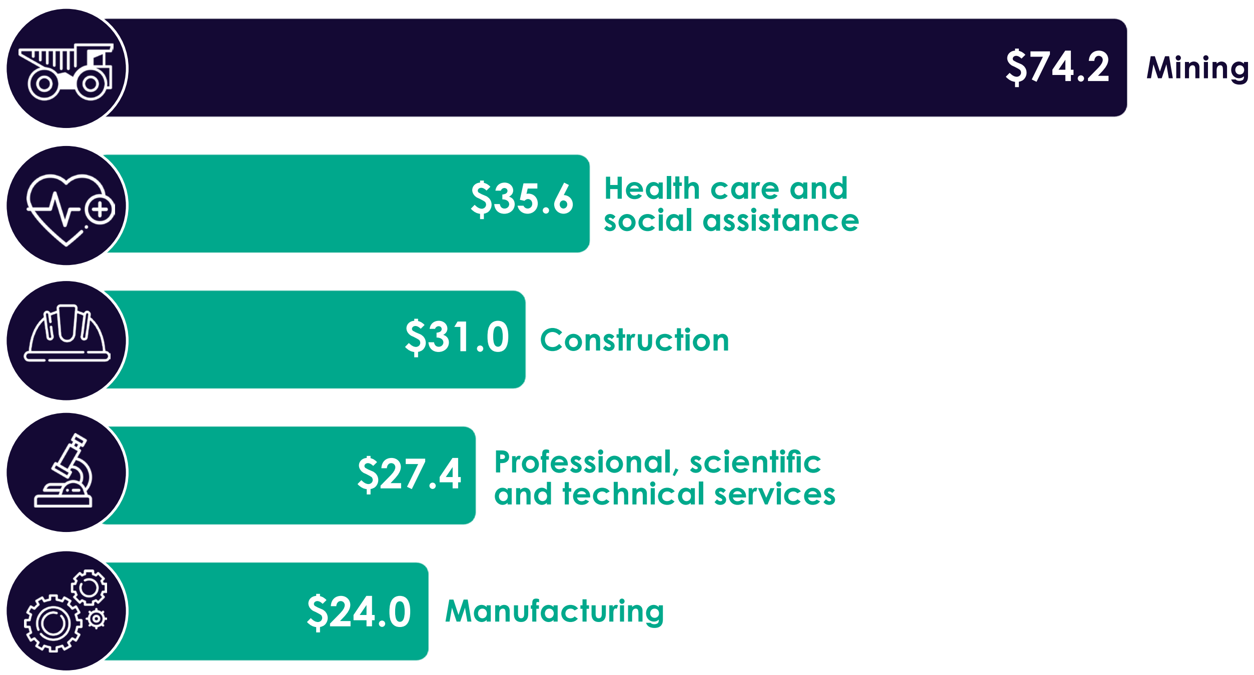
POLICY CLOUDS DAMPEN RESOURCES CEOs' OUTLOOK FOR 2023

It's easy to point to Queensland's diverse and high-quality resource base and the state's proximity to several rapidly developing countries as the major drivers of the resource sector's success.

But it's Queensland's stable regulatory regime which, in the past, has leveraged Queensland's natural advantages. Stable and predictable regulatory settings over many years have provided investors with the confidence to take risks on the next wave of multi-decade mines, refineries, or gas fields. That was coal in the sixties, coal seam gas in the noughties and today it's critical minerals.

The Queensland economy does well when the resources sector is strong. Queensland's stability and natural advantages have combined to grow Queensland into a global resource leader and a load-bearing pillar of the Queensland economy. Last financial year, the resources sector was the number one contributor to the Queensland economy by economic contribution and export value. According to the Australian Bureau of Statistics, in 2021-22, the sector's $74 billion contribution was almost twice that of the next highest sector — healthcare and social assistance — and three times the contribution of other major sectors such as manufacturing (see below).

