

SOME LESSONS FROM 11 YEARS IN THE ENGINE ROOM



By Michael Roche, Chief Executive Queensland Resources Council

On Friday 12 October 2007, I received a phone call from the then Premier Anna Bligh. She rang to assure me that she was not going to allow to stand a Court of Appeal ruling handed down that day which held up in the air, on a legal technicality, the life extension of the Xstrata Newlands coal mine.

Just four days later, Premier Bligh's government introduced legislation that overturned the Court of Appeal ruling and confirmed the Newlands Mine life extension. The debate on that legislation is instructive. The then Nationals (and now KAP) MP Shane Knuth said this:

"We as a state cannot allow the future of our industries and our economies to be held to ransom by redundant threats from extreme conservation groups, the extreme greens. I applaud the government for amending the legislation to ensure the smooth sailing of the extension of Newlands mine and safeguarding not only the investment made by Xstrata but also the livelihoods of hundreds of workers who will now be able to continue supporting their families."

The then ALP MP for Fitzroy, and now MP for Mirani, Jim Pearce, resolutely supported the legislation to confirm the Newlands mining lease, saying this:

"The Premier's actions today in ensuring that this amendment passes through the House have demonstrated to me that she is prepared to get out there and tackle the challenges head on and to deal with them. She should be commended for that."

The parliament unanimously confirmed the legislation to uphold the Newlands Mine life extension.

So less than two and a half years into my time as QRC chief executive, the message from the premier of the day, backed unanimously by the parliament was clear cut:

"Michael, we are not going to allow this legal technicality to block 190 coal mining jobs."

That decisive action by Premier Bligh and her government deceived me into thinking that achieving project approvals would, subject to rigorous environmental impact statement processes, be straightforward because the major parties would back job creating resource projects.

Nine years on from that phone call from Premier Bligh, how are our sector's approvals tracking?

Well, the Queensland Conservation Council's objection to the Newlands project was a precursor to the anti-coal strategy now known as "Stopping the Australian Coal Boom."

The anti-coal strategy, which came to light in early 2012, has been successfully deployed against several coal projects. Just take the Adani Carmichael Mine project, which has this week entered its seventh year in the project approvals system, denying regional Queensland thousands of jobs.

Akin to the Newlands case, we also have the New Acland Stage 3 coal mine project on the Darling Downs. Like Newlands, this is an existing mine employing hundreds of locals and many more contractors and Stage 3 will extend the life of the mine, and the existing jobs.

This project first entered the approvals system in 2007. After an extraordinary eight months of Land Court hearings of objections, this project does not yet have a Land Court outcome. Nor is there any certainty that activists will not pursue legal delaying tactics in higher courts.

The experience of these two projects demonstrates all that is wrong with the project approvals system in Queensland.

As I move on from an exciting 11-plus years advocating for the Queensland resources sector, the opportunities for reform by the Queensland government stand out.

A perfect place to start is to deal with the extraordinary delays in the Land Court and the unfettered access to higher courts.

I am not going to hold my breath for a Queensland government in 2016 to intervene with legislation to remove project road blocks, but there has to be a rebalancing between rights of objectors on the one hand and investment and jobs on the other hand.

And it is not just at the state level. The federal environmental law is also being gamed by activists to disrupt and delay projects. We have had lots of talk about reforming those processes but no action – none at all.

My wish list does not stop there.

On the back of the review announced in the state budget, the Queensland government has an opportunity to fix our financial assurance system once and for all and with it obviate the need for the extraordinary over-reach of the Chain of Responsibility legislation.

With the likely windfall in coal royalty revenue from the unexpected uplift in coal prices, government has an opportunity to undo some of the damage done in the 2008 and 2012 budgets by introducing indexation to the coal royalty schedule, thereby removing a disincentive to new projects.

As set out in the feature article in this edition, government also needs to introduce fairness and predictability into local government rate setting for industries such as resources and property.

My challenge to the Queensland premier and leader of the opposition is whether they have the gumption to match the decisive action of Premier Bligh back in 2007, or are they now being dictated to by Sydney shock jocks, GetUp! and party machines' preference deals.



