

RESOURCEFUL QUEENSLAND

BY MICHAEL ROCHE CHIEF EXECUTIVE



Welcome to the first quarterly edition of QRC's State of the Sector report.

Our inaugural economic overview of the Queensland resources sector released at the QRC Annual Lunch in November 2008 confirmed a healthy appetite for ongoing economic analysis and the latest forecasts.

Accordingly, the QRC is 'meeting the market' with a State of the Sector report, updated quarterly.

It will interpret Queensland data from a number of leading economic agencies including the Australian Bureau of Agricultural and Resource Economics (ABARE) and the Australian Bureau of Statistics (ABS).

We are particularly pleased to debut two new key economic indicators in this publication.

The QRC production index and the QRC prices index have been developed to provide a running commentary on the performance of the resources sector now, and into the future.

Other indicators such as input costs and capital

expenditure will also throw valuable light on the business environment for minerals and energy producers in Queensland.

The economic health of Queensland is strongly linked to the fortunes of its resources sector and the QRC believes it is essential for more people to become better informed of this nexus.

Despite the uncertainties of global recession, Queensland's resources sector is forecast to maintain its role as the bedrock of the Queensland economy.

As we are constantly reminded, global economic growth will recover and its pace could match the collapse in demand that marked the last quarter of 2008.

How well prepared Queensland is to take advantage of the inevitable revival of minerals and energy demand hinges on its ability to underwrite business certainty.

Sovereign risk is one of the few elements in global trade that can be addressed at home and in the interests of the home teams, particularly as the nation takes its first steps towards a low carbon economy.

We're excited about this publication's potential to play an important role in informing stakeholders and influencing resource sector policies with positive implications for all Queenslanders.

IN THIS EDITION:

- Snapshot: The Queensland resources sector
- Key indicators: QRC production and price Indexes
- Other indicators: Input costs and capital expenditure
- Feature: Impact of the global financial crisis on the Queensland resources sector
- Snapshot: The socio-economic contribution of the Queensland resources sector



SNAPSHOT: THE QUEENSLAND RESOURCES SECTOR

The Queensland resources sector includes the mining of coal and metals, minerals processing, oil and gas production, electricity generation and mineral exploration, along with companies providing a range of key services to support those industries in Queensland.

Globally, the expanding resource needs of both developed and developing economies have supported the growth of an increasingly diversified and economically significant resources sector in Queensland.

Consisting primarily of coal (thermal, metallurgical, pci), metals (gold, copper, zinc, silver, lead) and oil and gas, the sector's value of production surpassed \$31.5bn in 2006-07 and \$33.5bn in 2007-08. In 2008-09, subject to global economic developments, the value of production could approach \$50bn.

The vast majority of Queensland's minerals and energy resources are exported with Japan the state's leading customer through its purchase of around one third of Queensland's total resource exports.

The companies extracting and processing Queensland's resources are a mix of small, mid and large-tier companies. Many companies are Australian-owned and some also have foreign interests.

The associated socio-economic benefits from their activities are profound and outlined in this report as the *The socio-economic contribution of the Queensland resources sector*.

KEY INDICATORS

The QRC production index

The QRC production index is a weighted index that tracks

percentage increases and decreases in the production of Queensland bauxite, alumina, aluminium, coal, copper, gold, lead, silver, zinc, oil, gas and electricity.

With June 2006 as the base period (ie=100) the QRC production index in the March 2009 quarter is projected to reach 91 index points because of global conditions, and particularly, reduced demand.

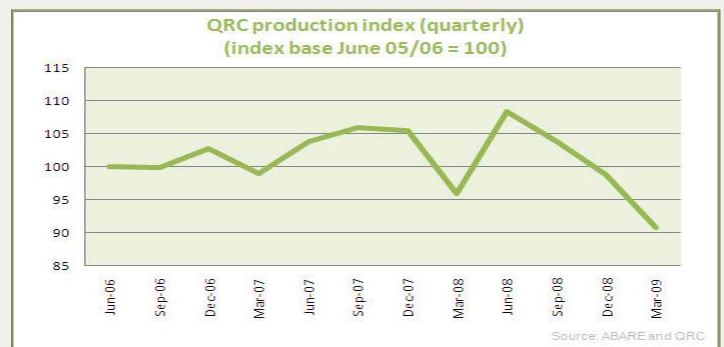
Between June 2008 and March 2009, production decreased by 17 percent. The timing and speed of global economic recovery remains uncertain.