Chart 1: Top 5 Queensland industries by economic contribution in 2021-22
(gross value added, $ billions)



Source: ABS

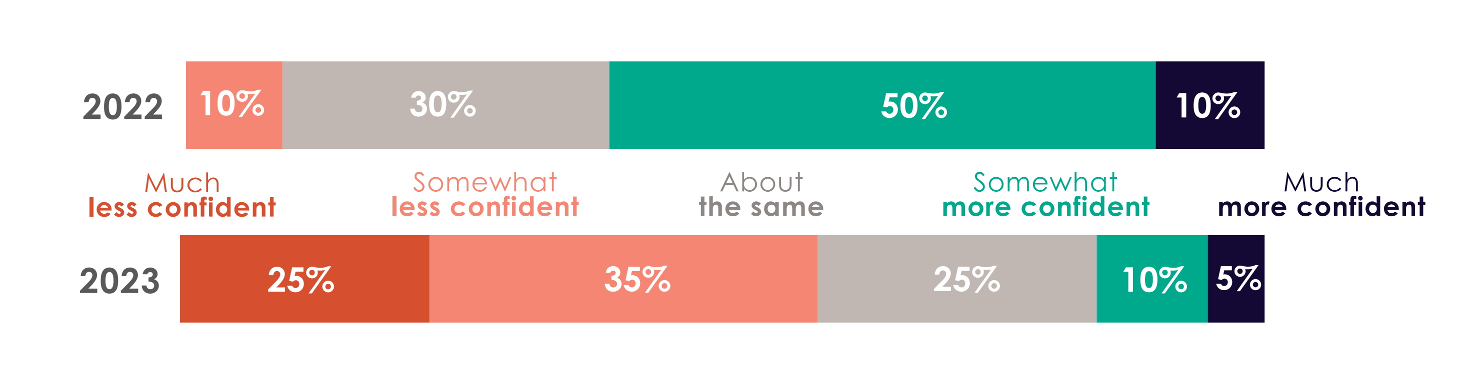
The sector's growth is made possible by a pipeline of new projects and expansions in everything from coal to critical minerals. According to the Commonwealth Government's Office of the Chief Economist, there's between $103 billion and $142 billion worth of possible Queensland resource projects at the announced or feasibility stage.[1] Throughout Queensland's long association with the resources sector, the projects that do stack up and the jobs they create are the dividends of a stable and supportive regulatory environment.

[1] https://app.powerbi.com/view?r=eyJrIjoiYjhkN2U3MzQtYTM4OC00NmZiLTg4YTctMDc5MzY1NzJiYTYyIiwidCI6IjA3MDk5MWRkLWNkYjct-NDc2Zi04MGRjLWU4YzNhOTFjNzBhZiJ9

The latest $103 billion-plus project pipeline shows Queensland's enormous potential, but those projects aren't locked in. The latest results from the QRC's CEO sentiment survey suggest this growth pipeline could be at risk. In January 2023, the QRC asked its member CEOs for their outlook for 2023. More than half (60%) said they were less confident about the growth prospects of their industry than a year ago, and only one in seven (15%) said they were more confident. Most significantly, one quarter (25%) of resources CEOs said they were much less confident about their industry's outlook.

These results demonstrate a rapid and dramatic decline from the same CEO sentiment survey conducted in January 2022. At the start of 2022, more than half (60%) of CEOs were more confident about their industry's growth prospects and only 10% were not confident (see chart below).

