

## SOVEREIGN RISK CONCERNS LOOM LARGE AS ELECTIONEERING STARTS

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**The decision of the Queensland Government to end QRC member Sibelco's sand mining on North Stradbroke Island by 2019 and abandon 650 jobs without due regulatory or public consultation process has seen member company concerns about uncertain and/or poor regulation continue to rise in our most recent CEO Sentiment Index (see page 4).**

With the quest for Green preferences at the next state election now seemingly exerting a

disproportionate influence over state policy, this decision has introduced an unacceptable level of political and sovereign risk to the Queensland scene. The QRC believes this is the first time that a mining company operating within existing entitlements has had those entitlements withdrawn without recourse or compensation.

### STRATEGIC CROPPING LAND AND FOOD SECURITY – THE FACTS

**The Queensland Government's decision to pursue a strategic cropping land (SCL) policy that would quarantine—with potentially retrospective application—approximately 4.3 percent of Queensland from any development, represents another layer of high political and sovereign risk.**

In a previous *State of the Sector* edition I described SCL as a 'dud policy'. While I have recently publicly conceded that there are prime cropping areas on the Darling Downs such as Haystack Road and Jimbour Plain where open-cut mining could not be contemplated given the current state of mining and rehabilitation techniques, the QRC remains of the view that the government's SCL policy is unworkable and we will not stand by and see this flawed policy go unchallenged.

Whilst the QRC is heavily engaged in the process of briefing officials and ministers on the manifest scientific deficiencies and policy perils of this policy, we thought it important to publicly respond to one of the apparent central drivers for some supporters of this policy—that increased resources development will be a threat to domestic and global food security.

Our feature article on page three outlines the results of our recent analysis that looks critically at the validity of claims that potential resources development on the Darling Downs poses a threat to food security.

Applying optimistic assumptions under a range of scenarios, what is clear is that the resource sector's land use on the Darling Downs will be relatively minimal over the ensuing period and there is no threat to food security—either at the domestic or global level.

Indeed, we encourage representative bodies and decision makers to recast the debate and seek policy solutions to those factors that reputable bodies such as Australia's ABARES and the United Nations Food and Agricultural Organisation believe are the true issues driving food prices higher and causing demand and supply imbalances.

### ONE TAX BEDDED DOWN, ANOTHER CLIMBS FROM GRAVE

**The QRC has welcomed the announcement that the Australian Government supports the 94 recommendations made by the Argus-Ferguson Policy Transition Group (PTG) regarding its technical design of the Minerals Resource Rent Tax (MRRT).**

As a package, the minerals industry feels that the recommendations are generally consistent with the July 2010 Heads of Agreement between the Gillard government and major mining companies. The government's support for the recommendation that all future state and territory royalty increases should be credited is also a plus.

However, when it comes to climate policy, the QRC is disturbed at reports that the Australian Government is becoming increasingly wedded to re-running all the ugly features of the 2009 Carbon Pollution Reduction Scheme (CPRS), in particular the inadequate assistance to Emission Intensive Trade Exposed (EITE) companies.

New economic analysis by the Minerals Council of Australia shows that a CPRS-style approach to the treatment of EITE firms under a carbon pricing scheme will expose the vast majority of Australian exporters to the full brunt of the world's highest carbon costs, ahead

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- Feature: Resources development on the Darling Downs: a threat to food security?
- The Japanese Situation
- QRC CEO Sentiment Index



of their international competitors.

The CPRS EITE provisions are very punitive and will shield only 33 export activities or about 16-19 percent of exports. Compare this to the European Union Emissions Trading Scheme EITE provisions, which will shield 164 sectors and 73 percent of exports.

As with the hugely discredited Resources Super Profits Tax, the QRC is worried that the industry will once again be foisted with a carbon pricing policy that is ill considered. We encourage governments at all levels to engage the resources sector around the full implications of proposed policy decisions, and work harder to deliver mutually beneficial policy outcomes.