INDUSTRY RATES THE NEED FOR REFORM

QRC's quarterly survey of resource industry CEOs reveals that not one of them is confident the Queensland government will reform local government rates systems.

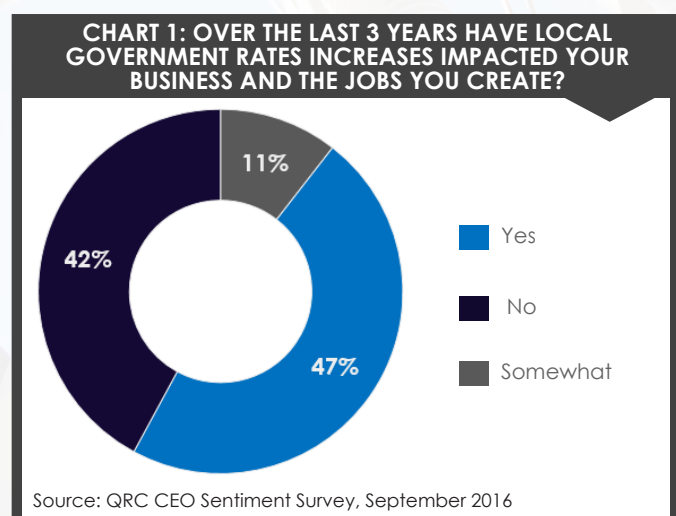
In Queensland, unlike other states, local governments have an unfettered power to impose rate charges without transparency or accountability. There has been widespread use this power in recent years, with the collection of rates from resource projects sky-rocketing, with no consultation or warning until companies receive the bill.

The resource sector is happy to pay its fair share of rates, but cannot continue being treated as the balancing item in local government annual budgets. Some councils have no qualms imposing increases of up to 250 percent on resource operations in their region with no change in the services being provided. In fact, many resource operations receive no council services and pay additional money (in addition to rates) to upgrade impacted roads and other infrastructure.

Under Queensland law, local governments are able to charge whatever they like, so it's no surprise the rate increases are coming thick and fast. The law needs to change – to give greater certainty around rate increases for residential landholders, and before projects and regional jobs are priced out existence. QRC members urge the Queensland government to back their private acknowledgement of their concerns and tackle the necessary urgent reforms in the area of local government rates.

“At times of low commodity prices, local government rates can have a significant impact...”
(September 2016)

The latest CEO Sentiment Survey results show that six in 10 of all Queensland operations have been adversely affected by local government rate increases. CEOs are telling us that these impacts affect jobs.



This year, the QRC has been advocating for urgent reform in the area of local government rates. The aim is to deliver job preserving cost relief for existing Queensland operations and to aid future investment in new resource projects.

In March 2016, QRC provided comprehensive evidence to the Queensland government of the need to reform the *Local Government Act 2009*. The QRC submission showed that:

- for the same parcel of land, resource companies are being charged twice for the same activity,
- some companies are being charged a higher rate on the land just because they are in the resources business and
- some companies are seeing year-on-year exorbitant increases in their rates bills of between 40 and 250 percent.

“We believe there is a need for legislative reform on this issue in Queensland, and that it represents a genuine threat to Queensland's competitiveness...”
(September 2016)

The QRC submission highlighted four simple principles for reform. These principles (listed below) are based on transparency, predictability and fairness. At the very least, investment certainty means industry needs to be able to determine what future rates bills might deliver.

Four principles for reform:

1. A rates determination process and outcome that is transparent, predictable and fair (including consultation).
2. Rating categories not to be used as a lever to prevent, mitigate or discourage legitimate land uses (i.e. rating categories that single out individual developments).
3. Greater transparency of local government budgets and how rates are determined, including a requirement to adequately justify (i.e. based on economic valuation principles not on a capacity to pay) new rating categories and increases.
4. Equal treatment and consistency with other land uses.