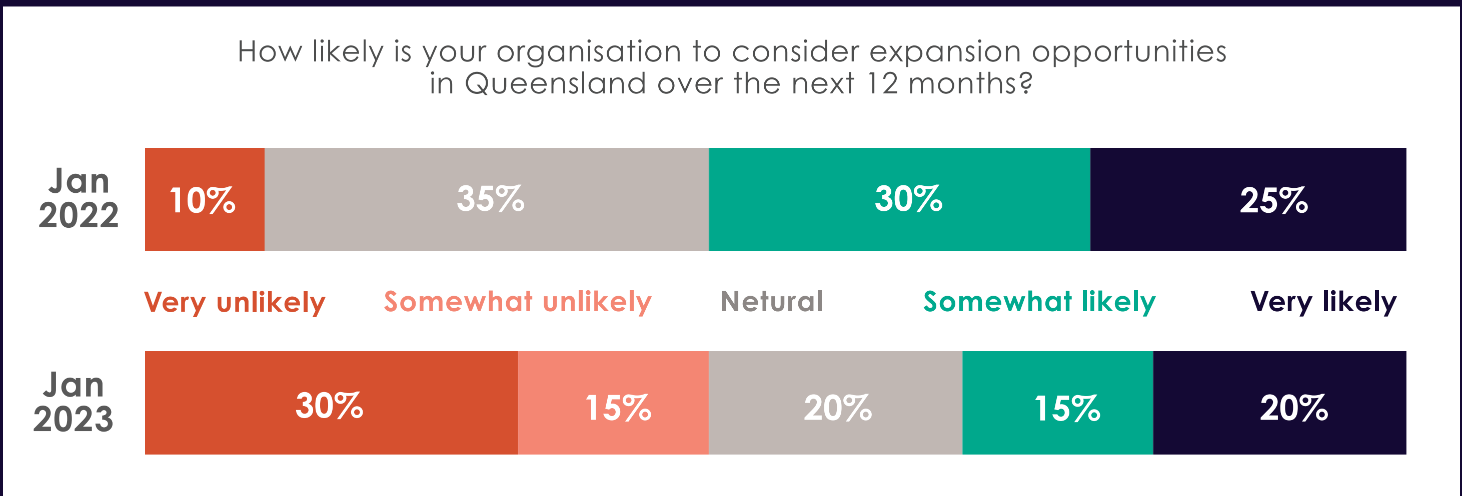
Chart 2: CEOs' confidence in growth prospects for their industry
compared to 12 months ago



This lack of confidence has slowed the sector's expansion plans significantly. This year, only a third (35%) of QRC resources CEOs said they were likely to consider expansions at their Queensland operations, with nearly half (45%) saying expansions were unlikely over the next 12 months.

The results are a stark change from 12 months ago. At the start of 2022, more than half (55%) of Queensland resources CEOs said they were considering expansions and only 10% said expansions were unlikely. Most concerningly, the proportion of CEOs that said they were very unlikely to expand has tripled in this latest report from 10% to 30%.

Chart 3: Consideration of expansion opportunities in Queensland
over the next 12 months



Increased regulatory uncertainty is having a clear impact on decision-making about resources projects in Queensland. The Queensland Government's decision to increase coal royalty rates to the highest in the world is a red flag for investment, with resources CEOs no longer sure that Queensland's rules and tax rates won't change halfway through a project's life. That's why both Glencore and BHP have already announced their plans to put Queensland growth on hold.

In January 2023, BHP said:

> *"The Queensland Government's decision to raise coal royalties to the highest maximum rate in the world makes Queensland uncompetitive and puts investment and jobs at risk. We see strong long-term demand from global steelmakers for Queensland's high quality metallurgical coal, however in the absence of government policy that is both competitive and predictable, we are unable to make significant new investments in Queensland. This increase to royalties will impact the local businesses, suppliers and communities in Central Queensland where we operate."*

BHP Operational Review for the half year ended 31 December 2022[2]

It is not just coal CEOs that are concerned. This quarter's CEO sentiment survey shows rising regulatory uncertainty is affecting all resources, with CEOs saying:

> *"We are looking to grow in **critical minerals** and are actively looking in New South Wales, the Northern Territory and Western Australia. For us to consider Queensland, the project would have to be a standout to offset the sovereign risk we are now pricing in for Queensland projects."*
>
> *"We have put on hold all Queensland development projects until further notice and certainly while under the current State Government."*
>
> *"Government intervention and regulations will continue to cripple the resource sector."*
>
> *"We will reallocate capital and grow our portfolio outside of Australia."*

QRC resources CEOs, January 2023

> ***"The gas industry is difficult to invest in right now. Australia is becoming a high sovereign risk jurisdiction."***

QRC resources CEO, January 2023

[2] https://newswire.iguana2.com/af5f4d73c1a54a33/bhp.asx/3A611140/BHP_Quarterly_Activities_Report