## THE QRC PRODUCTION INDEX

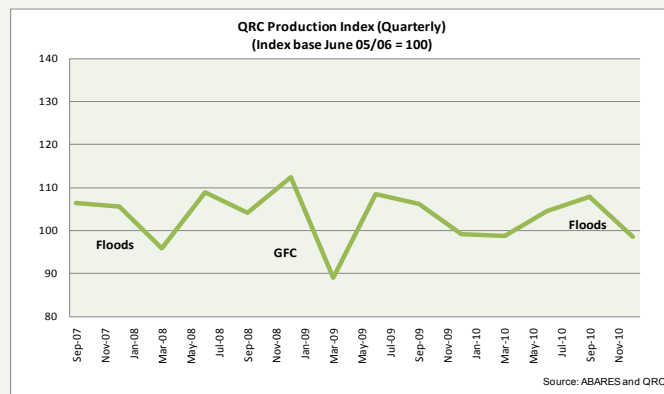
**The QRC production index is a composite weighted index that tracks percentage increases and decreases in the total production of Queensland bauxite, alumina, aluminium, coal (all saleable), copper, gold, lead, silver, zinc, oil, gas, and electricity (NEM) quarter to quarter.**

The index at the end of the December 2010 quarter (latest available data) reached 99 index points, nine percent lower than the previous quarter (June 2006=100). This was due in main to the large decrease in coal production emanating from the severe wet weather in the latter half of 2010.

Saleable black coal production dropped significantly from 51.28 Mt to 42.50 Mt in the December quarter. Minor falls in production were recorded for alumina, aluminium, and lead whilst moderate increases were recorded for bauxite, copper content, silver and zinc production.

The QRC in its December quarter *State of the Sector* forecast that black coal saleable production would be approximately 30 Mt lower in 2010/11 (against a 204 Mt BAU) under a 'low impact' or 'no more significant wet weather' scenario. At December 2010 average benchmark prices, 30 Mt equates to \$5.2 billion less production in 2010/11. The QRC estimates that this will be at a cost of around \$450 million in royalties to the state government and about \$4.4 billion in lower gross state product. Unlike past flooding events where production has resumed promptly, the QRC anticipates that these production impacts will be felt beyond 2010/11 and will extend into 2011/12.

Assuming no more significant wet weather, advice from companies and recent port data suggests that our 30 Mt 2010/11 impact estimate of is likely to be realised. The latest aggregated port data collected from Hay Point Port, Abbot Point Coal Terminal, Gladstone Coal Terminal and Port of Brisbane shows that coal throughput is 30 percent, lower in the March 2010/11 quarter than the same quarter in 2009/10.

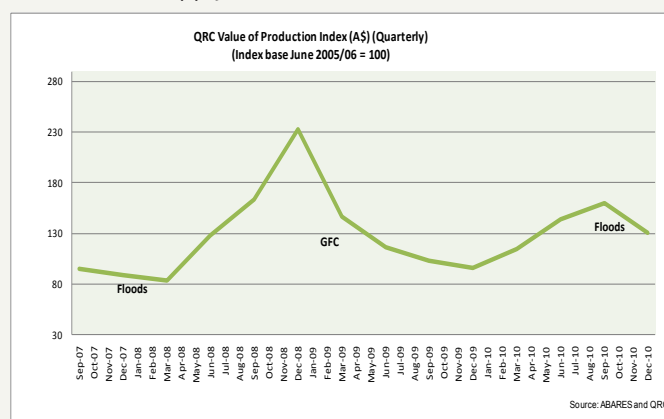


## THE QRC VALUE OF PRODUCTION INDEX

**Comprising the same basket of goods as the QRC production index, the QRC value of production index combines domestic production and average global benchmark 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 2010 quarter decreased 30 index points to 130 (June 2005/06 = 100) or in real terms A\$9.4 billion. The decrease in value of production was primarily on account of the significant decrease in coal production and slight easing in metallurgical and thermal coal prices, which when combined, lowered the coal sector's value of production by almost \$2.5 billion.

Despite the Australian dollar averaging \$1.01 against the Greenback during the December quarter, value of production increases were recorded for aluminium, copper content, gold, silver and zinc as prices continued to climb on account of strong global demand and constrained supply.



## THE JAPANESE SITUATION

**Not widely reported in the media was the heavy damage to Japanese coal-fired power and industrial plants and coal importing ports as a result of the March 2011 earthquake and tsunami.**

Reports suggest that eight coal-fired power plants in the Tohoku and Tokyo regions were shut down during

# STATE OF THE SECTOR

the event, with five believed to be out of operation for a significant period of time. It is estimated that approximately 12-17 Mt of thermal coal import capacity may be at risk. As Queensland is a significant supplier of thermal coal to Japan with in excess of 20 Mt of exports in 2010, a number of QRC's thermal export members may be adversely affected in the short term.