QRC STATE OF THE SECTOR

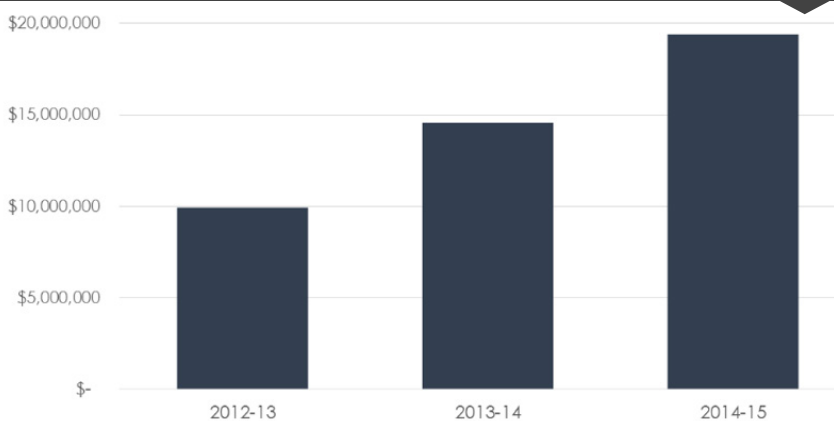
The political maths seems to be that because local businesses and industry can't vote in local government elections, councils are looking to keep any increase in residential rates contained, while treating resource projects as cash cows. Many other non-resource industries have also raised concerns and QRC is in discussion with a number of other leading industry groups that have also been targeted with rampant rate rises.

Over the past two years, the resource sector has lost about 20,000 jobs across Queensland.¹ The QRC wants to work together with councils to ensure these regional jobs are sustainable, but the cost of doing business in these regions must be reasonable and predictable.

"Local rates have increased significantly impacting new business start-ups and attracting people to area..."
(September 2016)

Primary data provided by QRC members earlier this year reveals that the practices for increasing rates on the resources sector is evident across many council areas and rates have been increasing exponentially since 2012-13. A sample from Western Downs Regional Council below clearly demonstrates the annual increases between 2012 and 2015. One resources proponent operating in this regional council area reported its 2015-16 rates bill is likely to be more than 250 percent higher than what was paid in 2012-13 for the same parcel of land, while still receiving the same (fairly minimal) level of local government services.

CHART 2: WESTERN DOWNS REGIONAL COUNCIL RATES AND CHARGES



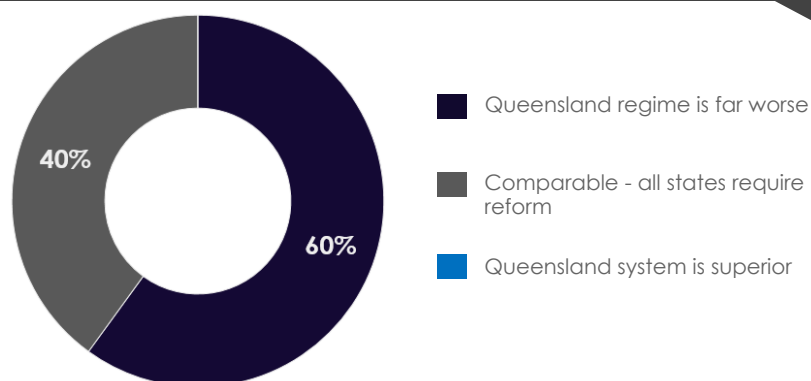
Source: data provided by QRC members for this submission

Similarly, a resources proponent operating in the Mount Isa Regional Council area reported that its 2015-16 rates bill is likely to be at least 71 percent higher than what was paid in 2012-13.

In the Survey, we also asked if the rates regime in Queensland was better, the same as, or far worse than in other resources states. The results are set out starkly in Chart 3. No one would say the Queensland rating system is superior and 60 percent said it was far worse than in other resources jurisdictions.

"If faced with soaring increases in rates as an overhead cost it simply increases the NPV required for a project to become viable and therefore a decrease in viable projects that make it to production..."
(September 2016)

CHART 3: IF YOUR BUSINESS HAS OPERATIONS IN NSW OR WA, HOW DOES THE QUEENSLAND RATING SYSTEM COMPARE?