Chart 4: Sources of growth in 2023

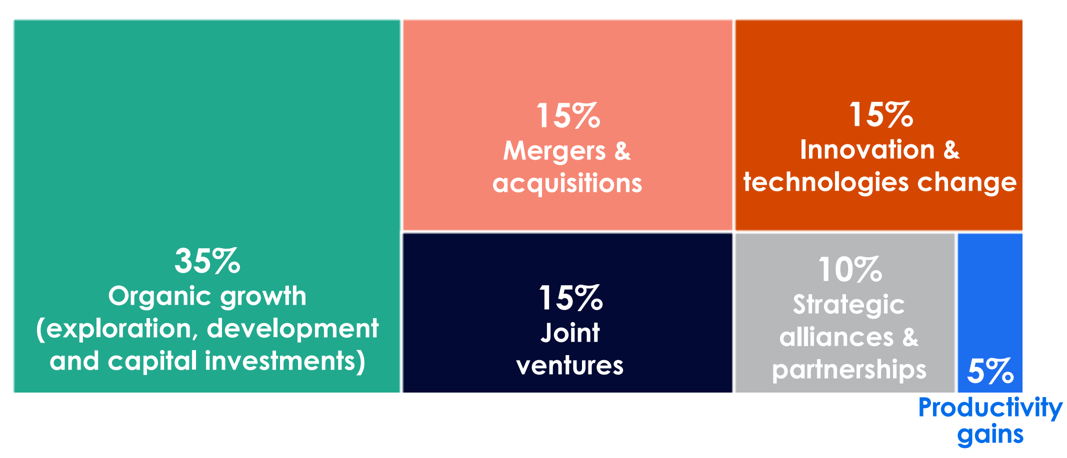
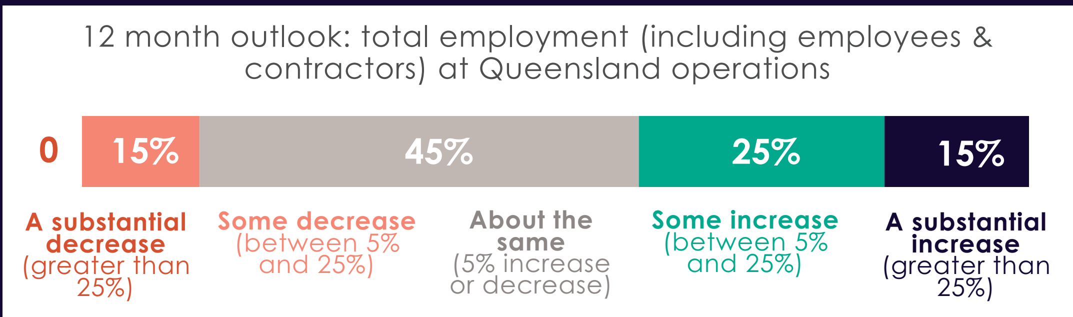


Chart 5: Total employment - 12 month outlook



Significantly, for those CEOs who do expect to grow their Queensland operations this year, only around one third of the growth will come organically through exploration, development and capital investment. By far, CEOs are looking to mergers and acquisitions, joint ventures, innovation and technological change for growth in their Queensland operations (see chart).

The slowing outlook for growth means the Queensland resources workforce is likely to remain steady. When CEOs were asked how they expect their Queensland workforces to change over the next 12 months, 40% said they expect an increase and 15% expect a decrease.

CEOs pointed to a range of drivers for the changes:

“New contracts will require a larger workforce.”

“Cost reductions will need to be considered in light of capital constraints.”

“We are a brand-new organisation and must grow”

“The environmental approval review process at a federal level has stopped part of our operation, resulting in a drop of 20% of production and revenue. It is expected that a number of the workforce will be lost as a result of that approval delay.”

QRC member CEOs, January 2023

With the right regulatory settings, there’s every reason to believe Queensland’s resources sector can continue to deliver opportunities and create jobs for Queenslanders. However, CEOs are frustrated the investment environment in Queensland is now less attractive and could lead to missed opportunities:

“Queensland can position itself as the preferred jurisdiction for growth in sustainable energy supply for the nation.”