It is understood that Japan's coal-fired power plants were operating at approximately 80 percent capacity prior to the earthquake and only a percentage of this capacity can be 'ramped up' to full capacity without the risk of critical breakdown. The additional problem for Japan is that due to insufficient interconnectivity on the national grid, there is a limited ability to ramp up plants outside of the Tohoku/Tokyo region, and additionally, there are further limitations around the different frequencies at which the grids operate.

In terms of alternatives, some reports suggest that because of the 'isolated' nature of the Tohoku/Tokyo grid, Tepco and Hokuriku have reportedly focused on procuring fuel for their LNG and oil plants, which have not been operating on baseload. It is understood that Tepco has been successful in sourcing LNG cargoes from Russia, while it is thought that Mitsubishi could supply both generators with LNG sources from Indonesia.

In relation to the Japan's steel makers, reports are that they may have escaped the event relatively unscathed.

## RESOURCES DEVELOPMENT ON DARLING DOWNS: A THREAT TO FOOD SECURITY?

**Strong global demand for resources such as coal and gas is creating strong market incentives to increase exploration and production.**

Good prospectivity and sound proximity to export infrastructure has seen increasing resources activity on the Darling Downs. This area is respected for its rich agricultural land and cropping and grazing potential. It is also an area that is more closely settled than traditional resource communities in Queensland.

In response to increasing food prices, a number of organisations have argued that higher levels of resources activity will exacerbate domestic and global food security concerns:

*AgForce continues to lead the focus to ensure the security of food production is not undermined by detrimental planning policies such as mining or urban encroachment.*  
August 2010

The QRC has recently completed a study that looks critically at the validity of claims that resources development on the Darling Downs poses a threat to either domestic or global food security. This study looks specifically at the hypothetical impacts on beef production, and separately, wheat and chick pea production.

## Results

The Darling Downs encompasses 9,007,000 hectares (ha) of the state. In 2010 the resources sector accounted for approximately 10,000 ha or 0.1 percent of this total land area. In 2020, this is expected to increase to approximately 50,000 ha or 0.6 percent<sup>1</sup> of total land area on the Darling Downs. Indeed, if the Darling Downs was the size of the entire Gabba stadium, the resources sector in 2010 would have consumed just 24 seats. By 2020, the sector it is estimated will have consumed just 139 seats.

### Scenario 1 - foregone wheat and chickpea production

Assuming that between 2011 and 2020 an additional 50,000 ha of land is utilised temporarily by the resources sector, what would be the percentage reduction in wheat and chickpea production if all that land was used in constant 3:2 crop rotations – that is, a BAU scenario of one sorghum, one wheat and one chickpea crop every two years between 2011 and 2020?

Analysis shows Darling Downs wheat production (cumulatively over the nine years) would be only 0.27 per cent lower – being the difference between the BAU scenario and the scenario that all the land is utilised temporarily for resources development. A slightly larger impact is recorded for Darling Downs chick peas production, which would be approximately 5.09 percent lower (again cumulatively over the nine years).

Foregone production is also represented as percentage of Queensland, Australia and global production for the period 2010-2020 at Table 1.

**Table 1**

Wheat	
% of foregone production Darling Downs	0.27%
% of foregone production Queensland	0.15%
% of foregone production Australia	0.01%
% of foregone production World	0.0004%
Chickpeas	
% of foregone production Darling Downs	5.09%
% of foregone production Queensland	1.24%
% of foregone production Australia	0.37%
% of foregone production World	0.02%

### Scenario 2 – foregone beef production

Like scenario 1, the second scenario is if all the 50,000 ha of temporarily utilised land was used in beef production (a more reasonable assumption given the quality of the land affected). Cumulatively over the nine years beef production would be down 0.34 per cent if all the land was utilised when compared to a BAU scenario (all the land is used for beef production). Foregone production is also represented as a

<sup>1</sup> Defined as the expected joint activities of Arrow Energy, Tarong Energy, Millmerran Power Management Pty, New Hope Coal Australia Ltd, Ambre Energy, Peabody Energy Australia Ltd, Origin Energy, ERM Power, Santos Pty Ltd, and QGC Limited. The QRC understands that other companies are exploring on the Darling Downs and total land disturbance would have to be adjusted once drilling, regulatory and final investment decisions are concluded.

