

## CONFIDENCE BEING RETURNED TO RESOURCES SECTOR

BY MICHAEL ROCHE - CHIEF EXECUTIVE



**Commercially, the June quarter has been a difficult period for the sector with thermal coal prices continuing to dip and concerns over high input costs (see our feature article) and the global macro economy increasing.**

On the policy side, the mood has been more upbeat with the sector recording a positive outcome at the recent UNESCO committee meeting in Saint Petersburg and the Newman government getting on with the job

of restoring investment confidence in the sector.

### The new state government

The highlight of their first 100 days of office has been the clear determination of the Premier, Deputy Premier and the Coordinator-General to unblock the project approval process, and to actually make decisions.

The Coordinator-General has demonstrated that it is possible to streamline decision making on major projects without any loss of community safeguards.

The QRC has also welcomed the following government initiatives:

- the establishment of a dedicated Natural Resources and Mines portfolio
- the work to get moving on implementation of the Floods Commission of Inquiry recommendations relating to the mining sector
- establishment of the Gasfields Commission to promote coexistence between the coal-seam gas and agriculture sectors
- encouraging local content whilst removing unnecessarily cumbersome red-tape
- finalising the framework for the government's Royalties for Regions program

- establishment of the Skills and Training Taskforce—chaired by myself—to overhaul the state's vocational education and training.

### UNESCO outcome welcomed

The World Heritage Committee of the United Nations Educational, Scientific and Cultural Organisation (UNESCO) recently concluded its 36th session of the Committee in Russia.

The meeting was significant for the sector as the committee met to discuss, amongst other things, the report of UNESCO's monitoring mission that came to inspect the Great Barrier Reef (GBR) and talk to stakeholders (including the QRC) in early March.

Contrary to misrepresentation of the outcome by certain NGOs and media outlets, the committee's decision on the GBR does not say the reef is in poor health.

In fact the decision applauds Australia's management track record and the initial positive results of the Reef Plan and various industry-led initiatives as vital measures in addressing certain risks.

There is however plenty of work to be done by all stakeholders to ensure that future developments continue to identify and mitigate risks.

To that end, the QRC will continue to work with both state and federal governments as they respond to the report's recommendations including the preparation of strategic assessments and port plans.

We'll also work hard to ensure that the Australian Government in finalising its 2013 State Party Report response to this decision does not repeat their mistake in their 2012 Report of informing the international conservation community that the Queensland coal sector may export close to a billion tonnes of coal by 2020 when we're currently at 166 million tonnes (Mt) (annualised)!

That task has been made somewhat easier with the

### IN THIS EDITION:

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- Main Feature: Addressing higher costs
- QRC CEO Sentiment Index



recent release of Bureau of Resource and Energy Economics projections that show that under a medium global market share scenario Queensland coal exports in 2020 would be 300Mt and in 2025 some 370Mt.

**Feature article**

Our feature article this outlines the key findings of the work by Port Jackson Partners for the Minerals Council of Australia on the magnitude of the sector’s rising costs problem and some possible policy solutions.

**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 (all saleable), copper, gold, lead, silver, zinc, oil and gas quarter to quarter.

The index at the end of the March 2012 (latest available data) reached 99 index points, 11 points below the December quarter of 110 (June 2006=100). This is a significant drop from the previous quarter which showed that the industry as a whole was just shy of the December 2008 peak of 112 percentage points.

Tonnages through Queensland’s coal export ports decreased 11 percent in the March quarter from 44Mt to 39Mt. At the same time tonnages from the NSW coal export ports of Newcastle and Port Kembla were down only 3 percent to 33Mt and tonnages from all of the world’s main coal export ports was down 9 percent.

Of note is that exports from the four US ports of Norfolk, Baltimore, Mobile and New Orleans increased 10 percent from 21Mt to 23Mt during the same period.

The drop in Queensland coal production may therefore be attributed to two main factors:

(1) Demand is weak as the world’s cement, electricity

generation and steel producers absorb below trend economic growth.

