



MINERALS COUNCIL OF AUSTRALIA

**JOINT PARLIAMENTARY INQUIRY INTO THE ROLE OF THE PRIVATE SECTOR
IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE
INDO-PACIFIC REGION**

31 MAY 2014

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EXECUTIVE SUMMARY

The minerals industry has made, and will continue to make, a substantial contribution to economic development and poverty alleviation in the Indo-Pacific region.

It does so in the following ways.

First, minerals production is a major contributor to the global economy, with mining activity underway in approximately 100 countries. Of these economies, 56 can be considered 'mining economies',¹ where the mining sector contributes significantly to export earnings and/or mining is important domestically including Australia, Botswana, Chile, Canada, Guinea, Kazakhstan, Papua New Guinea, Peru or South Africa (World Bank and IFC 2002). In terms of contribution to trade, 51 of the 56 'mining economies' exporting minerals are developing and transition countries. These countries are host to 3.5 billion people, who make up almost two thirds of the world's poorest population (World Bank and IFC 2002).

The prospects for future growth in economic contribution are substantial. McKinsey (2013) estimates that out of the 843 million people living in extreme poverty in resource-driven economies in 2010, around 540 million people could be lifted out of poverty by 2030, if reserves were to be used effectively, as in the most successful resource-driven economies.²

Second, cross-border trade in minerals and energy has lifted hundreds of millions of people out of poverty over the last 50 years. The contribution of trade to the economic transformation of the Asia-Pacific, especially East Asia, has occurred in tandem with globalisation and the attendant rising share of trade in world GDP. World exports of goods and services rose from around 12 per cent of world GDP in 1960 to around 32 per cent now (World Bank 2013).

In particular, Australia has been a reliable provider of the resources and energy commodities needed for infrastructure and urban development, first by Japan, then other North East Asian and ASEAN economies and most recently China and India. Asia's demand for Australia's raw materials is expected to continue to grow strongly in coming years.³ As a major coal and uranium producer, Australia will continue to play a critical role in contributing to regional and national global energy security and alleviating energy poverty.

Enhancing the mining sector's contribution to economic growth and poverty alleviation

The MCA believes that the contribution of the minerals and energy sector can be further enhanced through the following policy measures.

First, the long-term prosperity of Asia-Pacific economies (including Australia) depends on having assured and expanding access to markets in the region and beyond. Trade liberalisation and facilitation are central to achieving that prosperity through the growth they create and the jobs that follow in their wake. The private sector has a big stake in working with governments and global and regional organisations to continue making progress on both of these fronts.

Three opportunities for public-private sector cooperation are particularly important, including:

- improving border processes leading to consequent reductions in transaction costs,
- making the large investments in physical infrastructure (especially transport) needed to link the region more effectively, and

¹ Countries where minerals and metals contribute at least 6 per cent to total exports (World Bank and IFC 2002). The contribution of mining to exports is only an approximation to the share of mining in GDP, which is a more precise measure of dependence on minerals.

² McKinsey defines resource-driven economies as countries where resource exports are more than 20 per cent of total exports; mineral rents are more than 10 per cent of GDP; and on average, resource accounted for more than 20 per cent of government revenues between 2006 and 2010. Unlike the definition of 'resource-rich' economies by the World Bank and IFC found on Page 4, a larger proportion of revenues come from mining. Oil and gas are included.

³ See, for instance, Atkin and Connolly (2013).

- ensuring that emerging regional economic architecture supports the close network of value chains.

Second, the Australian Government should ensure that multilateral lending agencies continue to support policy approaches that support, not detract from, poverty alleviation in the world's poorest nations. In particular, the Australian Government should work to overturn the 2013 decision by the World Bank to restrict funding for coal-fired generation projects except in rare circumstances. If unchanged, the practical effect of the policy will be to deny or delay the provision of cheap and reliable energy to billions of people. Affordable energy is widely recognised as a fundamental requirement for economic growth and poverty alleviation.

Third, the MCA considers that a combination of governance reform and capital inflows is the answer to poverty reduction in poor, natural resource dependent countries. This should be the focus of the Australian Government's international efforts, in partnership with the private sector, to promote equitable and sustainable development. Further, the MCA considers that the Australian Government's multilateral aid program could play a critical role in providing technical assistance and advice on critical issues including revenue management, regional development planning and measures to support a vibrant and competitive supply chain for the minerals and other industries.

While industry would retain responsibility for negotiating agreements and play a lead role in mitigating impacts on communities, the Australian Government's overseas development assistance program could:

- Build regional planning capacity to identify local services (employment, health and education) and infrastructure capacity;
- Develop mechanisms for private and public sector partnerships at the local/regional level to enable both appropriate and effective leveraging of private sector and government funding to support development outcomes; and

Such an approach would be well supported by private companies in ensuring the alignment of their projects, infrastructure and social investments with host government and donor priorities. This, in turn, would increase the chances that minerals development will contribute to both national and regional prosperity, and reduce the likelihood that the developing nation will be dependent on the economic activities of a single project or industry.

1. THE MINERALS INDUSTRY'S CONTRIBUTION TO ECONOMIC GROWTH AND POVERTY ALLEVIATION

Minerals production is undertaken in approximately 100 countries, of which 56 can be considered 'mining economies',⁴ where the mining sector contributes significantly to export earnings and/or mining is important domestically; for example Australia, Botswana, Chile, Canada, Guinea, Kazakhstan, Papua New Guinea, Peru or South Africa (World Bank and IFC 2002). In addition, other regions where mining does not play a crucial role have the potential to become mining economies in the future. Mining contributes to the economic activity of both developed and developing countries. In terms of contribution to trade, 51 of the 56 'mining economies' exporting minerals are developing and transition countries. These countries are host to 3.5 billion people, who make up almost two thirds of the world's poorest population (World Bank and IFC 2002).

Iron ore, gold and copper dominate mining projects in terms of value. In 2011, iron ore, gold and copper projects were cumulatively valued at US\$606 billion, or 68 per cent of the total value of all the 2011 non-fuel mineral production (ICMM 2012a).

McKinsey (2013) estimates that out of the 843 million people living in extreme poverty in resource-driven economies⁵ in 2010, around 540 million people could be lifted out of poverty by 2030, if reserves were to be used effectively, as in the most successful resource-driven economies.

The importance of the extractive industries to the development of many nations has been recognised by leading international development organisations, including the United Nations as a key recommendation of the Rio +20 World Summit on Sustainable Development as well as by the World Bank.

Mining's contribution to economic growth and poverty alleviation

Resolution 227: *We acknowledge that minerals and metals make a major contribution to the world economy and modern societies. We note that mining industries are important to all countries with mineral resources, in particular developing countries. We also note that mining offers the opportunity to catalyse broad-based economic development, reduce poverty and assist countries in meeting internationally agreed development goals, including the Millennium Development Goals, when managed effectively and properly. We acknowledge that countries have the sovereign right to develop their mineral resources according to their national priorities and responsibility regarding the exploitation of resources described in the Rio Principles. We further acknowledge that mining activities should maximize social and economic benefits, as well as effectively address negative environmental and social impacts. In this regard, we recognize that Governments need strong capacities to develop, manage and regulate their mining industries, in the interest of sustainable development.*

The Future We Want: Rio +20, United Nations

Further, the extent of the sector's contribution to development and poverty alleviation is highlighted in the 2012 *Annual Review of the World Bank Group (WBG) in Extractive Industries (EI)*.

⁴ Countries where minerals and metals contribute at least 6 per cent to total exports (World Bank and IFC 2002). The contribution of mining to exports is only an approximation to the share of mining in GDP, which is a more precise measure of dependence on minerals.

⁵ McKinsey defines resource-driven economies as countries where resource exports are more than 20 per cent of total exports; mineral rents are more than 10 per cent of GDP; and on average, resource accounted for more than 20 per cent of government revenues between 2006 and 2010. Unlike the definition of 'resource-rich' economies by the World Bank and IFC found on Page 4, a larger proportion of revenues come from mining. Oil and gas are included.