Source: QRC CEO Sentiment Survey, September 2016

So where to from here? Well the Queensland government has offered to draft an unenforceable guideline, asking local governments to 'play fair'. Despite presenting cogent evidence that local government rating practices in most resource regions are out of control, the Queensland government refuses to bring our state into line with the rest of Australia when it comes to rating practices.

QRC will soon present a supplementary submission to the Queensland government demonstrating that despite assurances from the local government sector that big rate increases were behind us, after the latest round of council budgets, this is not the case.

¹ Figure current as at January 2016.



QRC CEO SENTIMENT INDEX

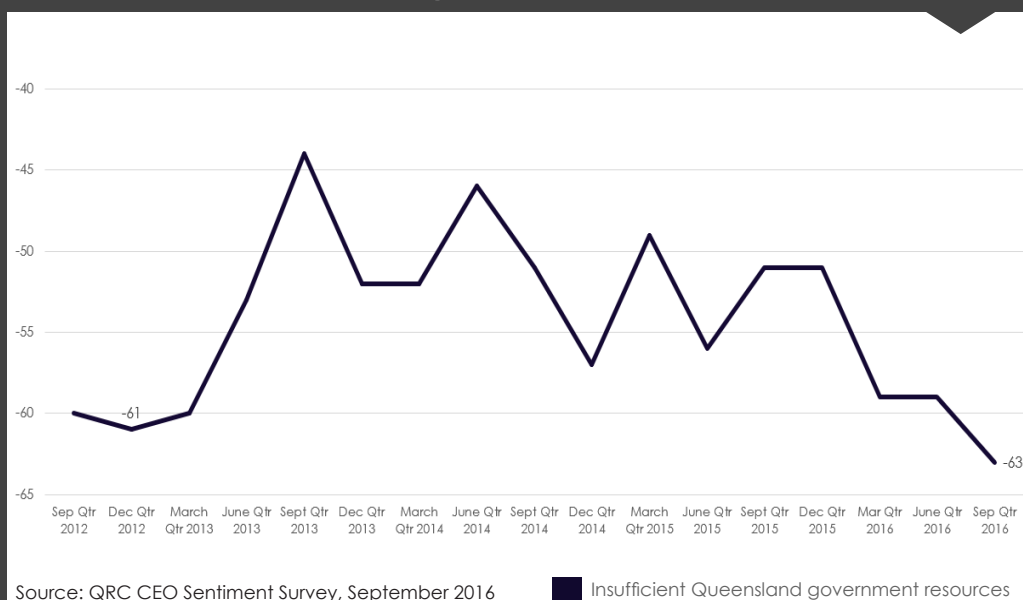
SOVEREIGN RISK IS ESCALATING IN QUEENSLAND

The QRC CEO Sentiment Index is a quarterly survey of QRC's producer and explorer members with the typical sample size covering between 20-35 companies. The participating companies cover the majority of mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

Each quarter the respondents are asked to nominate to what extent 11 factors will impact on the objectives of their organisation over the next 12 months. All responses are weighted to arrive at a single value reflecting the sentiment for that factor. The response options include very strong impacts (-1), more than normal (-0.75), the same (-0.5), less than normal (-0.25) and not at all (0). Therefore, the most concerning factors receive the lowest scores and are lower down on the negative axis.

For this edition we've focused on a trend in the declining sentiment towards insufficient government resources in Queensland. In the qualitative comments provided by CEOs in the survey the continual reference to a lack of consultation is very concerning and at its lowest in years.

