

## QUEENSLAND'S INVESTMENT EXPECTATIONS UNPRECEDENTED

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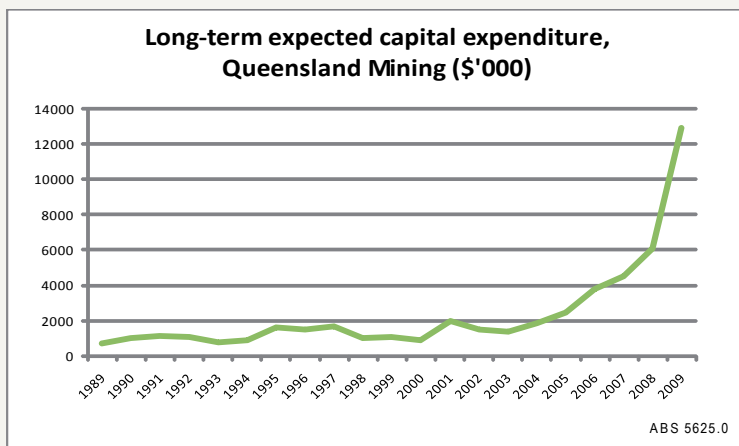


**The results of our March Quarter 2010 QRC CEO sentiment index (page four) indicate that the worst of the Global Financial Crisis (GFC) may be behind us, with members' concerns about the global macroeconomy and access to capital starting to subside.**

This optimism is being reflected in the long-term expected capital expenditure of the Queensland mining industry. According to the Australian Bureau of Statistics, the industry anticipates spending

almost \$13 billion on projects over the next 12 months.

As the chart below shows, this is far in excess of any previous year's anticipated expenditure. In effect, the industry, and Queensland more broadly is in uncharted territory in terms of expectations and growth potential. This investment is anticipated to occur in traditional as well as non-traditional Queensland resource regions—such as the the Surat and



Galilee basins—where significant coal and coal-seam gas deposits have been found. This diversification and expansion

into new regions will present us with a number of fresh challenges. These include ensuring that the expectations of the local communities are met; environmental controls are robust and effective; and industry and governments work collaboratively in planning for this growth.

In the Surat region for example, significant planning is occurring. The QRC is working with stakeholders to examine social impacts, preferred settlement plans, transport strategies, land access frameworks, economic development, housing affordability, and workforce development.

With the Queensland government starting to think about its budget priorities for 2010/11, the QRC recently submitted its policy and budget requests to government. Amongst other things, the QRC called for:

- a realisation that this potential will require a renewed focus and a significant financial and non-financial commitment
- operational and regulatory frameworks that promote fiscal stability and investment certainty
- prompt and objective project assessments that are based on the individual merits of projects
- policies and budget commitments that allow the supply-side of the economy (ie the labour, capital, electricity, exploration, and transport markets in particular) to be responsive to the demands of the sector. With capacity constraints expected to rear their head again before too long, we'll need to squeeze every last drop out of these markets.

With a number of resource proponents yet to make final investment decisions on a number of multi-billion projects, fiscal stability is paramount. It cannot be stressed enough that contrary to the beliefs of some, the resources sector does not have a limitless ability to pay higher taxes, royalties and charges. Indeed, the global resources sector is as competitive as ever, with resource-rich countries and governments around the world rolling out the red carpet to attract mining foreign direct investment to their shores. (continued page three)

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- The QRC CEO sentiment index



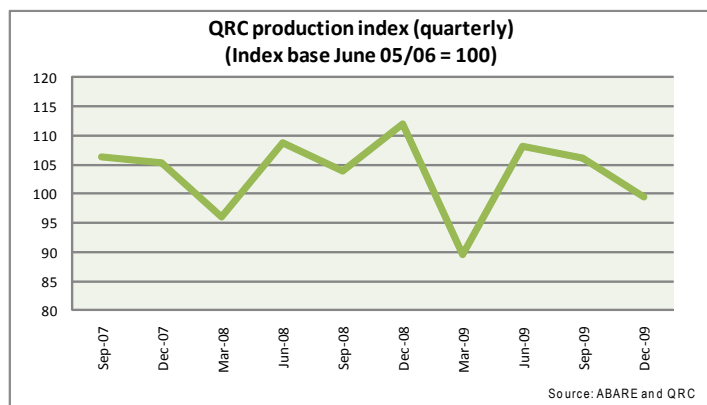
## THE QRC PRODUCTION INDEX

**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, gas, and electricity (NEM) quarter to quarter.**

At the end of the December 2009 quarter, production increases were recorded for alumina, bauxite and silver. Production decreases were recorded for coal, gold, lead and zinc.