The report states that the International Finance Corporation provided USD490.6 million of financing to extractive industry projects in developing nations. In turn, these projects are estimated to have generated the following 'dividend':

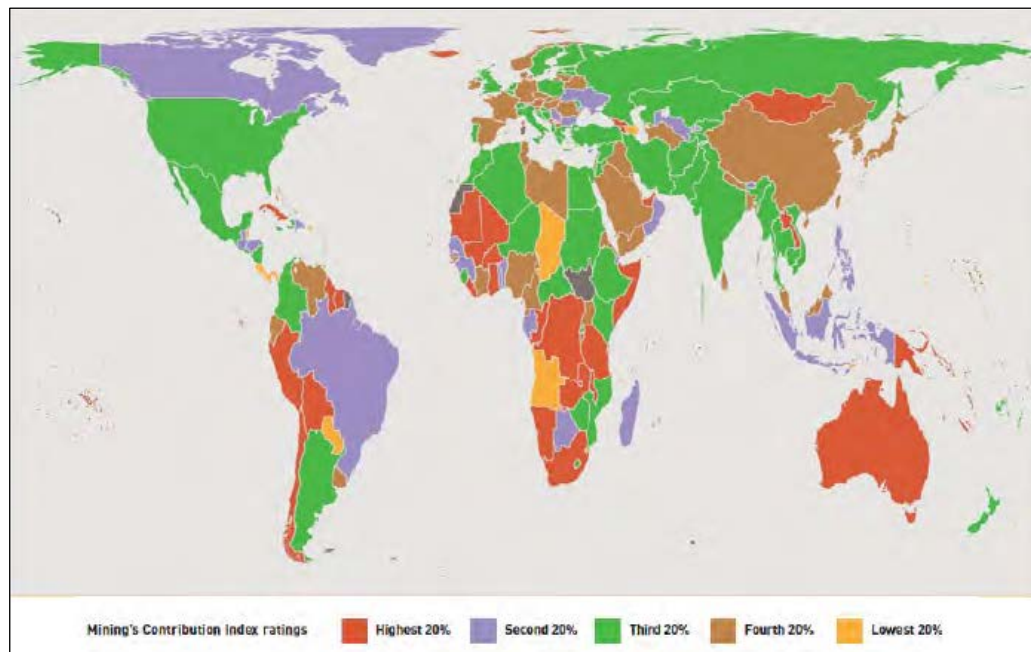
- approximately USD6.2 billion to government revenues;
- created or sustained about 102,000 direct jobs;
- supported local communities with USD100 million of dedicated community related spending; and
- total spending by these companies on goods and services from local and national suppliers approached USD5.4 billion, demonstrating both significant linkages to local business and making a major contribution to local economies.⁶

This data also illustrates the high multiplier on returns provided by the investment of international finance organisations seeking to drive development outcomes by leveraging the development of extractive industries.

As a basis for evaluating the relative importance of mining to each national economy, the International Council on Mining and Metals (ICMM) and Oxford Policy Management released a Mining Contribution Index (MCI) in 2012. The MCI is calculated based on 2010 mineral export contribution as a percentage of total exports (UNCTAD data), the change in mineral export contribution over 2005-10 as a percentage of merchandise exports (UNCTAD data) and 2010 mineral production value as a percentage of 2010 GDP (World Bank Data). All countries have been ranked on the MCI score, grouped into five quintiles and reported on a colour coded map (Figure 1).⁷

The chart shows that mining ranks highly in its contribution to economies across the Indo-Pacific region. PNG, Mongolia, Laos, New Caledonia and Chile are among the top 20 per cent of nations in terms of their reliance on mining for economic development. Other nations in the region, including the Philippines, Indonesia, Bhutan and Brazil follow closely, falling in the second 20 per cent of all nations on the Mining Contribution index ratings. It is also important to note the absence of Indo-Pacific nations in the lowest 20 per cent of nations.

Figure 1: The relative contribution of mining to national economies



Source: Mining's contribution to sustainable development, ICMM, October 2012

⁶ The World Bank Group in Extractive Industries, 2012 Annual Review

⁷ Mining's contribution to sustainable development, ICMM, October 2012

“Mining has helped China to develop: 300 million Chinese have been lifted out of poverty in the last 30 years – this is one of the greatest achievements of the 20th Century.”⁸

Dr Keith Suter, The Futures Foundation

Beyond direct fiscal receipts, the minerals industry has demonstrated that it has great capacity to contribute to national economic development and poverty alleviation.

This is achieved through several channels:

- additional fiscal revenues from mining-related activities;
- employment generated by these activities;
- education and training leading to intergenerational skill and knowledge transfer;
- providing critical material inputs for other sectors, including minerals processing and manufacturing;
- research and development activities; and
- technology transfers.

Mining has therefore contributed to the state of development of sectors such as banking, financial services, transport, and logistics, amongst others. Mining has also contributed to development through implementation of Corporate Social Responsibility (CSR) programs for host communities and the broader society.

The following case studies provide some insight into the contribution of the sector within two Indo-Pacific nations.

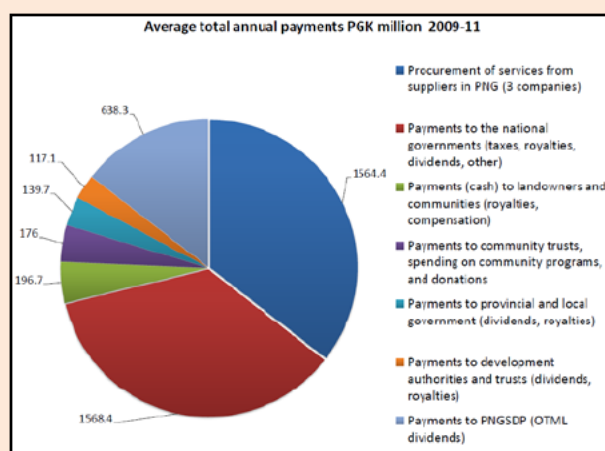
Case study: Papua New Guinea

With more than 15 per cent of total GDP and 50 per cent of export value generated by the mining sector, the PNG economy is largely linked to the performance of its mining industry.

Over the period 2009 to 2011, the minerals industry employed 7,791 people, of which 92.7 percent were PNG Nationals, and only 7.3 per cent expatriates. Of the 7,154 PNG nationals employed in the sector, 50.2 per cent were drawn from the mine area and local province, with 49.8 percent from other parts of PNG.⁹

The annual direct economic contribution of the minerals industry to the PNG economy averaged over the same period totalled more than 4.4 billion kina (approx. 1.7 billion AUD) the distribution of which is detailed in the figure below.

Figure 2: The direct contribution of mining to the PNG economy 2009-11



Source: Margaret Callan, Papua New Guinea Update, Development Policy Centre, ANU 28 June 2013

⁸ www.keithsuter.com/2009/08/22/minings-contribution-to-a-better-world/

⁹ Margaret Callan, Papua New Guinea Update, Development Policy Centre, ANU 28 June 2013

Case study: Laos

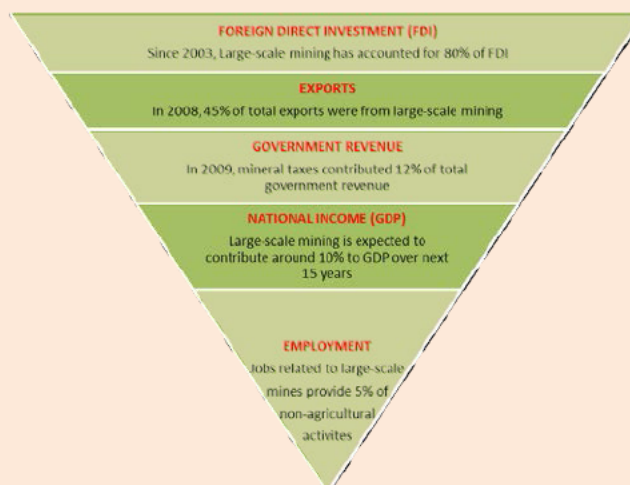
In 2010, the International Council on Mining and Metals, of which the MCA is a member, engaged the National Economic Research Institute (NERI) and economic staff from the National University of Laos, Oxford Policy Management (OPM) and Earth Systems Lao (ESL) to undertake a comprehensive review of mining's positive and negative economic and social contribution in Lao PDR. Specifically, the report focussed on the two existing large-scale mines in the Lao PDR – MMG Sepon (owned by MMG, the subsidiary of China Minmetals Corporation) and the Phu Bia Mining Ltd (PBM) Phu Kham Copper-Gold Operation (the local subsidiary of the Australian-listed PanAust Ltd). Together, these two MCA member companies account for the bulk of mineral production in the country.

The findings of this study show MMG Sepon and PBM Phu Kham Copper-Gold Operation are working at the local level to use the economic opportunities offered by mining (employment, direct spending on goods and services and community development) to establish a much broader set of economic development benefits that extend beyond the immediately affected areas (see Figure 3).¹⁰

The study shows that the impact has been considerable. In just nine years, average incomes at Sepon have increased seven-fold and at PBM's Phu Kham copper-gold operation, total village incomes have already increased five-fold. The result of these increases in wealth is seen in the changes in people's personal well-being and assets during this period: from food security, improved housing, possession of a rice mill and a tractor to motorbikes, mobile phones, refrigerators, water pumps, bank accounts and cars.¹¹ Importantly, development outcomes have considered and accounted for the gendered and intergenerational aspects of development.

Both the mines studied have made a considerable contribution to job creation in the local communities through direct and indirect employment. An estimated 30,000 people are now dependent on the two mines, which equates to around 1 per cent of the national workforce or 5 per cent of those engaged in non-agricultural activities.¹² In addition, both operations have a strong commitment to the local procurement of equipment and services to support economic diversity and to ensure the sustainability of socio-economic outcomes in a post-mining context.