CHART 4: SENTIMENT INDEX RESULTS HIGHLIGHTING NEGATIVE SENTIMENT TOWARDS INSUFFICIENT QLD GOVERNMENT RESOURCES

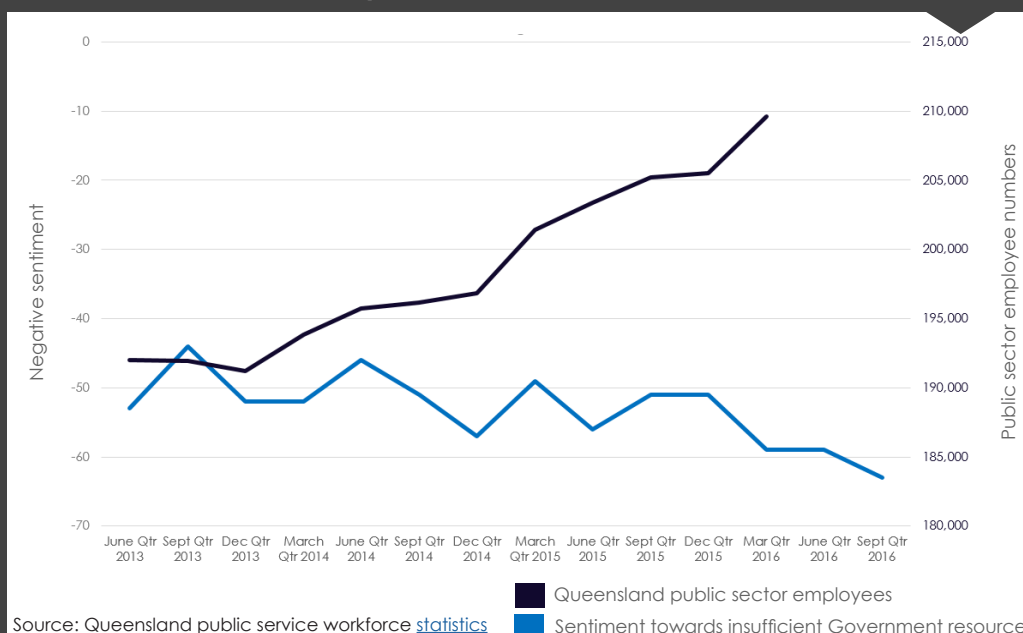


QRC CEOs called out concerns including:

“Rising regulation and monitoring - QLD Chain of Responsibility Act, QLD new ground water laws, QLD reviewing financial assurance, QLD FIFO Inquiry...”

“The current QLD government seems fixated on delivering poor policy with little or no consultation with industry. Chain of Responsibility, Financial Assurance, SSRC, Revegetation and water are all examples of legislation that have been rushed through and then consume extensive industry resources to ensure that government fully understands what they’ve enacted...”

CHART 5: SENTIMENT TOWARDS INSUFFICIENT GOVERNMENT RESOURCES AND THE NUMBER OF QUEENSLAND PUBLIC SERVICE EMPLOYEES



Charts 4 and 5 show a trend in declining sentiment towards insufficient government resources particularly over the last 12 months while the number of employees in the Queensland public sector has increased significantly over the past 12 months (based on the latest available data) (Chart 5).

Alarmingly, when we consider the sentiment towards uncertain or poor regulation together with insufficient government resources we can see a concerning downward trend appearing (see Chart 6 over page).

