

DUD CROPPING LAND POLICY CAPS OFF TURBULENT QUARTER

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It has been a turbulent three months for the Queensland resources sector.

The high amount of rainfall that was received in much of regional and rural Queensland, coupled with the state government's unreasonable water release conditions, have created disruptions to several mines and to transport operations between mine and port.

In QRC's latest CEO Sentiment Index survey (see back page), companies are reporting adverse production impacts due to shortages of workers and others are once again reporting long supply lead times on equipment – a problem that was affecting most operations prior to the GFC.

Revenues for our electricity generation members were hit during the quarter by some excess generation capacity. More positively, our junior exploration members have been buoyed by signs that sentiment in the equity capital markets is improving as investors' appetite for risk improves.

The decision of the coal company consortium not to pursue their bid to purchase Queensland's coal tracks has paved the way for the state government to proceed with its float of QR National.

It's feared that the entrenchment in the privatised company of the vertical integration of Queensland Rail's below and above rail assets will not serve users (and, in the end, the state) well.

History tells us that retention of this monopoly ownership model can blunt above-rail competition, encourage price gouging and reduce the commercial incentive to be responsive to users' needs, especially for timely expansion of track infrastructure. These fears drove the coal consortium bid.

The new regulatory framework for QR National's coal track business, approved by the Queensland Competition Authority on 1 October, has taken on board many of the concerns of QRC on behalf of the coal industry.

In particular, any moves by QR National to price gouge or delay investment can be side-stepped by the new rights for the coal industry to step in and self-fund track investment. The challenge is to ensure these new rules work in practice.

On the policy front, there have been two developments that will significantly affect the sector without robust industry leadership and careful consideration by governments.

The state government's proposed strategic cropping land (SCL) policy, where 4 percent of Queensland's land mass will potentially be quarantined from development, is a simplistic, populist reaction that will impose a significant sovereign risk on the resources sector and create an unwieldy precedent for future policy on competing land uses.

A survey of our members indicates that this SCL policy, if implemented today, would put at risk sunk and planned investment of \$22 billion, and would quarantine large parcels of land that could not be fairly designated high-value cropping land.

The QRC believes this policy needs to go back to the drawing board. For more information and for our constructive suggestions for improving the policy, please refer to our feature article, (on the next page) and our full submission (link to website provided).

The new minority federal government has the task of meeting the terms of its 1 September 2010 agreement with The Greens. Under this agreement, parties agree that:

- 'Australia must tackle climate change and that reducing carbon pollution by 2020 will require a price on carbon'
- A 'well resourced climate change committee' be formed that encompasses experts and representative parliamentarians. The committee will establish a business roundtable and will report by the end of 2011.

The CPRS debate tells us that reforms of this magnitude cannot be based on poor industry consultation or grossly unrealistic assumptions of the net economic impacts.

The QRC will continue to work on behalf of the Queensland resources sector to ensure that the risks of moving on a carbon price before the rest of the world, coupled with the inadequate transitional assistance that marked the discredited CPRS, are clearly understood and assessed.

IN THIS EDITION:

- Key indicators: QRC Production and Value of Production Indices
- Feature: Strategic cropping land
- QRC CEO Sentiment Index

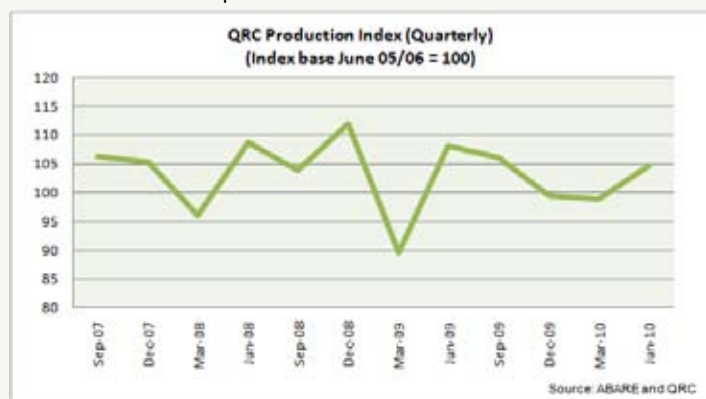


THE QRC PRODUCTION INDEX

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 June 2010 quarter (latest available data), production increases were recorded for alumina, aluminium, thermal and metallurgical coal, copper, lead and zinc. Production decreases were recorded for bauxite and silver while gold production remained flat.