In addition, government revenues from mining totalled around 12 per cent of total government revenues in 2009. Between the years 2003 and 2010, when the two mines were establishing, they paid a total of USD635 million to government through corporate income tax, royalties, personal income tax on salaries and dividends from the 10 per cent equity shares the government holds in the two mines. It is estimated that by 2015, large-scale mining revenues will rise to USD215 million annually.¹³



Source: NERI the National University of Laos, Oxford Policy Management and Earth Systems Lao, April 2011

¹⁰ Utilising mining and mineral resources to foster the sustainable development of the Lao PDR; National Economic Research Institute (NERI) the National University of Laos, Oxford Policy Management and Earth Systems Lao, April 2011

¹¹ *Ibid.*

¹² *Ibid.*

¹³ *Ibid.*

2. THE CONTRIBUTION OF TRADE AND INVESTMENT IN RESOURCES AND ENERGY TO ECONOMIC GROWTH AND POVERTY ALLEVIATION

The links between trade, growth, jobs and poverty alleviation are well established. In the Asia-Pacific, trade-driven growth has lifted hundreds of millions of people out of poverty over the last 50 years.

The contribution of trade to the economic transformation of the Asia-Pacific, especially East Asia, has occurred in tandem with globalisation and the attendant rising share of trade in world GDP. World exports of goods and services rose from around 12 per cent of world GDP in 1960 to around 32 per cent now (World Bank 2013). This rising share reflects: steep falls in tariffs driven both by unilateral reductions and by eight completed rounds of multilateral trade negotiations; technological change that has driven down communications and transport costs; and massive growth in foreign direct investment (FDI), in particular in businesses linked to global supply chains.¹⁴

These trends have been sharpened at the regional level. Trade within regions is typically more intensive than with other regions. Since 1990 the increase in intra-regional Asian trade has been striking¹⁵ and has been reinforced in recent years by trade agreements – bilateral and regional – that have helped to create a more liberalising framework for evolving trade and investment relationships.

International policy agendas reflect and address these powerful trends. Thus a key objective of the G20 this year is to promote policies that are intended to bring trade growth back to around pre-crisis levels as a major contribution to reinvigorating global growth and reducing global poverty. In the Asia-Pacific region, negotiating bigger multi-party agreements is the major new trade policy development - it takes advantage of growing interest in higher standards in trade agreements and the need for closer regional economic integration to support finer value chains. And APEC is committed to advancing economic integration, including (hopefully) by eventual realisation of a Free Trade Area of the Asia-Pacific (FTAAP).

Domestic economic reforms are driven by the national interest, which increasingly reflects the need to get the best out of fast changing world markets, in particular by lifting productivity and innovation in the private sector. Domestic reform agendas are also part and parcel of negotiations for trade agreements with other economies.

Australia has been a significant contributor to Asia's growth, especially as a reliable provider of the resources, energy and agribusiness products needed for infrastructure and urban development, first by Japan, then other North East Asian and ASEAN economies and most recently China. Asia's demand for Australia's raw materials is expected to continue to grow strongly in coming years.¹⁶ In this respect, Australia has an abiding interest in advocating open and non-discriminatory markets for resources and energy products as a key component of underwriting resources and energy security.¹⁷ Australia has also contributed to Asian growth through two-way services trade, especially tourism and education, and by being a significant – and often early – market for Asian countries' manufactures.

¹⁴ The stock of FDI rose from about 5–7 per cent of world GDP in 1980 to around 30 per cent now (UNCTAD 2012 for world FDI; IMF 2012 for world GDP).

¹⁵ The share of Asian intra-regional exports rose from 42 per cent of the total to 52 per cent over the last two decades. The increase was especially strong in sectors like office and telecommunications equipment, rising from 30 per cent of Asia's total exports of these manufactures in 1990 to 55 per cent by around 2010 (Adams, Brown and Wickes 2013).

¹⁶ See, for instance, Atkin and Connolly (2013).

¹⁷ Australia also has an abiding interest in advocating open and non-discriminatory global markets because much of the raw materials and energy exported to Asia is transformed into manufactures and associated services that are subsequently exported to North America and Europe,

Asia's resurgence

The growth of many of the economies of the Asia-Pacific region since the Second World War has been truly remarkable. In the past quarter of a century, China and India have more than tripled their combined share of the world economy.¹⁸ Rapid growth in the more successful economies in the region has been accompanied by – and to a large extent has helped to bring about – improvements in life expectancy, health and education levels, which have transformed the living conditions of many of its people. More than a million people were lifted out of poverty every week in East Asia alone between 2000 and 2006 and an increasingly wealthy urban middle class has emerged. Even so, a big gap remains between the poorer economies and the more developed economies within the region which will ensure a major task for development over the next decade and beyond.

A complex set of factors has driven growth in Asia's most successful economies. The contributing factors include high rates of savings and investment in physical capital, strong investment in human capital, and trade policy and other reforms which have promoted openness to trade and foreign investment (at least by comparison with developing economies in other regions). For part of the last five decades, demographic factors also worked to promote growth, with the working age population expanding appreciably faster than the dependent population in East Asia over 1965-90. The presence of relatively open markets in the developed world has been an important enabling factor.

East Asian development has also been a story of structural change, with industry shares of total output in the main economies shifting over time. As wages have risen in the lead economies in the region (initially Japan), the more labour-intensive industries (such as textiles, clothing and footwear) have shifted to lower wage economies in the region (initially including, for example, the Republic of Korea and Taiwan) and then to China and the poorer ASEAN economies. Anecdotal evidence suggests that labour-intensive industries are now shifting towards countries at still lower rankings of economic development, such as Cambodia and Bangladesh. A willingness to accommodate structural changes of this kind has been an important factor in the success of many of the region's economies.

The scale of Australia's contribution

Exchanging commodities for manufactures accounts for the bulk of Australia's trade and is a natural consequence of Australia's comparative advantages. The emergence of Asia as a world manufacturing hub that depends heavily on imported resources has reinforced this enduring pattern. Over 60 per cent of Australia's trade was with Asian markets in 2012, compared with less than half of trade in 1990. China accounted for 20 per cent of our total trade and had moved well ahead of Japan (12 per cent), purchasing over one quarter of our exports and supplying 15 per cent of our imports. It took one third of our resources exports, ahead of Japan, the Republic of Korea and India. The ASEAN economies were collectively our second most prominent trading partner after China in 2012. Australia has also emerged as a significant services exporter to the region, including of education, tourism and professional services. Domestic value added from the services sectors contribute over one third of Australia's total exports.

The complementarities between Australia and a number of economies in the region, together with Australia's geographical proximity, good relations with the region and other factors have made Australia's trade with the region export intensive. For example, in 2012 the share of Australia's merchandise exports directed to China, at just under 30 per cent, was around three times the share that would be expected given China's share of world imports. The share of our merchandise exports destined for India (4.9 per cent) was almost double that expected given India's share of world imports (see Table 1). Overall, Asian markets account for some 75 per cent of Australia's goods and services exports and 51 per cent of imports.

Note too that while total imports from Asian economies are less than exports, Australia also provides a relatively small, but valuable market for Asian manufactures and services (especially tourism).

¹⁸ Based on data for shares at purchasing power parity.

Table 1: Australian Export Intensities for Merchandise Trade, Selected Economies, 2012

	China	India	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Share of Australian Exports	29.49	4.92	1.96	2.05	0.73	1.97	0.72
Share of World Imports	9.77	2.63	1.02	1.06	0.35	1.33	0.61
Trade Intensity	3.0	1.8	1.9	1.9	2.1	1.5	1.2

Source: Department of Foreign Affairs and Trade, *Composition of Trade 2012*; WTO, *International Trade Statistics 2013*. In calculating the trade intensities, the share of world imports is adjusted by deducting Australia's imports from total world imports in the denominator. The share of world imports shown in the table is the unadjusted share, however.

Australia has been a key enabling force behind Asian industrialisation, including by providing energy, other mineral resources, food, manufactures and high quality services (including services embodied in resources and manufactures). Resources have been particularly important. For example, Korea's rapid development since the early 1960s has transformed it from a poor economy into a relatively wealthy one, but it retains a strong manufacturing sector built around industries such as automobiles, shipbuilding and steel. Resources providing inputs to these and related industries have made up a substantial part of Australia's merchandise exports to Korea and have assisted it in its economic development. According to a study published by the Reserve Bank, around 80 per cent of Australia's exports to Korea over the past decade have been resources.

China, which is still at a much lower level of economic development, provides another example. It currently accounts for around half of global steel production, with around half of this used in construction and half for manufacturing for exports or domestic use. Imports from Australia account for almost half of China's imports of iron ore by value. China has surpassed the United States to become the largest energy consumer and is an important market for Australia's coal. Australia is also an important supplier of many other commodities to China, among them gold, copper and other ores, crude petroleum, wool and cotton. China's interest in Australian resources has been reflected in increasingly strong flows of Chinese foreign direct investment, with China the third biggest source of investment approved by the Foreign Investment Review Board in 2012-13 and the second biggest source of investment in mineral exploration and development.

