October 12 is Pudding Day. It is a day that commemorates the publication in 1918 of the classic Australian story of The Magic Pudding story penned by the famed Australian artist and author Norman Lindsay. The story is about a pudding that could be eaten over and over again, but is able to remarkably reform as a whole pudding.

Lindsay’s classic children’s story is an enduring piece of entertainment. It has also come to be emblematic of circumstances where various vested interests have sought to take a piece from a growth sector in the economy in the naive belief that the sector will suffer no harm and will simply reform itself.

How appropriate then that the House of Representatives is set to vote on the carbon tax legislation on Pudding Day. The so-called Clean Energy Future Bill is a classic piece of magic pudding public policy. The federal government and its cross-bench supporters would have the public believe that Australia can go it alone, impose the world’s biggest carbon tax on our export and import-competing sectors, without harming growth, competitiveness and jobs.

There is no magic pudding when it comes to the world’s biggest carbon tax. In fact, analysis of federal Treasury modelling shows the carbon pricing scheme will reduce national income by $1 trillion by 2050.

The architects of the carbon tax legislation clearly believe that the Australian black coal mining industry is the quintessential magic pudding. The legislation hits this sector with $18.2 billion of additional costs over the first 10 years (comprising the direct carbon tax costs, higher electricity costs and a 17 percent increase in fuel excise), offset by a tiny coal assistance package of $1.3 billion.

Little wonder then that new modelling by independent economic consulting firm ACIL Tasman has found that the carbon tax could force the premature closure of 17 percent of black coal mines, including six open-cut mines in Queensland, within 10 years.

ACIL Tasman also found that under a conservative scenario, the carbon tax also stands to strip the Queensland economy of $13 billion in income in the first 10 years from proposed new coal mines that are now unlikely to go ahead if the carbon tax becomes law. That loss of income translates into a loss of more than $1 billion in royalty income for the Queensland Government.

Unfortunately public policy in recent times has been riddled with many other examples of magic pudding economics.

We have had the debacle of the proposed resource super profits tax, the continued urgings of Greens and others to ramp up the rate and coverage of the Minerals Resource Rent Tax, and two state governments (but fortunately not Queensland’s this time round) jumping in for a piece of the pudding with royalty increases.

Social conditions and the regulatory approvals process
Our feature article analyses yet another piece of magic pudding policy: the trend for governments to require resource companies to provide substantial levels of social infrastructure as a condition of project approval.

In this article we outline our broad industry response to the coordinator general’s most recent regulatory approval requiring a resource company to fund, own and operate traditional government services such as health care, counselling, child care, and education/training. In short this creates an unworkable precedent for the sector and is an issue worthy of considerable discussion and debate.

Global financial instability
In our most recent QRC CEOs’ sentiment index (page 3/4), debt and banking issues in the Euro zone and US are of concern and are likely to have an impact over the coming
In real terms this is an increase of $2.1 billion from the March quarter 2011 (A$7.4 billion to A$9.5 billion). Coal value of production rebounded from the March quarter flood impact low of A$4.8 billion to reach A$6.7 billion in the June quarter.

Other significant developments during the June quarter include:

• Prices for alumina (A$334/t), copper (A$8,649/t), lead (A$2,718/t), nickel (A$22,872/t), and zinc (A$2,387/t) softened compared to the record highs recorded in the March quarter 2011. This reflected lower demand driven by concerns about developments in the euro zone and the strength of global activity.

• Despite global turmoil, Australian-based producers and Asian steel mills settled on a slightly softer premium metallurgical coal price of US$285/t FOB for the October-December quarter.

WHY REQUIRING INDUSTRY TO FUND SOCIAL INFRASTRUCTURE IS FLAWED

The strong growth of the resources sector is raising a number of contentious policy issues around public and private provision of social infrastructure.

Emerging government policy in Queensland

Perhaps in response to a tight fiscal position and a view that industry has a high capacity to pay, government’s policy position in relation to social infrastructure continues to evolve and is captured in a recent decision of the coordinator general (September 2011):

‘The state government and other service providers are responsible for providing adequate social infrastructure and services. However, as funding for government services is generally based on five-yearly census data, the supply of services cannot always keep pace with the demand caused by the rapid growth, such as that seen in the resource sector.
The decision goes on to say:

‘It is considered that where mining companies have facilitated rapid growth in a specific area, there is a shared responsibility to manage the shortfall in services, until government funding processes, or the private sector, can respond.’