The QRC price index

Using the same basket of goods as the QRC production index, the QRC price index in March quarter 2009 is projected to reach 204.

Between June 2008 and March 2009, prices increased by 81 percent, largely on account of strong (contract) coal prices and a low Australian dollar. However, significant decreases in most other resources were recorded.

Looking beyond the March 2009 quarter significant decreases in the index are expected, especially from April 2009 as coal contract prices are renegotiated (particularly with Japanese customers). There are also projections that the Australian dollar might recover slightly.



	2006/07		2007/08		2008/09 ^f	
	Production	Value (\$b)	Production	Value (\$b)	Production	Value (\$b)
Alumina (kt)	5,179	2.1	5,076	1.9	4,925	2.0
Aluminium (kt)	525	1.4	545	1.5	528	2
Black Coal (Thermal) (Mt)	73	4.5	72	5.2	70	10.6
Black Coal (Coking) (Mt)	110	12.5	108	12.6	88	23.1
Copper content (kt)	338	2.4	392	3.1	404	3.6
Gold (t)	21	0.5	20	0.7	19	0.9
Lead (kt)	415	0.7	469	1.4	503	1.1
Silver (t)	1,347	1.7	1,504	2.3	1,745	1.0
Zinc (kt)	843	3.1	897	2.3	947	1.9
Coal Seam Gas (PJ)	86	0.3	125	0.4	125	0.4
Crude Oil and Condensate (ML)	640	0.2	632	0.2	632	0.2
LPG (ML)	271	0.1	151	0.1	151	0.1
Processed Natural Gas (PJ)	128	0.4	107	0.4	107	0.4
Electricity (MW)	5,792	1.5	5,676	1.5	5,982	2.6
Total		31.5		33.5		49.8

STATE OF THE SECTOR

OTHER INDICATORS

Input costs

Coal mining input costs at the end of 2008 were at an all-time high.

Post-2003 increases (51 percent for open cut, 40 percent for underground) reflected the scarcity of inputs.

Increased charges by state government-owned corporations are also contributing to cost pressures ahead of the federal government's proposed Carbon Pollution Reduction Scheme, for which the coal industry and some other trade-exposed industries have been excluded from transitional assistance.

Capital expenditure

Mining capital expenditure increased from \$1bn to \$1.5bn between the September and December quarters in 2008.

Indications are that the majority of the \$10bn-plus in resource projects either 'under construction' or 'committed' in Queensland before the global slowdown will continue largely as planned.

Minerals exploration

The economic slowdown will have a profound impact on the Queensland exploration sector.

Junior companies are facing difficulties raising capital in equity markets while mid-tier and major mining companies are taking all measures necessary to

preserve cash flow. In the December 2008 quarter, exploration expenditure in Queensland decreased 13 percent to \$94.9m.

This trend is expected to continue well into 2009 with exploration expenditure down a forecast 44 percent by June to \$54m.

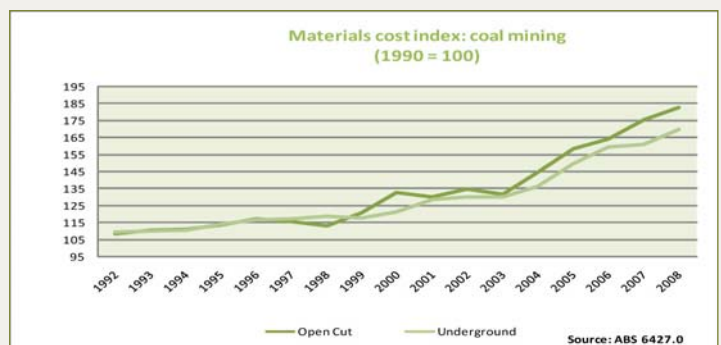
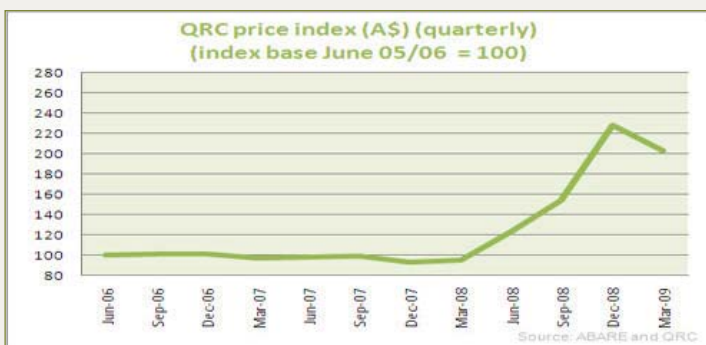
Compared with the rest of Australia, Queensland's share of overall exploration expenditure continues to decrease.