Foreign investment by firms with Australian affiliations has also been a factor in the region's development, although the bulk of Australian outward direct investment still goes to developed economies such as the United States. In Mongolia, for example, Rio Tinto has been developing a major copper and gold project in partnership with the local authorities, including through very substantial capital investment and training. Foreign investment in sectors other than resources has also been important. For example, both ANZ and the Commonwealth Bank have major investments in the region.

It is likely that the region's industrialisation would have proceeded at a significantly slower pace in the absence of expanding resource supplies from Australia. In the case of iron ore, for example, Australia supplies about 45 per cent of world exports by value and China imports about 60 per cent of world trade in iron ore. In the absence of Australia's expanding contribution, it is likely that there would have been a supply response from other exporters, but prices would have been appreciably higher¹⁹ and the volume of iron ore traded would have been appreciably lower. With coal, Australia supplies over a third of world exports, while China and India between them account for almost 28 per cent of world imports. Of course, Australia does compete with some developing economies which are also resource exporters, and slower growth in Australian exports would have resulted in higher prices and perhaps greater opportunities for them. For example, Brazil is a major competitor with Australia for iron ore

¹⁹ Work by Zhu (2012) suggests that both supply and demand for iron ore are relatively inelastic with respect to prices (he finds a long-run supply elasticity of 0.45 and a demand elasticity of -0.24). This in turn suggests that the price advantage to regional importing economies from Australia's supply capacity is quite significant.

and Indonesia is a major supplier of coal. Overall, however, there is little doubt that developing economies would have grown more slowly in the absence of Australia's supplies of resources.

Policy issues

The long-term prosperity of Asia-Pacific economies (including Australia) depends on having assured and expanding access to markets in the region and beyond. Trade liberalisation and facilitation are central to achieving that prosperity through the growth they create and the jobs that follow in their wake. The private sector has a big stake in working with governments and global and regional organisations to continue making progress on both of these fronts. Three opportunities for public-private sector cooperation are identified here: improving border processes, making the huge investments in physical infrastructure (especially transport) needed to link the region more effectively, and ensuring that emerging regional economic architecture supports the close network of value chains.

On the first of these, further simplification and rationalisation of customs and other administrative border procedures in the Asia-Pacific should save business several tens of billions of dollars each year. Large performance gaps exist in the efficiency of border processes among regional economies, hindering trade flows even though value chain trading has emerged more strongly in the Asia-Pacific than in any other region (Saslavsky and Shepherd 2013). At a global level, creating more seamless customs rules and procedures through the multilateral Trade Facilitation Agreement (2013) could, once implemented, add optimistically as much as \$1 trillion to the world economy and generate 21 million new jobs (Robb 2014).

For these types of reasons, the private sector is firmly behind early implementation of the Trade Facilitation Agreement, including unilateral action where it might accelerate the reform process, and of the long term work on trade facilitation being done in international processes like the Asia Pacific Economic Cooperation (APEC) forum. But in supporting this important work, the private sector also recognises that economies with the most efficient border processes will remain the most attractive partners in the value chain business - because of the capacity to clear components quickly - and that economies with less efficient and higher cost processes will still be, to some extent, at a competitive disadvantage. In the worst cases, such economies could be marginalised, with sizeable implications for their growth prospects and poverty reduction. The private sector and governments both have strong reasons to work together to minimise such a prospect.

On the second issue, economies that outperform others in hard infrastructure (like transport systems) and associated logistics tend to experience faster trade expansion, more rapid economic growth and more diversified exports than those that lag behind (Hufbauer, Vieiro and Wilson 2012). The quality of infrastructure varies greatly across the Asia-Pacific. Weaknesses in infrastructure at any point in value chains lead to increases in costs and lost competitiveness in all associated economies. It is not enough just to improve the average quality of infrastructure. Quality differences between economies also must narrow to maximise trade and investment flows across value chains. Identifying good infrastructure projects, financing them and managing them will be critical, particularly if less developed economies are not to be left in a trade and investment backwater. This will place a premium on governments, international organisations and the private sector working closely together.

Finally on regional integration, there is an enormous amount of FTA activity in the Asia-Pacific. FTAs will continue to proliferate. The policy challenge is to improve them, promote the convergence of rules and regulations and so strengthen regional and global value chains. Negotiating bigger and better quality multi-party FTAs, such as the ASEAN-Australia-New Zealand-Free Trade Agreement (AANZFTA), Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) is part of the response to this challenge. In an optimistic reading of events, TPP and other proposed regional agreements are not about creating trading blocs but are based on a common understanding that the region needs to be integrated more closely in order to work better. In this future vision, such negotiations are inclusive processes that could, over time, become stepping stones to the grand long term vision of the Free Trade Area of the Asia-Pacific (FTAAP).

The reality may be different. There is a scramble for influence in the wider region with different regional groupings and prospective groupings part of a complex strategic play. Where this might lead cannot properly be answered at this time. But it is strongly in the interest of trading nations and of the private sector more broadly that competing conceptions of regionalism do not produce an economic fault line across the Asia-Pacific. Trade agreements will be shaped by the national interests of the parties to them. But the private sector has a key role to play in helping to set the context in which they are shaped. Promoting more efficient regional value chains is an obvious hook for business and should be for governments because of its links to growth, jobs and higher living standards.

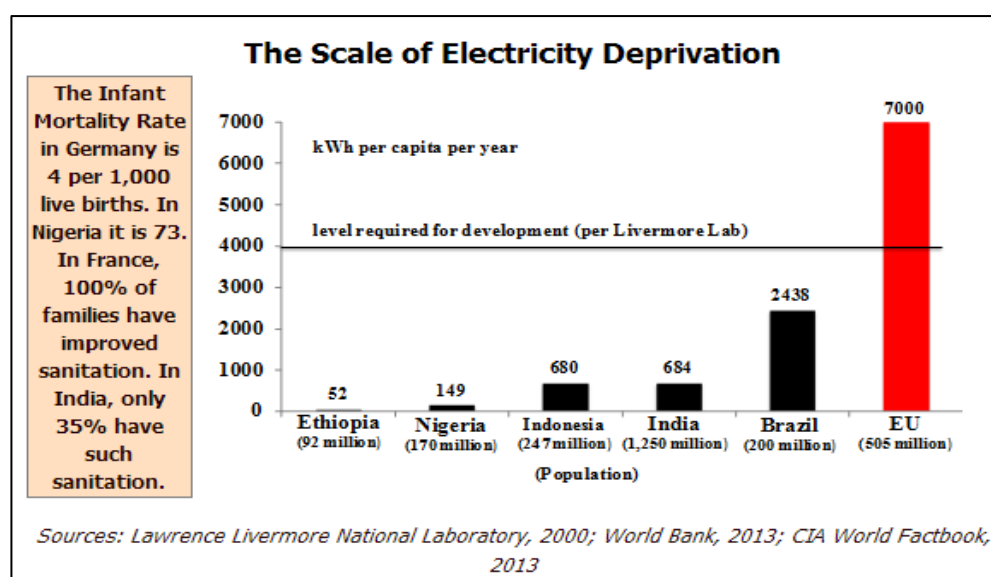
3. AUSTRALIA'S ROLE IN IMPROVING ENERGY ACCESS AND THE ERADICATION OF POVERTY

Affordable energy is widely recognised as a fundamental requirement for economic growth. The causal relationship between the two is incontrovertible. Energy access is a precondition for economic growth and energy scarcity constrains it. Nearly half the world's population, including hundreds of millions of people in the Indo-Pacific region, have only limited access to electricity. Globally 1.3 billion people have no energy access at all.

The scale of the energy poverty problem

In the ASEAN region 134 million people have no electricity and 280 million cook with biomass. In India almost 300 million people have no access to electricity at all – a number approximate to the combined populations of Japan, Germany, France and Australia. Energy poverty has consequences far beyond the economic impact. Billions of people have to rely on burning wood and dung to keep warm in winter and for cooking, leading to 4.3 million deaths per year from indoor air pollution. Cooking with wood or biomass kills more people worldwide than AIDS and malaria combined.

Figure 4: The development gap attributable to energy poverty



There is also a strong correlation between energy use and GDP of an economy. Most of the Indo – Pacific region nations are low per capita energy users and also have lower per capita GDP. The World Bank's Enterprise Survey puts electricity at the top of obstacles facing businesses in low income countries, with nearly one in four businesses identifying it as their biggest obstacle.

Australia's contribution to ending energy poverty

As a major coal and uranium producer, Australia plays a critical role in contributing to regional and national global energy security and alleviating energy poverty issues. Availability of energy is the key to a better and longer life; improvements in education and health; and longevity of people around the world.