QRC STATE OF THE SECTOR

CHART 6: SENTIMENT TOWARDS QUEENSLAND LABOR GOVERNMENT POLICIES AND PRIORITIES

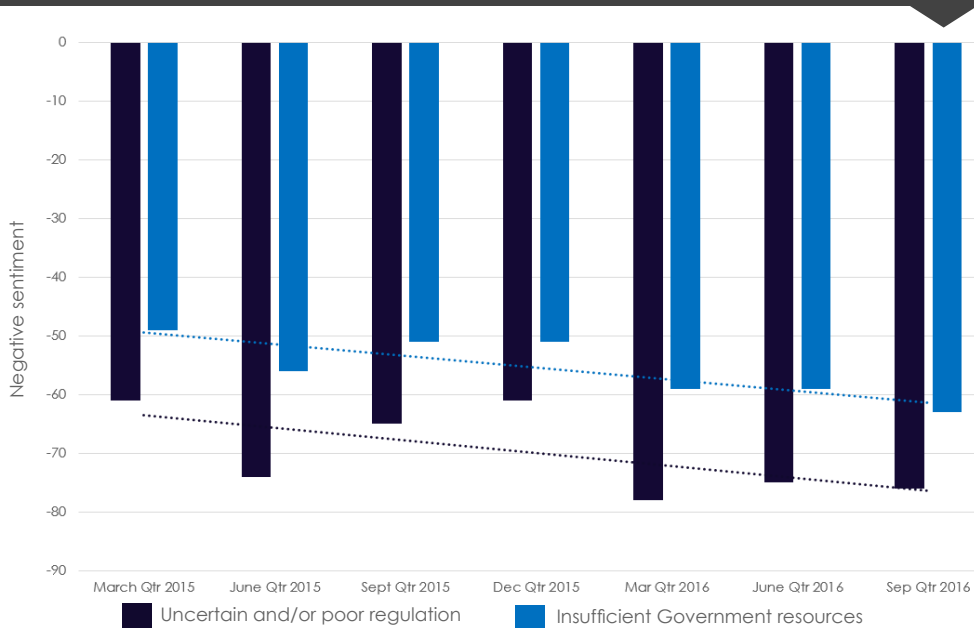


Chart 6 shows a deteriorating sentiment towards the regulation being introduced by the Queensland government as well as a declining sentiment towards the government resources (2015-2016). The link between the two factors suggest that the allocation of resources based on the priorities of the Queensland government does not match the expectations and needs of the resources industry.

CHART 7: SENTIMENT CHANGE IN QUEENSLAND 2011-16

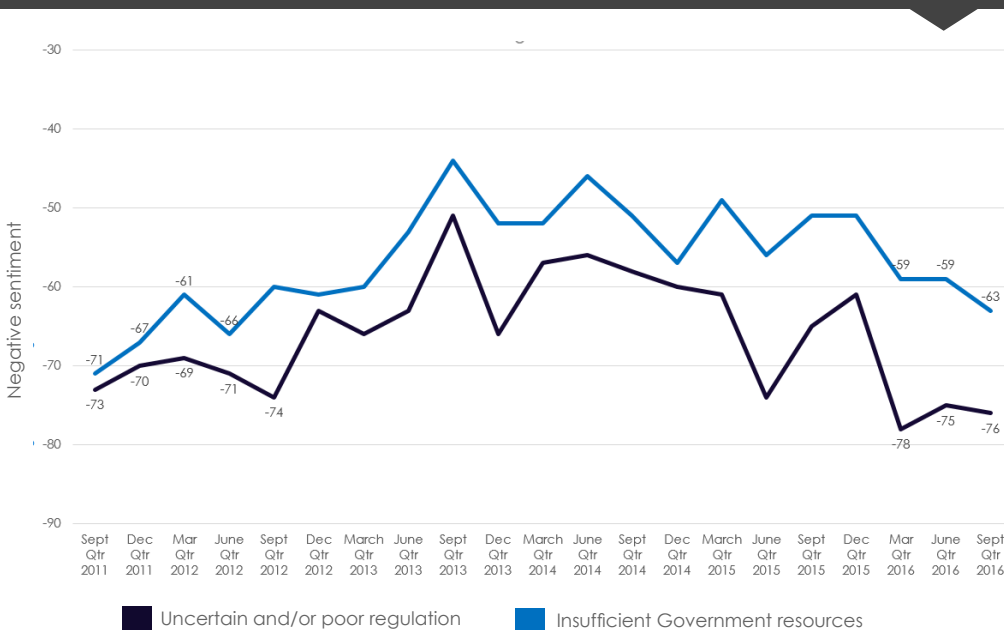


Chart 7 measures the same two factors as above, uncertain regulation and insufficient government resources, over a longer time period (2011-2016) revealing the change in sentiment over the last five years.

QRC's survey allows CEOs to provide comments, which helps understand the issues that have driven such a sharp deterioration in sentiment around regulation and government resources. Issues CEOs called out include:

"State government appears to lack the strategic understanding of our industry and the impacts that ill-thought legislation/regulation has..."

"The lack of consultation with industry by government prior to the introduction of new legislation which has a significant impact upon business is negatively impacting business confidence to invest in Queensland..."

"The regulatory environment continues to be dynamic with the Queensland government seemingly disinterested in creating a legislative framework that will sustain and grow the mining sector. This is reflected in poor industry consultation, knee-jerk responses to issues raised by left wing interest groups and ill-considered legislation..."

"I continue to be extremely concerned about the lack of consultation from the QLD government..."