Compared to the September 2009 quarter, the net effect of these movements was a seven percent decrease in the output of Queensland's main resources, bringing the QRC Production Index to 99 index points.

Preliminary Queensland export coal data for January and February 2010 indicates that coal exports will continue to soften due to operational and weather events that have disrupted production and transport.



## THE 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 prices to track percentage increases and decreases in the total value of production.**

The QRC value of production index at the end of the December 2009 quarter (latest available data) reached 108 index points (June 2005/06 = 100) or in real terms A\$7.4 billion. This represents a six percent decrease in the value of output of Queensland's main resources compared to the September 2009 quarter.

This decrease in the value of production was on account of two factors—flat production, and lower coal prices due to the strengthening Australian dollar.

Price increases (in Australian dollars) were however recorded for alumina, aluminium, copper, gold, lead, silver and zinc on account of renewed global demand.

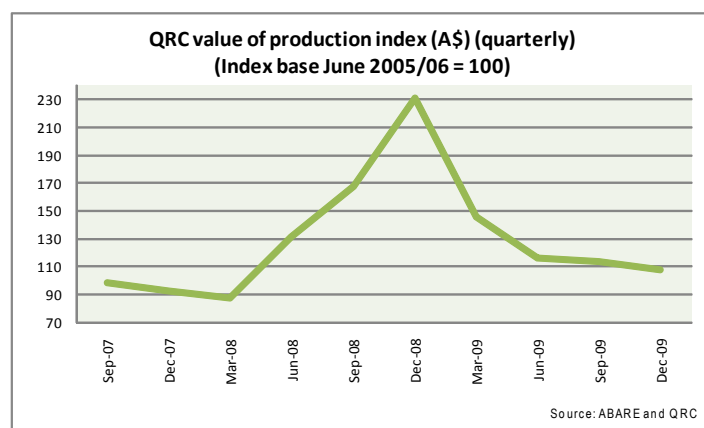
The Australian dollar is expected to remain strong on the back of Australia's relative economic health, an improving

global economy and further depreciation of the United States Dollar.

A significant recent development has been the announcement that BHP Billiton has reached an agreement with customers throughout Europe, China, India and Japan to move away from long-term benchmark pricing.

Japanese Financial Year (JFY) benchmarking saw prices for premium-quality hard coking coal set at \$US130 a tonne until 31 March 2010.

With the spot price for coking coal currently sitting near \$US220 per tonne, the option of negotiating prices on a rolling three-monthly basis to better reflect market conditions will benefit Australian coal producers in current market conditions.



## FEATURE: EXPLORATION'S 2020 TARGET

**As the world starts to recover from the GFC, the resources sector is rapidly regaining confidence. As commodity demand heats up, now is the time to secure the future of the industry by investing in exploration.**

Exploration success is needed to replenish Queensland's pipeline of minerals and energy reserves. Our production rates are out-stripping our ability to find new resources as we are losing the global battle for the exploration dollar.

Despite Queensland's amazing endowment of mineral wealth, our policy-potential rating continues to fall in the annual Fraser Institute survey of all exploration jurisdictions. By contrast, active jurisdictions like South Australia and Quebec continue to be recognised and explorers are voting with their feet.

A number of policy decisions in recent years (oil shale moratorium, royalty increases, Wild Rivers, Land Access, Strategic Cropping land) may be deterring the global exploration community from choosing Queensland as a preferred investment destination.

However, the Queensland Government cannot be accused of shying away from setting an audacious goal for exploration. In March 2009, Deputy Premier Lucas set the Queensland Government a major challenge when he wrote to QRC that:

# STATE OF THE SECTOR

'A re-elected Bligh government will set a target for Queensland to become Australia's 'greenfield' exploration capital by 2020.'

Western Australia currently reigns as Australia's greenfield exploration capital. A straight line extrapolation of the rates of growth in exploration expenditure over the past four years suggests that by 2020, Queensland's greenfield exploration would have grown from around \$131m in 2008 to around \$400m in 2020. However, this would still be less than WA's 2008 spending of \$576 m. At the current rate of growth, WA would have grown to around \$1.5 billion in greenfield exploration by 2020. On this forecast, business as usual delivers Queensland a greenfield exploration shortfall of \$1.1 billion in 2020.

Clearly 'business as usual' policy settings are not going to be sufficient to achieve the greenfield exploration target.

Why focus on greenfield?

For a 'resources state', Queensland is surprisingly lightly explored. There are large swathes of Queensland that have not yet been explored using the latest gravity, magnetic and radiometric technologies.