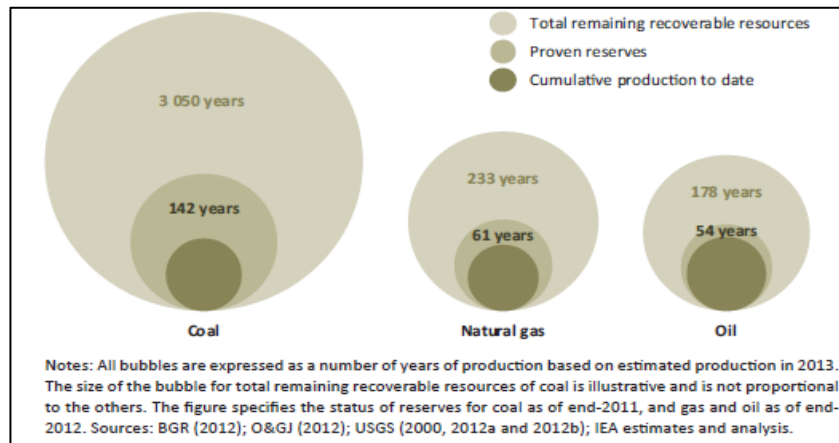
Australia with its vast resources of coal and uranium is well placed to ensure the Indo-Pacific region can access a regular, stable supply of energy. According to Geoscience Australia and the Bureau of Resources and Energy Economics, as at December 2012, Australia had the 4th largest resources²⁰ of coal in the world with 9 per cent (76,400 Million tonnes) of global share. At current rates of production Australia's coal endowment is expected to last for 110 years of black coal and more than 500 years of

²⁰ Economic Demonstrated Resources

brown coal. Australia's coal reserves are both relatively easy to mine and located close to energy load centres and ports.

For uranium, Australia is endowed with the largest resources for any country with 34 per cent (1,174 Kilo tonnes) of global share. At current rates of production Australia's uranium resources are expected to last more than 160 years.²¹

Figure 8: Global fossil energy reserves by type



Coal is the most abundantly available fossil fuel worldwide, and the resource base is sufficient to meet any plausible demand for more than 140 years.

Proven coal reserves at the end of 2011 totalled 1,040 billion tonnes, which is 55 per cent of world's total proven fossil fuel reserves. Coal resources are more than 20 times larger than reserves and could last more than 3,000 years. Coal is widely distributed globally with 32 countries having reserves of more than 1 billion tonnes and 26 countries with resources of more than 10 billion tonnes.²² The Asia Pacific region has 31 per cent of the world's coal, compared with 3 per cent of the world's oil and 8 per cent of the world's natural gas.²³

Australia's proximity to Asia, combined with abundant energy resources, means Australia's energy industry can help meet Asia's increasing energy demand. The IEA expects Australia to be one of the biggest beneficiaries of increasing international trade in the region along with Indonesia.²⁴

"The importance of coal in the global energy mix is now the highest since 1971. It remains the backbone of electricity generation and has been the fuel underpinning the rapid industrialization of emerging economies, helping to raise living standards and lift hundreds of millions of people out of poverty."

Fatih Birol, Chief Economist, International Energy Agency, 2013

Coal is the world's most important fuel for electricity generation. According to the IEA, from 1990-2011, coal powered electricity generation almost doubled from 11,818 to 22,113 TWh to account for 41 per cent of all electricity supply in the world. By the end of this decade, under the IEA's New Policies Scenario coal power will increase by an additional 1,478 TWh and by 2035 by a further 1,694 TWh to total 12,312 TWh remaining the biggest source of power generation in the world.

In the case of China, the IEA affirms that, "China's economic success has been fuelled primarily by coal, which provides over two-thirds of China's primary energy demand. The country now uses twice

²¹ Geoscience Australia and Bureau of Resources and Energy Economics, 2013. *Australia's Mineral Resource Assessment 2013*.

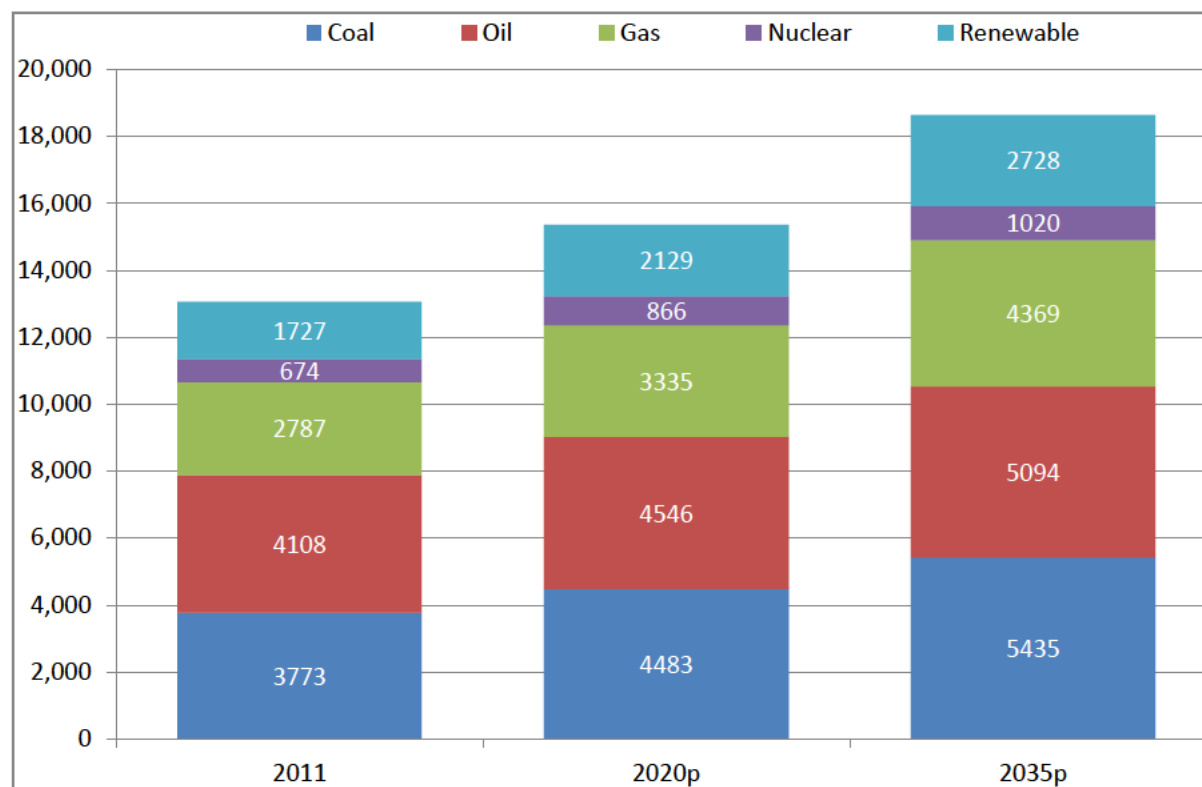
²² IEA, *World Energy Outlook*, 2013, p.148.

²³ Cited by Professor Emeritus Dr Frank Clemente, Energy-facts.org, Pennsylvania, 2013.

²⁴ International Energy Agency, *World Energy Outlook 2013*, p. 151.

as much coal as all OECD countries combined.²⁵ The IEA notes that coal is the “backbone” of China’s electricity system, fuelling nearly 80 per cent of national generation. China’s rapid and extensive investment in coal fired power has allowed it to secure electricity access for more than 99 per cent of its population, with universal access expected within a few years.

Figure 9: IEA projections of global energy demand, by source of energy, million tonnes of oil-equivalent in the New Policies Scenario



Source: IEA World Energy Outlook 2013

Coal demand in non-OECD countries continues to increase in the IEA New Policies Scenario. China and India, endowed with large, relatively low-cost coal resources, remain the main users of coal, with their combined share of global coal demand increasing from 58 per cent in 2011 to 64 per cent in 2035. India’s strong electricity demand growth continues to increase its appetite for coal, and it is expected to become the 2nd largest user of coal before 2025, overtaking the US.²⁶

However, India’s per-capita electricity consumption still has a long way to go before it catches up with the developed world. This suggests considerable potential for further electricity demand growth and thus demand for coal. India’s coal imports have nearly doubled since 2008²⁷ and are expected to increase through to 2035, and total 350 Mtce by 2035.