(2) Oversupply as the massive technological breakthrough of (cheap) shale gas pushes US coal out of the domestic energy market and into the global traded seaborne market.

Minor production decreases in bauxite, copper, silver and zinc were also recorded during this quarter whilst gold remained flat and alumina, aluminium and lead increased slightly.

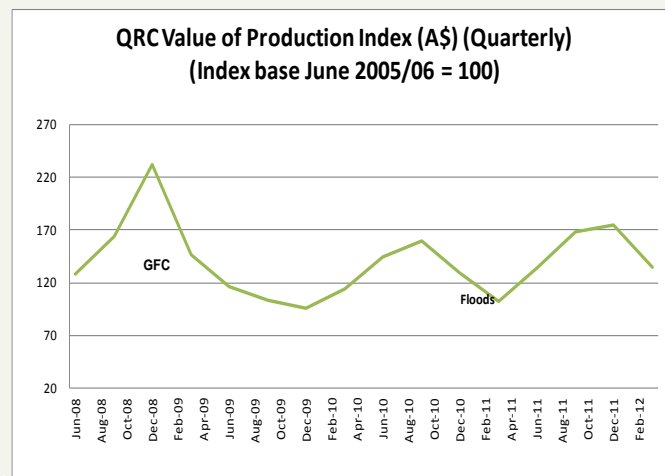
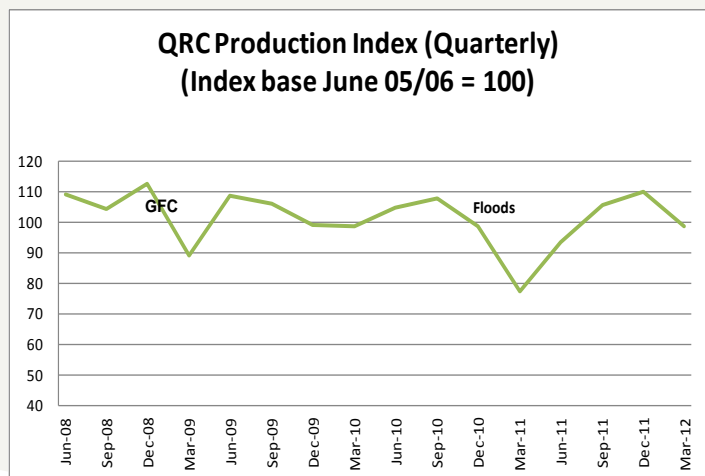
**QRC value of production index**

Comprising the same basket of goods as the QRC production index, the QRC value of production index 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 March 2012 quarter (latest available data) reached 135 index points, an enormous 40 percent lower than the previous December quarter (June 2006=100). In aggregate terms, the Queensland value of production decreased from A\$12.8 billion in the December 2011 quarter to A\$9.8 billion in the March quarter.

Thermal and coking coal in terms of volume and price were the major contributors to the decrease. High quality coking coal prices decreased by more than 17 percent compared with the previous quarter to reach A\$216 t whilst thermal coal prices decreased by approximately 4 percent to A\$108t. Overall coal value of production was down 28 percent to \$7.3 billion.

Of note is that gold prices have stabilised at around US\$1,700 oz, prices for the base metals (lead, silver, zinc and copper) are on the rise, and prices for alumina and aluminium are decreasing on account of subdued global demand.



# STATE OF THE SECTOR

## ADDRESSING HIGHER COSTS

At the MCA's Minerals Week in May this year, Port Jackson Partners (PJP) made a presentation on the threat rising costs pose to the competitiveness of current operations and the development of new projects in the Australian minerals sector.

PJP identified the following as placing strain on current and proposed projects:

- higher taxes (MRRT and carbon in particular)
- unnecessary and poorly designed regulation
- declining productivity
- increasing labour, energy and transport costs
- the high Australian dollar
- lower commodity prices
- a compositional shift towards lower commodity grades.

### Impact of high costs on current projects

The impact of rising costs on the competitiveness of current mines is demonstrated by the following chart.