“The comparative quality advantages of Queensland coal over inferior sources should be promoted by the industry and the government and is a real opportunity.”

“Having the Queensland Government work proactively with the sector to realise genuine, long-term opportunities to mine the resources needed for the energy transition, including maintaining the short and medium term energy needs for the state and the East coast of Australia”

“Critical minerals development is the single greatest opportunity for the sector”

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX -
PRODUCTION CONTINUES TO EASE

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 production volume of each commodity. This means changes in the volume of coking coal — which is almost half of the total index value — has a larger impact on the quarterly index result than, for example, changes in thermal coal volumes which represent approximately 15% of total value.

For the September 2022 quarter (latest available data), the QRC's Production Volume Index decreased to 120 points — two points below the June 2022 quarter and the lowest result since September 2017. Lead (19%), copper (18%), silver (14%) and gold (10%) all enjoyed strong production growth over the quarter, but their production increases were not enough to offset the modest falls for LNG (-6%) and coal production (-4%). The latest decrease means that Queensland's resources production is 20% higher than when the index first began in 2006.

Chart 6: QRC Production Volume Index - September 2022 Quarter
(A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)

***Lead** (19%), **copper** (18%), **silver** (14%) and **gold** (10%) all enjoyed strong production growth over the quarter.*

QRC VALUE OF PRODUCTION INDEX -
PRICES ELEVATED BUT RETREATING FROM PEAKS

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 2022 quarter (latest available data), the QRC's Value of Production Index decreased by 107 points to 418 points— the single largest decrease in the Index's 16-year history.

Despite the record decrease, the index remains well above historical levels. Benchmark prime coking coal lead the price decreases over the quarter (down 44%) with copper and aluminium both seeing strong price decreases too (-19% and -18%).

Chart 7: QRC Value of Production Index - September 2022 Quarter
(A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)

Source: QRC, OCE, EnergyQuest, IHS McCloskey

*This index result shows Queensland's resources production is around **four times the value** of production since the index was first established in 2006.*

CEO SENTIMENT INDEX
REGULATORY UNCERTAINTY ROCKETS TO THE TOP

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.

The survey asks CEOs to nominate the extent to which they expect a series of eleven factors to impact on their organisation's objectives over the next 12 months. Since the March 2020 edition, the QRC has also included "Public Health Impacts of COVID-19" as an additional sentiment factor.

The QRC weights the responses to create a single sentiment value for each of the sentiment factors. The weighting means the factors generating the greatest concern receive the lowest scores and are lower on the negative axis.

Uncertain and/or poor regulation has climbed back to the top concern for QRC member CEOs. This category's rise is a dramatic shift from six months prior, where the category ranked fifth on the index. Several CEOs pointed to recent, significant policy changes at the state and national level, which are giving reason for CEOs to think twice before investing further in Queensland:

"Government regulation is severely impacting investment certainty. Price caps and royalty increases are two examples"

"Our company has a growth agenda however the industry at large has greater exposure to public pressure and regulation changes such as the royalties."

"We require clarity on environmental and other approval processes in light of wider gas sector disruption"

QRC member CEOs, January 2023

But it's not just at home, with QRC member CEOs remaining concerned about the global macroeconomy, which is once again a top three concern. Several CEOs pointed to trade tensions as a source of concern:

"We are concerned about relations with China."

"Diplomatic relations with other countries is a serious challenge."

"Financial and insurance markets continue to restrict access to products to coal businesses."

QRC member CEOs, January 2023

Finally, input costs remain a top three concern, with CEOs seeing no reprieve in sight:

"Input costs such as fuel, components and freight remain volatile."