‘Accordingly, it is expected [company name] will incorporate specific measures in the SIMP (social impact management plan), to mitigate impacts of the increased pressure of the construction and operational workforce on non-government community services, including health care, counselling, child care, and education/training. This should also consider housing support for service providers. This is to specifically address the situation where the market has been unable to respond adequately and some form of facilitation is needed such as a short-term capital injection.’

Industry’s concerns
QRC and its members are troubled by this emerging government position and its rationale on a number of counts.

Equity is the fundamental objective that must be pursued as a primary funding objective by all levels of government.

In promoting equity, governments provide services for the benefit of all citizens and because the market is unlikely to provide an adequate level of basic service.

Areas where Australian governments and indeed most governments globally have played the primary role in planning, funding and administering basic social services include:

• health – hospitals, medical centres and facilities for visiting primary and allied health service providers
• education – infrastructure to support primary, secondary and tertiary education, and trade training
• emergency services – including police, fire and rescue, and ambulance facilities and providers
• civic facilities – such as public spaces and libraries.

To request that resource companies provide these services where they have no service delivery experience is fraught, as is the notion that SIMPs are a reliable planning mechanism.

Resource companies, whilst well-equipped and geared for resource extraction, are not equipped to deliver efficient and effective community services. Doing so exposes companies to a myriad of legal obligations and uncertainties, which all add to the risk profile of undertaking operations in Australia.

Furthermore, tensions in terms of who receives access to the services must also be managed.

The risk is that companies will be compromised in their ability to bring projects to market quickly and to engender the trust of the host community.

Government’s role is to plan for infrastructure provision
The inability of government planning for social services to be advanced outside five-yearly census data reflects an antiquated approach that must be urgently modified. It is also an approach that appears to ignore a wealth of other publicly available information.

For example, Queensland Treasury’s Office of Economic and Statistical Research has conducted a number of surveys over many years in relation to population growth and population projections in resource areas (including in relation to non-resident workers).

Government provision of amenity is needed to promote growth
The state government has a number of regionalisation strategies in place.

Most recently, government has supported policies such as increasing zone tax offsets as a means to promote skills development and the movement of labour to those resource regions and sectors where employment is urgently needed.

Industry would suggest that labour mobility to regional resource hubs is best promoted by not providing a financial incentive to locate, but by improving the liveability of host communities compared to more popular and densely populated areas. Improving the provision of essential services is a core component of this.

The industry’s future labour requirements will need to be addressed by a combination of solutions, including FIFO and regionalisation. Regionalisation will only occur if government begins to plan for decades of growth and begins to reinvest the industry’s rich royalty and tax contributions into host communities.

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 attraction and retention of skilled employees (80) remains the highest order concern going forward with a ‘very strongly’ rating (score above 80). Issues that are likely to ‘more than normal’ (score between 60-80) adversely impact upon operations over the coming 12 months include the global macroeconomy (79), high input costs (78), climate change policies (76), uncertain and/or poor regulation (73), social licence to operate pressures (72), insufficient
government resources (71) and industrial relations (65). Lower order concerns include soft and hard infrastructure availability, raising capital (significant for exploration companies though) and accessing global markets.

**Summary of higher order concerns:**

- **Attraction and retention of skilled employees** = intense competition for staff is pushing wages to unsustainable levels with mismatches in capabilities and roles reported which is impacting upon productivity. Movement of workers from employees to individual sub contractors is also inflating wages.

- **Global macroeconomy** = European and US debt issues and fears of a global slowdown is undermining the confidence of lenders and customers which is impacting upon some investment decisions causing project delays. Weaker demand and lower resource prices are further inevitable consequences. CEO’s indicate that new taxes such as carbon and MRRT are making it harder to attract increasingly scarce global capital.

- **High input costs** = greater social conditions contained in approvals processes, and significant increases in labour, accommodation, services, parts and tyres, civil works, electricity and fuel are being experienced.

- **Climate change** = reflects the resource industry’s ongoing concerns that Australia will be far ahead of our competitors, and without adequate transitional assistance, the risk of driving investment offshore.

- **Concerns about uncertain and/or poor regulation** = increasing concerns around project approvals and the onerous conditions contained in social impact management plans for resource companies to fund community services, including health care, counselling, child care, and education/training. Sovereign risks associated with policies where there has been no industry consultation (more recently urban exclusion zones for exploration) also mentioned consistently.

**Queensland Resources Council CEO Sentiment Index**

To what degree will the following adversely impact upon the economic, environmental and social objectives of your organisation over the next 12 months? (lower order factors removed from chart)

- The global macroeconomy
- High input costs
- Social license to operate
- Attract/retain skilled employees
- Climate change policies
- Industrial Relations
- Uncertain and/or poor regulation (taxes esp.)
- Insufficient government resources

**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 87 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.