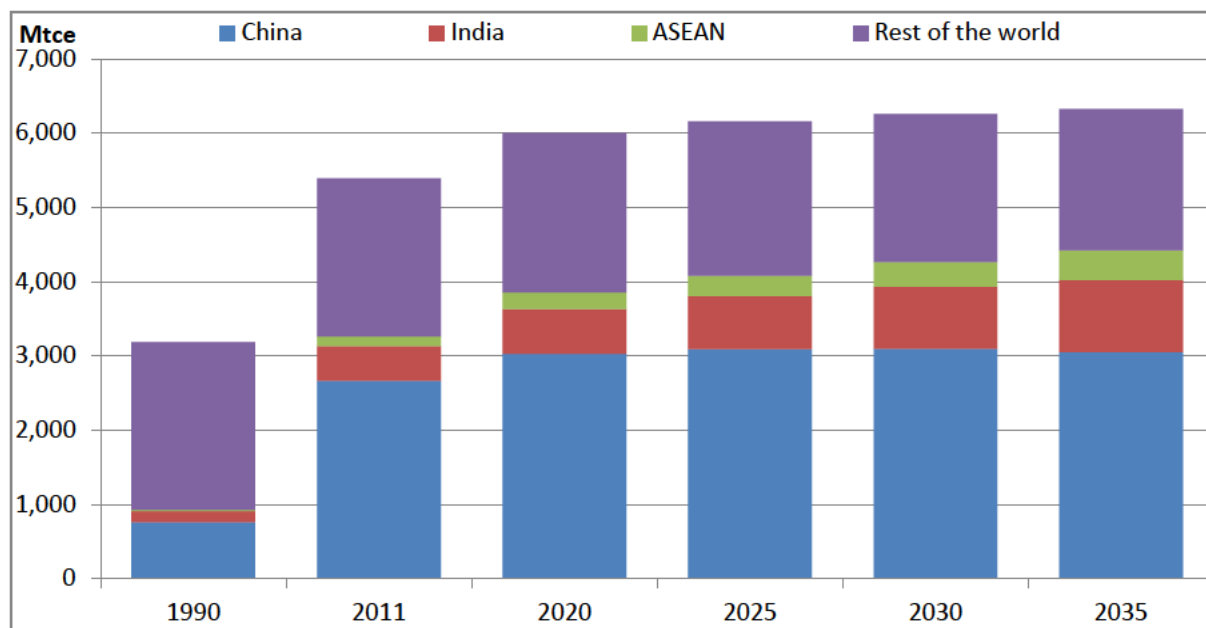
The IEA expects Australia to become more prominent in exporting coal to India towards the late part of its projection period to 2035.

²⁵ International Energy Agency, *World Energy Outlook 2013*, p. 156.

²⁶ IEA, *World Energy Outlook*, 2013, p. 145.

²⁷ IEA, *World Energy Outlook*, 2013, p. 163.

Figure 11: Coal demand by region in the New Policies Scenario (Mtce)



Source: IEA World Energy Outlook 2013

The ASEAN countries will triple coal use in the period 2011 to 2035, with their collective consumption expected to be nearly double that of the European Union by 2035. The ASEAN countries will increase their share of global demand of coal from 2.4 per cent in 2011 to 6.3 per cent by 2035, with a growth rate of 4.8 per cent per year.²⁸

China has demonstrated that coal is the solution to addressing energy poverty and deprivation. Over the past 20 years, China has utilized coal to lift 650 million people out of poverty. Globally, more than 90 per cent of people to come out of poverty since 1990 are Chinese as power generation from coal increased 700 per cent and GDP per capita rose 630 per cent.²⁹ In 1971, 40 per cent of China's energy came from renewables. Since, then it has lifted 680 million people out of poverty using coal fired power generation. Today, China gets only 0.23 per cent of its energy from wind and solar. Africa sources 50 per cent of its energy from renewables – and remains energy poor.³⁰

China has set the model for development for India and other regional nations. Countries such as Vietnam and Indonesia in the ASEAN region are expanding coal consumption to elevate the quality of life of their people and to close the gap in societal progress. Coal based electricity is and will continue to provide the path for development throughout the Indo-Pacific region.

"Coal emerges as the fuel of choice in the power sector... A shift towards coal is already underway,"

International Energy Agency describing the growing role of coal in ASEAN nations, 2013

Australia, the Indo-Pacific region and the world more broadly do not have to choose between coal and a low emissions future. The global demand for energy continues to increase and all forms of energy will be needed to satisfy this increasing demand and to alleviate energy poverty in developing nations.

Renewables may have a growing role, but they will continue to account for a relatively modest proportion of the global energy mix for the foreseeable future. In the IEA's New Policies Scenario,

²⁸ IEA, World Energy Outlook, 2013, p. 145.

²⁹ Clemente, F., 2014, *Coal Lifts Billions from Energy Poverty and Increases Access to Low-Cost Electricity at Scale*, p. 4.

³⁰ Lomborg, B. 2014, "Renewables pave path to poverty", The Australian, 29 April 2014.

renewables meet 18 per cent of world energy demand in 2035, while fossil fuels meet 76 per cent. Coal and nuclear power will together account for 31 per cent of world energy consumption in 2035.

Coal use and a low emissions future are not mutually exclusive

Low emissions coal technologies, including more efficient coal-fired power plants and carbon capture and storage (CCS), will therefore be essential to addressing global growth in emissions, while allowing continued growth and development based on the reliable supply of affordable energy.

[C]oal will be a major part of our energy future for decades ... That's why any serious effort to protect future generations from the worst effects of climate change must also include developing, demonstrating and deploying the technologies to use our abundant fossil fuel resources as cleanly as possible.³¹

Dr Ernest Moniz, US Secretary of Energy

The roadmap to a low emissions coal future is increasingly clear. New technology coal plants, including ultra-supercritical coal plants, are achieving CO₂ emissions reductions of up to 30 per cent compared with the existing fleet. According to the IEA current state-of-the-art technology operating under ultra-supercritical steam conditions can achieve net efficiencies of up to 46 per cent. If the 550 GW of new coal-fired generating capacity added between 2000 and 2011 had been ultra-supercritical, then cumulative greenhouse gas emissions over that period would have been reduced by nearly 2 Gt (8 per cent).³²

Substantial progress is also being made in the development and deployment of CCS around the world and should remain a central element of Australia's medium term energy vision. CCS offers both a near-zero emissions solution as well as the promise of keeping energy costs competitive.

As the IEA points out:

To achieve CO₂ intensity factors that are consistent with halving CO₂ emissions by 2050, deployment of CCS is essential. CCS offers the potential to reduce CO₂ emissions to less than 100 g/kWh. ... [R]ecent demonstration projects show that CCS is technically viable and, in fact, essential to achieving long-term CO₂ reduction targets.³³

Consequently, the IEA advocates a two-step strategic approach to prepare coal generation for a low emissions future:

1. Improving the efficiency of coal-fired power production while minimising emissions where economically and technically feasible. These include Supercritical, Ultra-Supercritical and integrated gasification combined cycle generation plants.
2. Developing CCS such that it can subsequently be integrated into power plants using fossil-fuels (e.g. gas, coal, lignite, diesel and oil) and other industrial plant (e.g., steel mills, smelting and refining) when the implementation conditions are appropriate.³⁴

³¹ US Department of Energy, *Energy Department Invests to Drive Down Costs of Carbon Capture, Support Reductions in Greenhouse Gas Pollution*, press release, 7 November 2013.

³² International Energy Agency, *Tracking Clean Energy Progress 2013: IEA input to the Clean Energy Ministerial*, Paris, 17 April 2013, p. 5.

³³ International Energy Agency, *Technology Roadmap: high-efficiency, low-emission coal-fired power generation*, 2012, p. 5f.

³⁴ International Energy Agency, *Tracking Clean Energy Progress 2013: IEA input to the Clean Energy Ministerial*, Paris, 17 April 2013, p. 53.

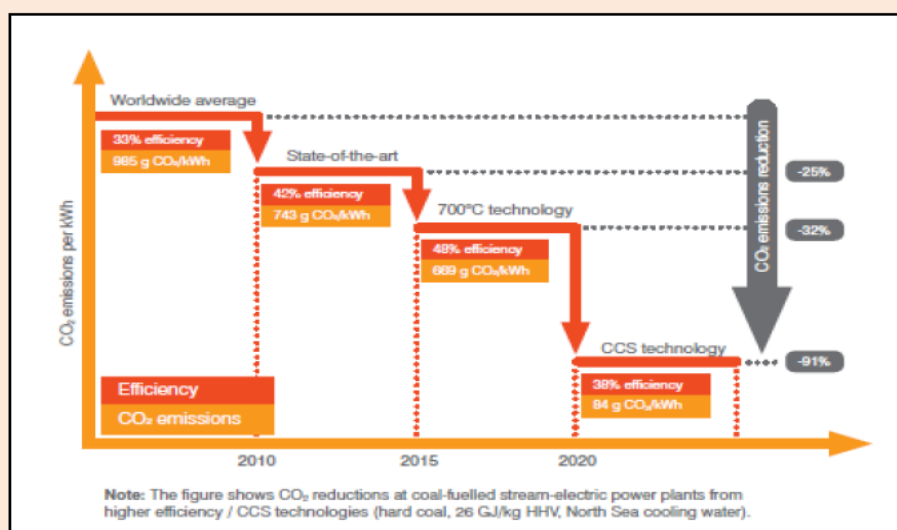
The High Efficiency, Low Emissions Road Map

Step 1: Improving power plant thermal efficiency while providing meaningful reductions in CO₂ emissions

The average thermal efficiency of coal-fuelled power plants is 33 per cent, which is substantially below the state of the art rate of 42 per cent. This efficiency varies across the major coal-using countries from under 30 per cent to 45 per cent. Such differences arise due to the age of the plant, coal quality and impurity profiles (e.g. ash, sulphur and moisture content and physical and chemical “rank” properties), operating conditions, maintenance practices and application of new and improved technologies.

As illustrated in the chart below, improvements in thermal efficiency following implementation of technology advances reduce CO₂ emissions while improving generation efficiency. This means that substantial CO₂ savings can be made by renovating old plants or replacing them by more efficient ones. In fact, increasing the efficiency of coal-fired power plants by 1 per cent reduces CO₂ emissions by between 2 and 3 per cent.