In recent years, the Queensland Government has funded two invaluable initiatives—*Smart Exploration* (2005-09) and *Smart Mining* (2006-10). The combination of these two initiatives, with relatively modest funding of around \$11 million per annum allowed Geological Survey of Queensland (GSQ) to increase the area of Queensland covered by gravity surveys from nine to 69 percent and the area covered by airborne magnetics and radiometrics from 43 to 85 percent.

It's hard to reconcile the prospect of having funding for the vital catalyst of geoscience falling off a cliff just at a time when Queensland needs to be encouraging every skerrick of greenfield exploration to meet the government's 2020 target. QRC recommends that to meet the Queensland Government's target to make the state Australia's greenfield exploration capital by 2020, the 2010-11 Queensland budget must achieve the following:

## Expectations unprecedented (from page 1)

The QRC remains very concerned that governments will use the report of the Henry Tax Review, and the expected endorsement of a resource rent tax, as an excuse for a tax grab disguised as tax reform. With our national colleagues, the Minerals Council of Australia, we have called for both the Australian and Queensland governments to engage with industry before any decisions in support of far-reaching reform are made.

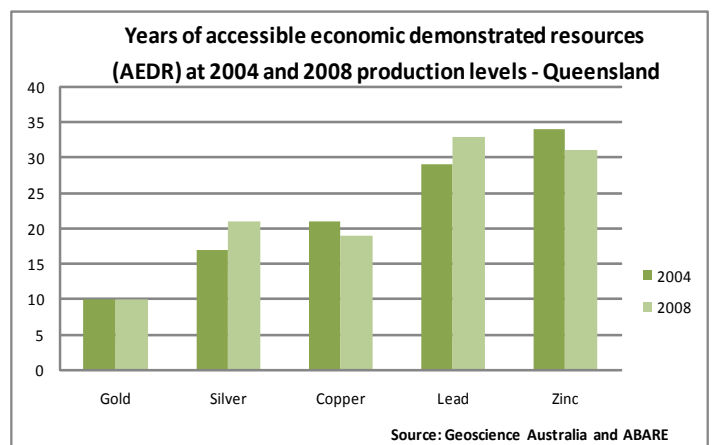
In endorsing the Queensland government's 2009 election commitment to make Queensland the greenfield exploration capital of Australia, the QRC was under no illusion that this would be a simple task. Designed as a blueprint to achieve this objective, it is with pleasure that the QRC releases an extract from our Exploration 2020 target policy statement in this edition. You will see that we endorse a variety of initiatives for achieving the government's audacious, but ultimately, obtainable goal.

- Invest in Queensland capability—the GSQ requires a stable ongoing base funding of \$25 million pa, plus a new marketing capability of \$3-4 million per annum.
- Collaborate with industry. The highly successful industry drilling programs should be retained and funded for \$5-7 million per annum to encourage the continuing development of Queensland's wildcat skills.
- Establish a series of exploration key performance indicators (KPIs) to track Queensland's quarterly progress towards the 2020 goal through a high-profile Queensland exploration report card.

Junior exploration companies are playing an increasingly significant role, accounting for approximately 70 percent of greenfield exploration and 50 percent of all exploration.

However, the junior exploration sector is severely constrained because of the way Australian taxation law treats tax losses.

Currently, junior exploration companies—who often have little or no taxable income—are unable to immediately deduct exploration expenses. Without such deductions, exploration costs are pushed higher resulting in lower levels of activity. The immediate deductibility of eligible expenses is a key parameter of Australia's company taxation system and



recognises the longer-term benefits of exploration and the associated risks of this activity.

The Australian resources sector strongly supports the introduction of a flow-through shares (FTS) scheme to address these structural impediments facing junior exploration companies in raising capital for new and increased levels of exploration investment.

By offsetting the high costs associated with the non-deductibility of expenses, as well as stimulating the investment markets, it is estimated that an FTS scheme for Australian junior exploration companies would result in increased exploration expenditure of 10-30 per cent compared with today's levels. The QRC calls on the Australian Government to honour its 2007 election commitment and make allowances for an FTS scheme in its 2010-11 Budget.