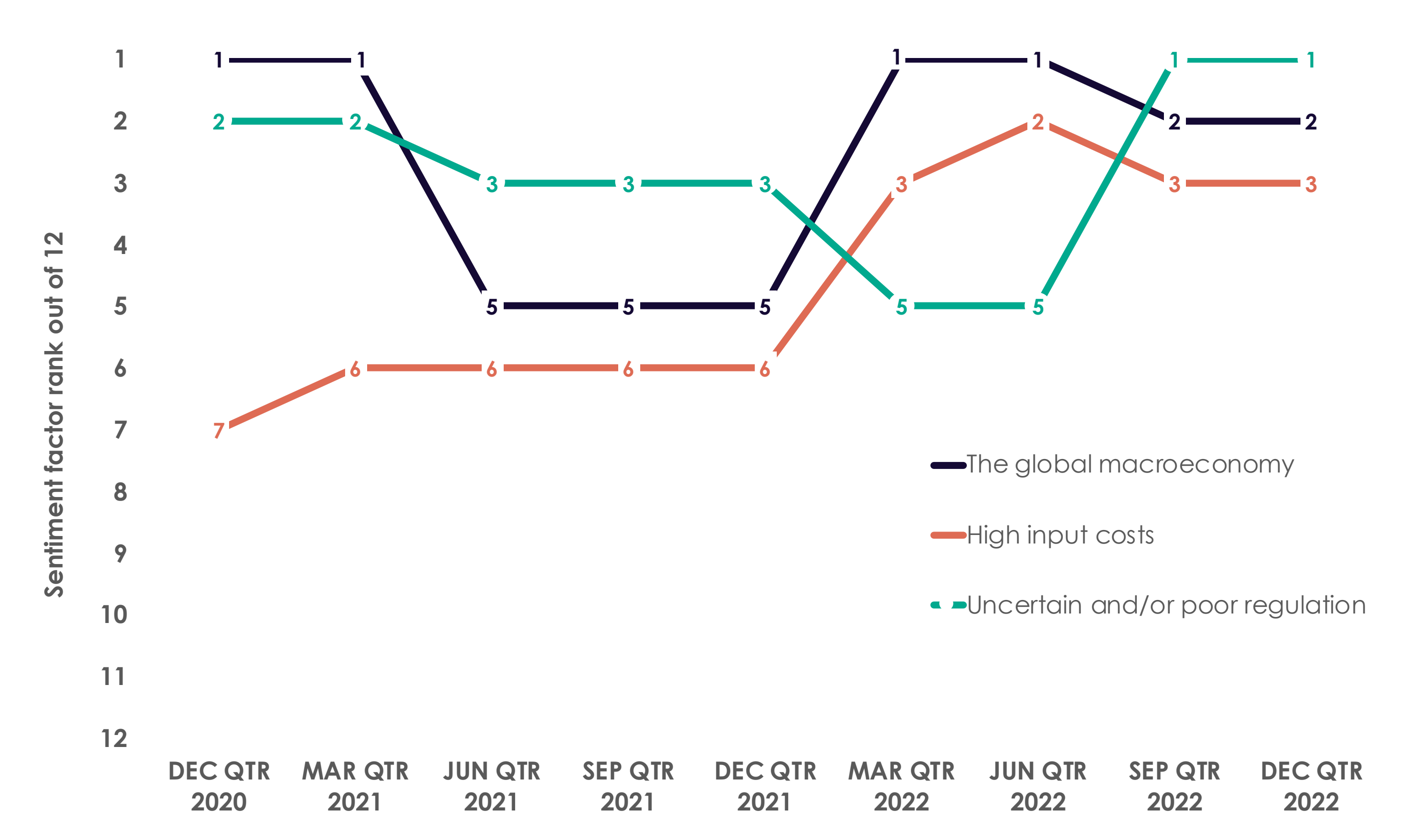
"Costs of materials and services are rising considerably, partly driven by inflationary pressures across the economy but further impacted by increased demand in the mining sector as businesses respond to high commodity prices."

"The cost increases we are experiencing now are generally 'baked in' so it's difficult to revert to previous costs for key supplies."

QRC member CEOs, January 2023

Chart 8 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.

Chart 8: CEO Sentiment Index Results -
Top three concerns for QRC member CEOs



Note: Public health impacts of COVID-19 was included as a new sentiment factor from the March 2020 quarter.
Source: QRC

QUEENSLAND resources COUNCIL

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GPO Box 181,
Brisbane Q 4001

www.qrc.org.au
info@qrc.org.au

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