Using cash operating costs as the metric, this shows how a significantly greater percentage of Australian/ Queensland thermal and metallurgical coal mines and copper and nickel operations are now in the upper three and four quartile ranges, which, depending on global demand, may not be attractive to global customers.

### Impact of high costs on new projects

In the past, high commodity prices have contributed to more than half of Australia's minerals revenue growth. With prices for most commodities, including coal expected to have peaked for now, revenue growth and required rates of return will need to come from volume led growth by developing new mine, rail and port capacity.

However, rising costs to install new capacity will mean that new projects are less competitive and it will become

more difficult to attract future investment for these projects. For example, in 2011/12 more than twice as much capital has to be spend to build one tonne of new capacity than even five years ago (refer to the following chart).

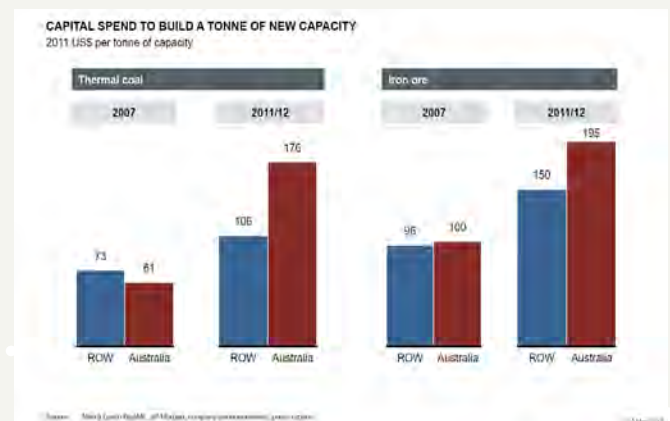
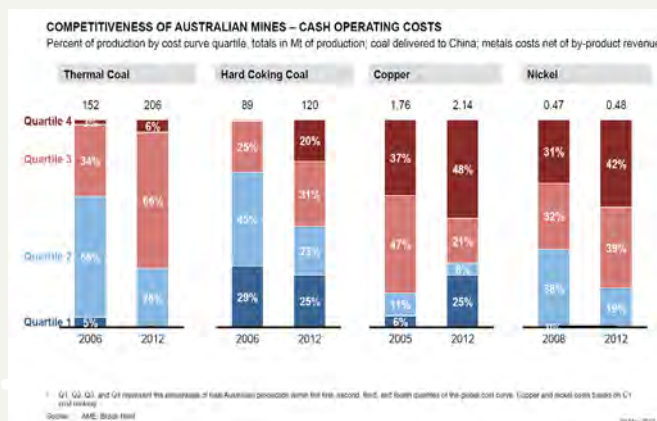
PJP do however argue that with change Australia can capture the opportunities from sustained global demand for resources and continue to attract investment and get more projects over the line.

They recommend the following actions be taken by industry and government:

- Openly disclose the magnitude of the costs risks to the current pipeline of projects.
- Continue to highlight the continuing socio-economic contribution of the industry to the community to encourage policy reform.
- Alleviate exchange rate pressures by considering: a sovereign wealth fund; meaningful state and federal government surpluses; and resolving infrastructure bottlenecks.
- Address labour and skills shortages by focussing IR regulations on pay and work practices and increasing internal mobility and skilled migration.
- Revive the national productivity agenda by refocusing IR practices on ongoing productivity gains; better match education and skills training; foster innovation clusters; and incentivise R&D.
- Eliminate sovereign risk concerns by providing stable, predictable and internationally competitive taxation and royalty regimes; and streamline and simplifying red-tape.

PJP's presentation to the MCA's Minerals Week can be found at [http://www.minerals.org.au/file\\_upload/files/presentations/120530\\_MCA\\_presentation\\_FINAL.pdf](http://www.minerals.org.au/file_upload/files/presentations/120530_MCA_presentation_FINAL.pdf).

The MCA will release a further, related piece of work in the coming weeks.



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## 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.