KEY INDICATORS

QRC PRODUCTION VOLUME INDEX

QRC's quarterly production index tracks changes in the total production of Queensland's traditional commodity exports – alumina, aluminium, bauxite, coal, copper, gold, lead, silver, and zinc. Please note, due to limited pricing data, we are yet to integrate LNG prices and volumes into the index.

The production volume index is weighted by the value of the commodity. This means changes in the volume of coking coal produced (which is more than half the total value of Queensland resources production) has a proportionately larger impact on the index than, for example, changes in thermal coal production (representing approximately 10-15 percent of total value).

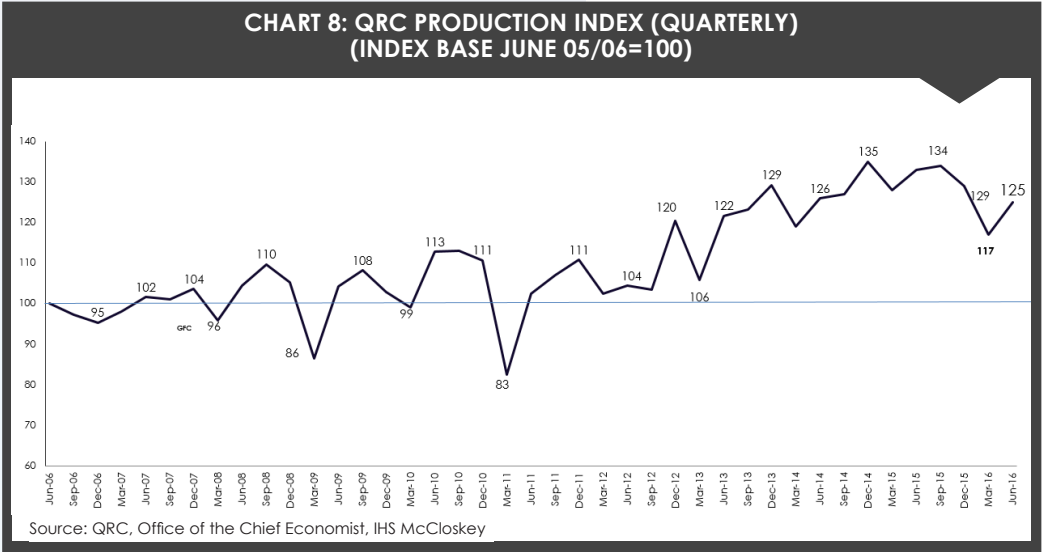
The index at the end of the June 2016 quarter (latest available data) increased by 8percent from 117 points in the previous quarter to 125 points. The index base is June 2006 = 100, so overall the total volume of production has grown 25 percent since that time.

The biggest production increases over the June quarter were in bauxite, copper, silver, zinc and both thermal and metallurgical coal also increased production volumes by a total of 6 percent on the March quarter. Alumina and lead production declined while aluminium and gold production remained flat over the quarter. The cumulative result of these increases in production volumes, weighted by value, generates the 8 point increase in the QRC Production Index over the June quarter.

EXPORTS

In addition to the commodity production above, the most recent LNG export volumes for the June 2016 quarter totalled 4.1 million tonnes. The greatest volumes of LNG were exported to China (2.1 million tonnes) and Korea (0.5 million tonnes) during the June quarter of 2016. As compared to the March quarter, this equates to a 9.4 percent increase in exported volumes. Year to date LNG exports total 12.5 million tonnes with 43 percent of production destined for China and 17 percent destined for Korea.

The September quarter coal exports totalled 55.3 million tonnes and the year to date volume is 164.5 million tonnes. This compares to 163.8 million tonnes for January - September 2015.