In 2005, Queensland had approximately 20 percent of national expenditure. In December 2008, this had dropped to a low 14.6 percent.

SNAPSHOT:

THE SOCIO-ECONOMIC CONTRIBUTION OF THE QUEENSLAND RESOURCES SECTOR

- In 2007-08 the Queensland resources sector is estimated to have directly and indirectly (ie through supply and demand relationships with sectors including manufacturing, construction, financial, property and transport) contributed \$41.3bn, or 20 percent of Queensland's total Gross State Product (GSP).
- The sector's direct GSP contribution to the Queensland economy was 5 percent in 1990-91, 6 percent in 2002-03, and 10 percent in 2007-08. By comparison, agriculture contributed 3 percent and



QUEENSLAND RESOURCES COUNCIL

LEVEL 13, 133 MARY ST, BRISBANE QLD 4000

T (07) 3295 9560 F (07) 3295 9570 E INFO@QRC.ORG.AU WWW.QRC.ORG.AU

- government 5 percent in 2007-08.
- In 2007-08 the resources sector is estimated to have directly and indirectly contributed 191,300 full-time equivalent (FTE) jobs, or 12 percent of total Queensland employment.
- Substantial growth from 2003-08 created large increases in FTE employment. In 2003 direct and indirect employment was estimated at approximately 72,000 or 6 percent of total Queensland FTE employment.
- Mining is the dominant economic activity in much of regional Queensland. In central and north-west Queensland, mining accounts for around 90 percent and 70 percent respectively of the regions' economies.
- In 2007-08 the Queensland resources sector is estimated to have paid approximately \$16bn in wages and salaries to direct and indirect employees.
- In 2008-09 the resources sector is forecast to pay \$3.6bn to the Queensland Government in royalties and rents, free and clear of industry infrastructure charges. Sector royalties are used to fund essential community services including police, education and health. The Queensland Treasury forecasts that royalties will bring in nearly \$7bn over the ensuing three years.

Japan is Queensland's largest resource trading partner. Japanese imports of Australian thermal coal are expected to remain relatively constant with demand for most other resources decreasing in the short to medium term as Japan's economy endures a significant slowdown.

While no-one is confidently predicting an end to the slowdown, government efforts globally to stimulate their domestic economies through aggressive fiscal and monetary policies are seen as critical to restoring consumer and business confidence.

Queensland resource sector companies have responded to the global slowdown through:

- reduced production that has necessitated reduced staffing
- re-evaluation of economic mine lives (care and maintenance, some closures)
- deferred uncommitted capital
- re-evaluation of timing and costs of some export infrastructure projects
- reduced exploration expenditure
- cost focus on maximising margins and conserving cash resources
- continuing work on advanced projects to ensure start-up is possible when markets improve.

FEATURE: IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE QUEENSLAND RESOURCES SECTOR

Latest estimates from the International Monetary Fund (IMF) show that the economies of our major trading partners will slow significantly in 2009, but with some recovery predicted in 2010.

	Real GDP - annual % change			
	2007	2008	2009 (f)	2010 (f)
Japan	2.4	-0.7	-6.2	-0.5
India	9.3	7.3	4.5	5.6
Korea	5	4.1	-4	1.5
Taiwan	5.7	3.8	-7.5	0
Germany	2.5	1.2	-5.6	-1
UK	3	0.7	-4.1	-0.4
Brazil	5.8	4.3	-1.3	2.2
France	2.2	0.8	-3	-0.4
China	13	9	6.5	7.5

Source: IMF April 2009 update

QRC PROFILE

The Queensland Resources Council is the peak representative body for almost 160 companies with interests in the state's minerals and energy sector.

The QRC's 79 full-member companies comprise explorers, miners, contractors, mineral processors, oil and gas producers and electricity generators.

QRC service member 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 Queensland Resources Council on (07) 3295 9560 or <http://www.qrc.org.au>