Issues that will 'very strongly' (score 80-100) and 'strongly' (score 60-79) adversely impact operations over the next 12 months

1 Global macroeconomy (82) = Continued global economic uncertainty is depressing demand and prices, especially coal.

2 High input costs (78) = unsustainable wage levels and declining productivity.

3 Climate change policies (71) = carbon tax at A\$23t CO2-e is more than two times greater than the current European Union Allowance spot price of €8.20 t CO2-e (A\$9.90t).

4 Uncertain and/or poor regulation (includes taxes and royalties) (71) = concern over the federal government's threat to 'stop the clock' on environmental approvals and concerns that royalties may increase.

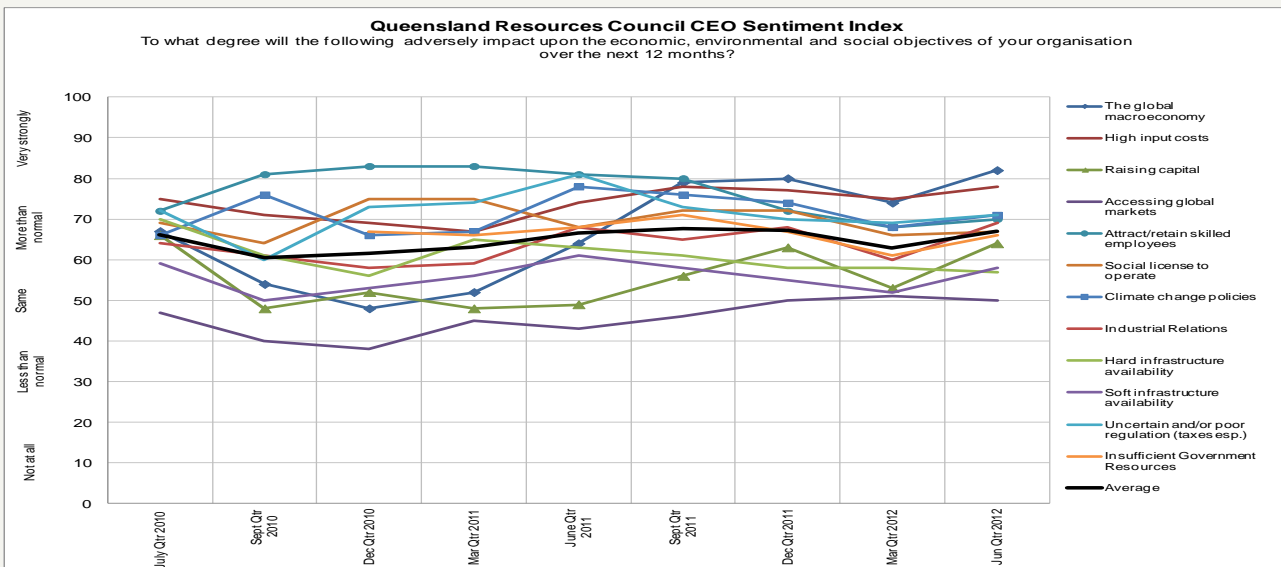
5 Attraction and retention of skilled employees (70) = currently in excess of 3500 QLD mining, resources & energy sector vacancies on Seek.com.au.

6 Industrial relations (69) = concern over potential for sustained, significant increases in industrial disputation based on the flexibilities afforded to bargaining agents under the Fair Work Act.

7 Social licence to operate pressures (67) = concern over the impacts that the irrational campaigns adopted by groups such as Greenpeace and Getup will have on community sentiment.

8 Insufficient government resources (66) = concern that approvals processes are hamstrung by a lack of qualified government staff.

9 Capital Raising (64) = raising capital on the debt and equity markets very difficult as investors take a cautious approach.



## QRC PROFILE

Written and prepared by the Queensland Resources Council which is the peak representative body for more than 260 companies with interests in the state's minerals and energy sector. The data and information for this publication is sourced from a number of public sources – notably members directly, mcloskeycoal.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 <http://www.qrc.org.au>.

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