QRC STATE OF THE SECTOR

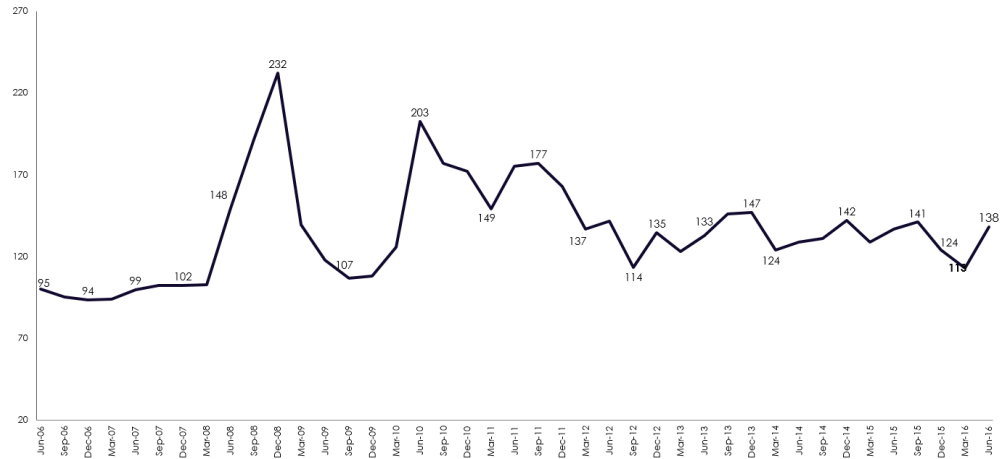
QRC PRODUCTION VALUE INDEX

QRC's production value index reflects changes in the prices of the resources Queensland produces. The weighted index reflects the same mix of commodities as the QRC production index. Once again, limited price data means LNG export values are not yet included in the index.

The index at the end of the June 2016 quarter (latest available data) significantly increased from 113 points to 138 points largely due to price increases for metallurgical and thermal coal. The June quarter average price for thermal coal was US\$60/t up from \$50/t the previous quarter and metallurgical coal average was US\$20/t more than the March quarter price of US\$78/t. Spot prices for coal have continued to increase between the June quarter and October as shown in Chart 10.

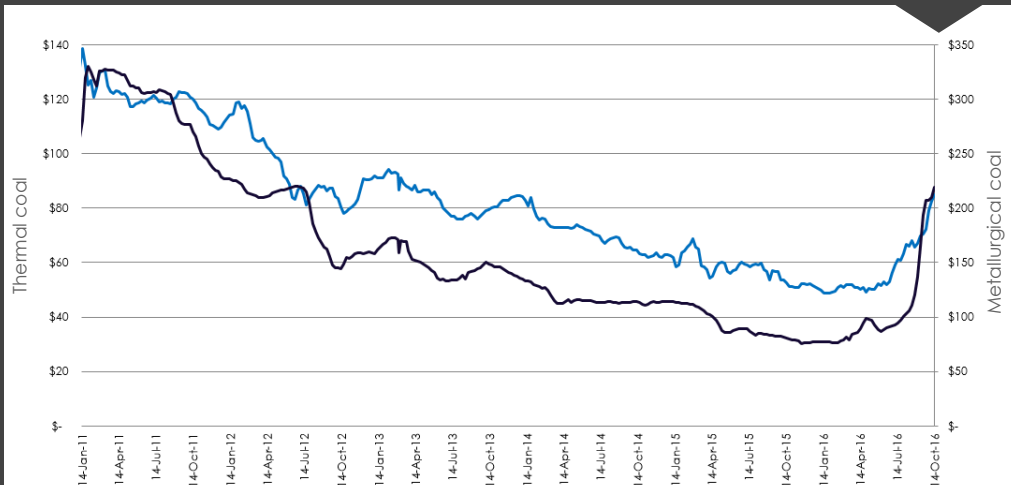
In addition, many other commodities also saw price increases including alumina, aluminium, copper, gold, silver and zinc. In aggregate, the resources sector produced goods valued at \$A8.7 billion in the June quarter, up from \$A7.1 billion in the March quarter.

CHART 9: QRC VALUE OF PRODUCTION INDEX (A\$) (QUARTERLY)
(INDEX BASE JUNE 05/06=100)



Source: QRC, Office of the Chief Economist, IHS McCloskey

CHART 10: COAL PRICES CLIMB HIGHER



Source: IHS McCloskey

Thermal (Newcastle, 6000kc NAR FOB basis) Metallurgical (Aus Prime)





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