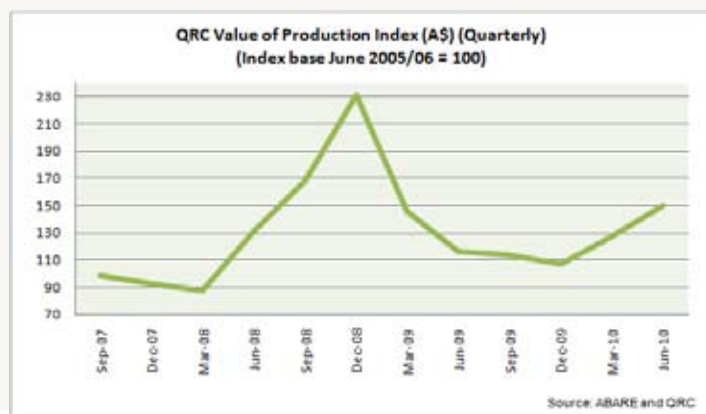
Compared to the March 2010 quarter, the net effect of these movements was a 6 percent increase in the output of Queensland's main resources – bringing the QRC Production Index to 105 index points (June 2005/06=100).



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 June 2010 quarter reached 150 index points (June 2005/06 = 100) or in real terms A\$10.6 billion. This represents a 23 percent increase in the value of output of Queensland's main resources compared to the March 2010 quarter.



This large increase in the value of production was on account of:

- higher production across most commodities (see QRC production index above);
- a 30 percent increase in (high quality) metallurgical coal prices to A\$213/t. This increase reflects growing consumption and production of steel, especially in Asia, and an end to the traditional annual price-setting system for the majority of iron ore and metallurgical coal exports from major producers. Prices are now generally set on a quarterly basis. In early March 2010, several Japanese steel mills were reported to have agreed on contract prices of the April to June quarter at US\$200/t for high quality hard coking coal. This represented a 56 percent increase from the JFY 2009 annual contract price.
- a 13 percent increase in thermal coal prices to A\$96/t. This price reflects a combination of European and Asian spot prices as well as Japanese contract prices, which were settled in April 2010 at US\$98 a tonne for Japanese Fiscal Year 2010 (JFY, April 2009 to March).

This 40 percent increase on JFY 2009 prices reflects the combined effect of improving economic activity in major importing countries in north Asia such as Japan and Chinese Taipei, and continued strong import demand from China and India.

Prices for alumina (A\$331/t), aluminium (US\$2093/t), copper (US\$7025/t), gold (US\$1195/oz), lead (US\$1929/t), silver (US\$1833/troy oz), and zinc (US\$1980/t) remained relatively flat reflecting caution over the strength of recovery in the European and US economies.

The Australian dollar depreciated slightly during the June 2010 quarter hovering around the low US0.90 cent range.

FEATURE: STRATEGIC CROPPING LAND

In February 2010, the Queensland Government released a paper on protecting Queensland's best cropping land.

The government's policy was reiterated in an August 2010 policy framework:

The government considers that the best cropping land, defined as strategic cropping land, is a finite resource that must be conserved and managed for the longer term. As a general aim, planning and approval powers should be used to protect such land from developments that lead to its permanent alienation or diminished productivity.

QRC's 4 October submission has raised serious concerns about the following elements of the policy framework.

Key concerns are:

STATE OF THE SECTOR

- the sovereign risk to advanced projects
- the vast overstatement of the best cropping land in the published 'trigger maps' of potential strategic cropping land
- the departure from the tried and tested environmental impact statement (EIS) processes
- the unseemly haste to enshrine this policy in legislation.

These and other concerns are summarised below:

Sovereign risk to existing projects

The minister's foreword notes, '...the government expects that proposed developments will take into account the clear intent of the new framework.' QRC insists that the policy needs to draw a sharp distinction between proposed developments (new applications) and existing projects (applications that are pending).

The QRC has surveyed its members and found that 124 tenures involving sunk and planned project investment of \$22 billion have been captured by the 'trigger maps', calling into question the future of these projects.

QRC has strongly recommended that the government apply a measured transition for existing projects – including an exemption for:

- all granted tenures (both mining leases and mineral development leases)
- JORC defined resources
- applications that have received a final terms of reference for their EIS.

Mapping

The current 'trigger map' (designating where projects must undertake cropping land assessments) covers around 4 percent of the state, and much of it is not currently used for cropping.