Figure 14: Increased thermodynamic efficiency reduces the amount of CO₂ generated per unit of plant output



Source: IEA

The IEA estimates that advanced coal technologies, including Supercritical (SC), Ultra-Supercritical (USC) and integrated gasification combined cycle (IGCC) plants, could deliver 7 per cent of the necessary CO₂ emissions cuts in the power sector through to 2050. This is just as much as the estimated contribution of solar photovoltaics (PV) and slightly less than the potential contribution of wind turbines. CCS could deliver almost one third of the entire mitigation effort needed in the power sector.³⁵

Some advanced coal power technologies are relatively mature, but many are still in the development phase. Technologies are particularly vulnerable during this period. For example, first-of-a-kind project cost estimates often increase over time as more information is assembled about the scale-up and application challenges. To maintain momentum during this critical phase it is essential that there is a clear pathway to future cost reduction.

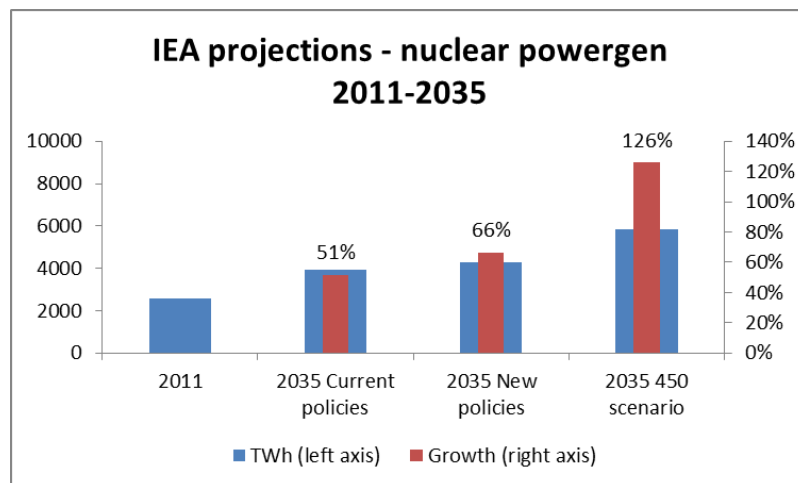
³⁵ World Coal Association, *Coal Matters 3: Coal and electricity generation*, 2012, p. 2.

The role of uranium in addressing energy needs in the developing world

Uranium is the critical fuel source for the projected expansion in global nuclear power generation. Australia holds the world's largest endowment with 31 per cent of known resources. However, current production represents just 11 per cent of global uranium production.

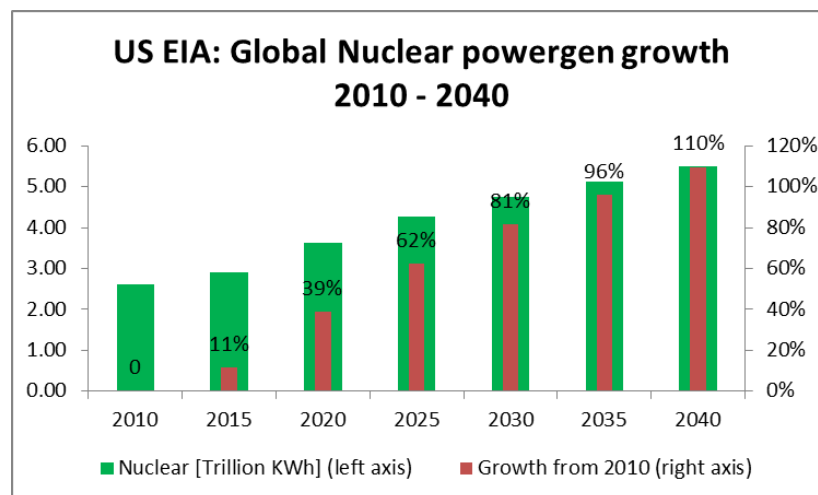
The global case for nuclear power generation is compelling. It offers stable base-load power supply with zero emissions during power generation, and stable long term power costs due to the relatively low fuel cost. Hence, major forecasters such as the IEA and the United States Energy Information Administration (US-EIA) project substantial growth ahead.

Figure 16: IEA projected growth in nuclear power generation 2011-2035



Source: IEA

Figure 17: US-EIA projected growth in nuclear power generation 2010-2040



Source: U.S. EIA

Currently, nuclear power is supplying around 11 per cent of the world's electricity. This is concentrated in several countries generating substantial portions of the electricity via nuclear including the U.S. (19 per cent), France (75 per cent), Belgium (51 per cent), UK (18 per cent), South Korea (30 per cent), Russia (18 per cent) plus 24 other countries. Growth however is being driven largely by developing countries such as China, India and the Middle East.

In highly populated developing economies such as China and India, nuclear is critical because it offers both low emissions of carbon dioxide and particulate matter, and minimal negative impact on air quality.

China has 20 reactors with 17 GWe capacity currently operating, and a further 28 under construction with expected capacity of at least 58 GWe by 2020. Projections for 2030 range from 150 GWe (World Nuclear Association) to 200 GWe (Chinese Government target). 200 GWe would equal 11 per cent of the electricity mix suggesting there is potential for further growth.

Among developing nations, Kenya plans to have a nuclear reactor around 2022, with additional units to follow in 2026, 2029 and 2031.

Because nuclear power plants are large, long term capital investments, security of uranium supply is paramount. While uranium markets are highly competitive with Australian product competing against supply from Kazakhstan, Canada, Namibia, Niger and elsewhere, customers are simultaneously concerned about long term supply and resource development.

A clear opportunity exists for the Australian uranium industry to contribute to economic development in the region and the global alleviation of energy poverty.

Current policy settings however artificially restrict Australia's ability to develop its uranium resources. Latest forecasts by the Bureau of Resources and Energy Economics predict growing uranium demand, but suggest that Australia's share of global production will fall to around 9 per cent by the end of the decade.

The MCA considers that national policy should be aimed at responsibly developing Australia's uranium resources to a global market share commensurate with its endowment. Accordingly, reform is needed to best position Australia's uranium industry to capture this opportunity.

State and territory governments must normalise the treatment of uranium oxide concentrates transportation so that product can be shipped to and through major ports. The restriction of shipping through Darwin and Port Adelaide is an anachronistic and uncompetitive burden. Class 7 carrying vessels regularly call on other ports with more direct routes to desired uranium discharge ports. Australia moves 2,000 packages of radioactive isotopes per month from Lucas Heights to more than 200 medical centres around Australia and abroad. Normalised transportation arrangements across state and territories would assist greatly in moving around 40 containers per month of uranium for export.

Further, the ban on nuclear power in Australia should be reconsidered. This will send a strong signal abroad that Australia's attitude to uranium mining and nuclear energy has matured. This will in turn strengthen investor confidence and customer confidence in Australia as a reliable supplier.

While current uranium market prices are challenging uranium development globally, Australia should ensure policy and governance settings are in place to facilitate Australian product safely and efficiently coming market when market conditions warrant.

4. WORLD BANK RESTRICTIONS ON COAL-FIRED POWER PLANTS SHOULD BE OVERTURNED

In July 2013 the World Bank decided to restrict funding to coal-fired electricity generation projects in the world's poorest nations except in 'rare' circumstances. The Australian Government, as a member and governor of the World Bank, should seek an early review of this policy.

There are three reasons why.

Poverty alleviation must not be subordinate to climate policy

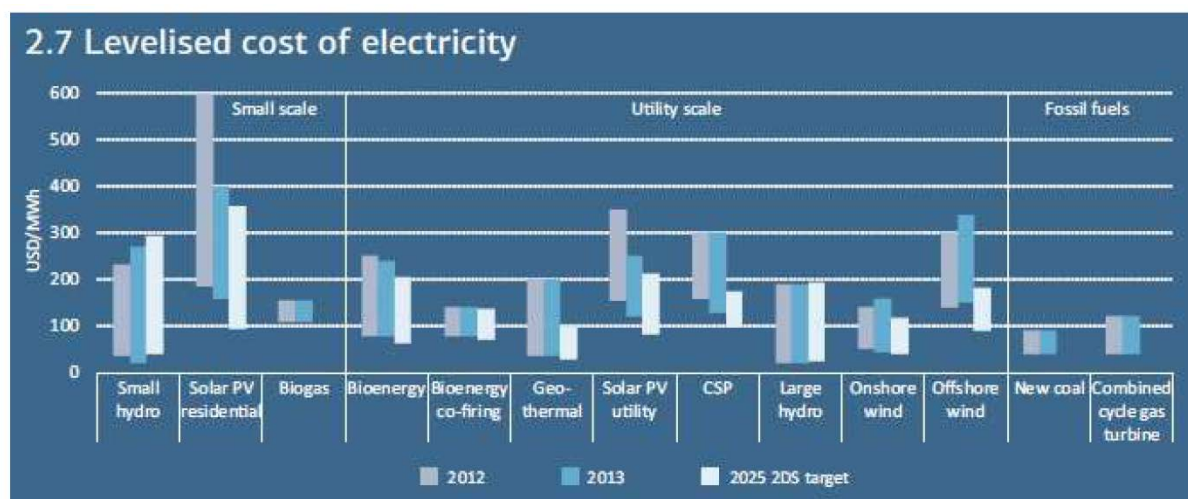
First, the new World Bank policy reverses the longstanding approach, enunciated first at the Rio Earth Summit in 1992 and many times since, that economic development and poverty eradication should remain the first and overriding priority of developing countries (and the nations that seek to assist them in this effort). The World Bank's new policy contradicts that central proposition by subordinating poverty eradication to climate policy objectives.