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percentage of Queensland, Australian and global production for the period 2010-2020 at Table 2.

**Table 2**

Beef production	
% of foregone production Darling Downs	0.34%
% of foregone production Queensland	0.03%
% of foregone production Australia	0.01%
% of foregone production World	0.0002%

Whilst acknowledging concerns about food shortages, this paper concludes that even under the most optimistic assumptions concerning yield rates and land usability, the

## QRC CEO SENTIMENT INDEX - SKILLS SHORTAGES STILL THE TOP CONCERN

**The attraction and retention of skilled employees continues to rank as the highest order issue with a 'very strongly' rating over the past three quarters (score above 80).**

Issues that will 'more than normal' (score between 60-80) adversely impact upon operations include social licence to operate pressures, uncertain and/or poor regulation, high input costs, climate change policies, insufficient government resources, and hard infrastructure availability.

The noticeable increase in social licence to operate and uncertain and/or poor regulation over the past two quarters reflects concerns over a number of recent and expected state government decisions. The state government's decision to end sand mining on North Stradbroke Island without public and industry consultation, or completion of a regulatory assessment statement, has raised significant concerns over sovereign risk. State government strategic cropping land plans were also raised as a large issue of concern.

### Notable quotes from our CEOs

*High input costs for electricity, diesel and labour in particular are expected to impact on the business. Skilled labour losses are again occurring in central Queensland due to mainly coal and LNG pressures and expansions. Climate change policies are also impacting*

resource sector's land disturbance footprint in the Darling Downs will be minimal and is highly unlikely to have a material impact on domestic or global food security.

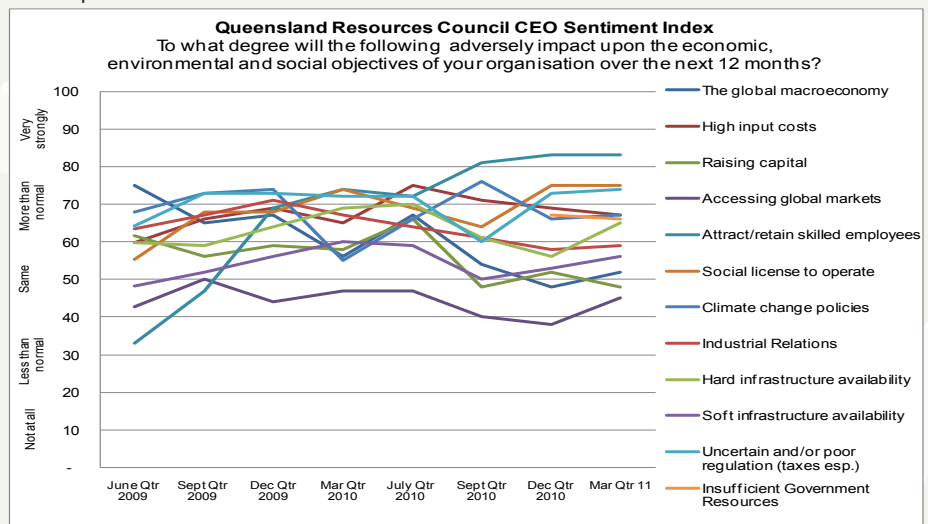
There are many other more critical issues that need to be addressed on a domestic and global scale to address the global food supply and demand imbalance. These include sustainable population policies, falling productivity in the agricultural sector, soil degradation, labour shortages, declining productivity, water availability and the possibility of more frequent and severe droughts.

The full QRC paper: *Resources development on the Darling Downs: a threat to food security?* can be found at [www.qrc.org.au](http://www.qrc.org.au).

*through electricity prices (SRES etc) and through potential carbon tax introduction. (minerals processing company).*

*Greens influence clearly driving current Queensland and federal government's policy in areas of licence to operate, climate change, land access, EIS etc. (mining company).*

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.



## QRC PROFILE

The Queensland Resources Council is the peak representative body for more than 200 companies with interests in the state's minerals and energy sector. The QRC's 89 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 QRC. 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://qrc.org.au>