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## QRC CEO SENTIMENT INDEX

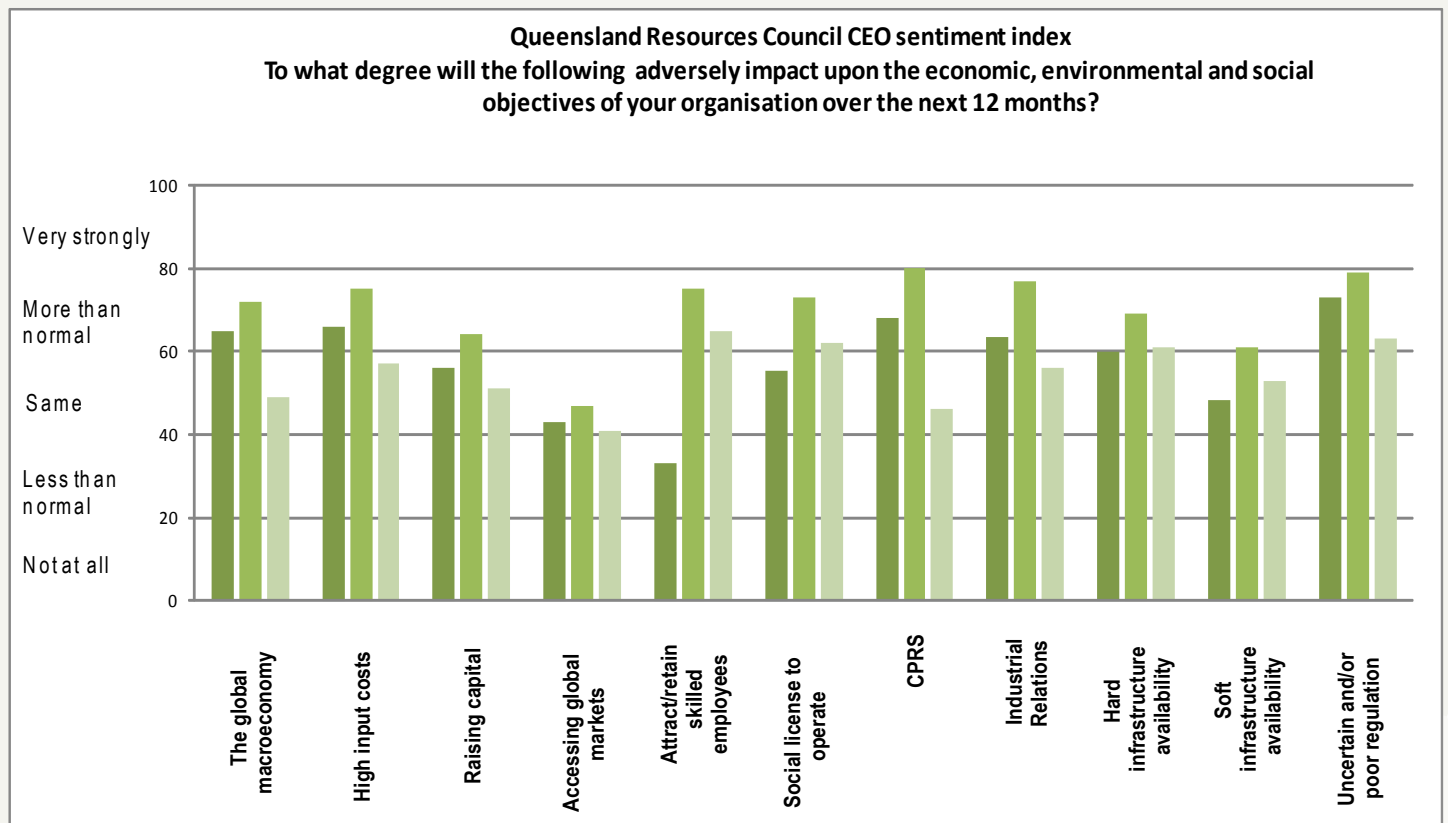
The QRC CEO Sentiment Index is a survey of the QRC's 78 full-member company chief executives. These companies cover the majority of mining, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

*Summary of key findings March Quarter 2010*

In priority order, issues that will 'very strongly' and 'more than normal' impact on the Queensland resources sector over the next 12 months are:

- uncertain and/or poor regulation
- attracting and retaining skilled employees
- maintaining social licence to operate

Concerns about domestic climate change policy (ie the CPRS) have reduced significantly, as have concerns about the global operating environment (the macroeconomy and access to capital).



## QRC PROFILE

The Queensland Resources Council is the peak representative body for 169 companies with interests in the state's minerals and energy sector. The QRC's 78 full-member companies comprise explorers, miners, contractors, mineral processors, oil and gas producers and electricity generators. QRC service companies cover the gamut of professional services provided to the resources sector in the four corners of Queensland.

Written and prepared by the Queensland Resources Council (QRC). The QRC is the peak representative body for 169 companies with interests in the state's minerals and energy sector. The data for this publication is sourced from a number of public sources – notably the Australian Bureau of Agricultural and Resource Economics and the Australian Bureau of Statistics. For more information, contact the QRC on (07) 3295 9560 or <http://www.qrc.org.au>