Currently cropped Class A land is approximately 1.5 percent of Queensland, and you would expect that so-called Strategic Cropping Land (ie the very best cropping land) would be a small sub-set of this 1.5 percent. By contrast, all the land ever mined in Queensland covers less than 0.1 per cent of the state's land mass.

Stick with the EIS process

QRC rejects the underlying sentiment in the government's statement that: 'The decision about strategic cropping land will be made as early as possible in the development of tenure assessment process to provide certainty regarding development prospects.'

Industry would prefer to make its own choices about whether SCL should be addressed as a preliminary step (in particular, through the ground-truthing and map correction procedure) or whether it would be more efficiently wrapped into the EIS process.

The EIS process has evolved through time as a highly sophisticated instrument for making decisions in the public interest by carefully assessing relative environmental, economic and social benefits and costs. QRC regards the EIS as the appropriate vehicle to objectively assess any impact on strategic cropping land in the context of the overall project. QRC members are deeply concerned at strategic cropping land being escalated in importance to pre-empt any other considerations.

Indecent haste

Given the level of community interest in this issue, QRC can see the need for a full consultation process on strategic cropping land. QRC strongly recommends that the aggressive deadlines in the August framework paper (including legislation by early 2011) be reconsidered in the light of the need for a full consultation process.

Offsets

The policy needs an effective offset process which would enable current cropping land to be replaced; using either land that is not currently used for that purpose or land that can be improved to bring it to the standard of 'strategic'.

Exploration

Exploration involves the essential process of discovering and describing the resource wealth that belongs to the Crown. There is an obvious public interest in resource exploration because it is the only process by which Queensland can 'find' new resource assets. QRC recommends that exploration be exempt from the application of the strategic cropping land policy.

Specific concerns outlined by members from our survey include:

We were once a solely Queensland focussed exploration company. Now we are actively looking off-shore and interstate to reduce the threat from the continual policy 'road-blocks' that are thrown up in Queensland.

(Exploration company)

We have projects at concept stage with a potential value of \$1.5 billion, which are directly threatened by this legislation. These projects would generate annual revenue flows to the Queensland and federal treasuries of some \$250 million.

(Coal mining company)

The development of the coal industry in the Bowen

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Basin has seen a sharp increase in output from agriculture, because infrastructure and services provided for mining have improved the economics of farming.

(Coal mining company)

There does need to be some protection for quality arable land. Why can't these areas be identified NOW?

(Base and precious metals mining company)

Conclusion

QRC lodged a comprehensive submission (found at www.qrc.org.au and click on Publications and then Submissions) to suggest improvements to SCL framework.

This is a misguided policy, developed on an inaccurate premise of incompatible land use and the pre-eminence of a single land use (cropping) over all other possibilities. This policy fails any objective test of the broader public interest.

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.

The September quarter survey found that, in priority order, issues that are expected to adversely impact on the Queensland resources sector over the next 12 months are:

- (1) attracting and retaining skilled employees
- (2) climate change policies
- (3) the global macroeconomy
- (4) uncertain and/or poor regulation (taxes especially).

Of note is that 'attracting and retaining skilled employees' has been the number one issue over the past two quarters.

Specific concerns outlined by members include:

Competition for labour in expected industry up-surge will be problematic.

(Mining company)

Privatisation of QRN will lead to inevitable price increases that we will need to absorb.

(Coal mining company)

New regulations such as new land access, strategic cropping land, Wild River policies, new fees, threat of new mining taxes, carbon tax etc-we are over regulated already. Lack of leadership and vision from governments.

(Exploration company)

Our near-term major investments are strongly influenced by the items noted (high input costs, difficulty in accessing and retaining skilled employees, and uncertain and/or poor regulation).

(Oil and gas company)

People are becoming harder to retain and attract than a year ago. The re-emergence of the federal government's commitment a a carbon price will require mining companies to interact with the government to help shape this policy.

(Mining company)

Turnover rates have been rising strongly in the past six months post GFC, this at a time when the company is trying to expand. Already experiencing some adverse production impacts due to shortages in some less skilled areas. Climate change impacts could be very significant longer term as government develops new policies over the next 12 months.

(Mining company)

There just aren't enough skilled people to go around in the mining industry. We struggle with project management talent and our clients obviously do as well.

(Mining contractor company)

Government red tape and barriers to entry for small capitalised companies.

(Mining company)