The practical effect of the policy will be to deny or delay the provision of cheap and reliable energy to billions of people. This is despite the fact that nearly half the world's population has only limited access to electricity; 1.3 billion have no energy access at all. One billion Africans now use roughly the same amount of electricity as 34 million Canadians. Ninety million children in sub-Saharan Africa go to schools without electricity. A refrigerator in an average developed country household uses 9 times more electricity in a year than an average Ethiopian citizen.

Access to affordable energy is widely recognised as a fundamental requirement for economic growth. Conversely, energy scarcity constrains economic growth. Limiting coal access to 'rare' exceptions will set back the cause of universal energy access and economic growth in the world's poorest nations.

Coal remains the lowest cost energy option

Second, the World Bank's approach is impractical. It implies that alternate energy sources are available to developing nations at comparable cost. This is not true. For the last decade coal has been world's fastest growing energy source. In the last year alone, global coal use jumped by the energy equivalent of 2 million barrels of oil per day. That's three times the growth in non-hydro renewables (solar, wind, biomass, and geothermal) and stronger than the growth in both oil and gas.



Source: IEA Energy Technology Perspectives 2014

There is a simple reason for this – coal is abundant, affordable, reliable and versatile. Coal use is actually growing in many of the World Bank's wealthy member nations that have decided to ration coal use in poorer nations. In 2012, for example, coal use in both Spain and the U.K. jumped by 24 per cent over 2011 levels. In France, coal consumption rose 20 per cent, in the Netherlands by 8 per

cent and in Germany by about 4 per cent. It is strange that wealthy nations have agreed to deny access to coal to the world's poorest nations while increasing its use at home.

Among the 191 countries in the UN energy statistics database in 2009, all but 5 have power sectors that depend on a combination of fossil fuels, nuclear, hydroelectric or geothermal energy for more than 90 per cent of their power generation. With nuclear and hydro plants already off limits to World Bank funding, ruling out coal plants means that poor nations have a very narrow (and expensive) list of options to choose from. The simple fact is that renewables are not a practical or cost effective option for large scale base load supply in the developing world.

The World Bank policy will be counterproductive and promote less efficient power plants

Third, the policy will be counterproductive. It will fail to reduce emissions and may even have the opposite effect. This point has been made by senior members of the World Bank itself. Former World Bank Economist, Justin Lin wrote in 2009 that 'because coal is often cheap and abundant and the need for electricity is so great coal plants are going to be built with or without our support. Without our support, it is the cheaper, dirtier type of coal plants that will proliferate.' Moreover, the reality is that continued consumption of coal and lower greenhouse gas emissions are not mutually exclusive goals. With the construction of new more efficient generation capacity, average emissions from coal-fired plants are falling. According to the International Energy Agency, modern coal-fired plants are producing 30 per cent fewer CO₂ emissions than the average for existing coal fleet.

In sum, there is no case for the World Bank (or any other international financial institution) to ration poor nations' access to the cheapest and most abundant energy source available.

5. LEGISLATIVE, INSTITUTIONAL, SOCIAL AND POLICY CONSTRAINTS TO MAXIMISING THE CONTRIBUTION OF THE PRIVATE SECTOR TO DEVELOPMENT

In a context where developing country governments are calling for greater policy space, there needs to be more attention to ensuring that macroeconomic and labour market policies are less fixated on the priorities of international finance and transnational capital, and are more in tune with the needs and preferences of the wider business community.

United Nations Research Institute for Social Development (UNRISD)³⁶

There is compelling evidence that mining provides a critical contribution to economic development and poverty alleviation in developing countries, particularly for countries emerging from periods of chronically poor economic performance.

While the theory of the 'resource curse' has received significant attention from academia and a number of civil society organisations, its use to discourage governments in the Indo-Pacific and other regions from developing resources may well condemn them to continuing poverty.

The MCA accepts that the theory highlights some genuine challenges to ensuring economic development outcomes from the utilisation of any natural resources. Australia, along with many other nations including Canada and the US, is a leading example of how what is perceived by some as a 'resource curse' can actually be a 'resource blessing'. In Australia, gold rushes and mining investment booms from the mid-1800s onward have been key to wealth creation, population increases, the growth of cities, and the development of critical infrastructure such as railways and ports. These factors have in turn facilitated the expansion of other industries, including agriculture and manufacturing. While at times conflict or tension has characterised this centuries-long process of national economic development, the outcome for Australia has been one of economic prosperity and sound economic governance.

The macro-level policy settings required to achieve positive in-country outcomes from resource development, for example management of exchange rates and of volatile taxation revenues, are well understood and can be implemented by host governments with relative ease. However, a chronic weakness in national governance in many developing countries limits the full potential of the development benefits of mining. While, despite this weak governance, mining investments deliver a critical, early stage macroeconomic boost, a lack of adequate capacity on the part of national and sub-national governments often makes it difficult to ensure that such monies are well managed, that benefits are equitably distributed, and that the relationships between communities and mining companies are socially cohesive and harmonious.

Host governments in developing countries clearly need to take the lead in determining investment policy and the creation of national and sub-national structures to support socio-economic development. However, to ensure the effectiveness of efforts to support poverty reduction and economic diversity, there is value in an approach which engages governments, companies, donors and civil society.

The MCA considers that the Australian Government's multilateral aid program could play a critical role in supporting this multidimensional response in terms of providing technical assistance and advice on critical issues including revenue management, regional development planning and measures to support a vibrant and competitive supply chain for the minerals and other industries. Such an approach would be well supported by private companies in ensuring the alignment of their projects, infrastructure and social investments with host government and donor priorities. This, in turn, would

³⁶ United Nations Research Institute for Social Development, *Combating Poverty and Inequality – structural change social policy and politics*, 2010

increase the chances that minerals development will contribute to both national and regional prosperity, and reducing the likelihood that the developing nation will be dependent on the economic activities of a single project, or industry.

This approach is also consistent with the United Nations Research Institute for Social Development (UNRISD) which identified a critical role for donor nations to support resource-rich developing countries through the identification of “*intervening variables, such as economic and social policies, or political institutions, that mediate the relationship between mineral-led development paths and developmental outcomes.*”³⁷ This issue is further illustrated in the following case study.

Case study: The Philippines

The mining industry in Australia is a major contributor to the national economy, comprising around 58 per cent of national exports of goods and services and around 10 per cent of GDP. By comparison, the Philippine minerals industry contributes only 5-6 per cent of export revenues and just over 3 per cent of GDP.

This contrast is made starker in the context of the natural resource endowment of the two countries. On a global prospectivity/land-mass basis, the Philippines ranks third in the world for gold, fourth in copper, fifth in nickel and sixth in chromite. Yet Australia ranks second in gold production and sixth for black coal production with only 13 per cent and 6 per cent of the known global resources, respectively.

The primary driver for this anomaly is the differentiation in investment culture and the attitude of government towards minerals development in both nations. The Philippine Government's focus on tax efforts has diverted its focus from the more essential need for investment, making the country a laggard as an investment destination among its peers in the ASEAN.

The opportunity exists for Australian expertise in implementing world-class minerals development, extraction and cost-effective production, to contribute to investment and growth in the Philippine minerals industry, and in turn to national socio-economic development.

Key opportunities for Australian Government technical assistance include support for:

- the development of a revised and internationally competitive revenue sharing mechanism, taking into account the fiscal regimes of competing nations, and the lesson learned from the introduction of the Carbon Tax and the Minerals Resource Rent Tax issues which proved counter-productive to the Australian economy;
- the adoption of stable and transparent arrangements for land use planning and management, including ensuring an efficient and effective process for defining and protecting the rights of Indigenous peoples, while enabling them to benefit from economic development opportunities associated with mining;
- understanding the role of voluntary revenue transparency measures such as the Extractive Industries Transparency Initiative, and the value that full implementation of this framework would provide to the Philippine Government, communities and to organisations considering capital investment;
- measure by which the Philippine Government can enforce the subordinate nature of local ordinances with respect to national laws, including in decisions relating to land access and use; and
- the adoption of measures to ensure that contracts, including those involving foreign investments, are honoured in line with the *Agreement between the Philippine Government and the Australian Government On The Promotion And Protection Of Investments*.

³⁷ United Nations Research Institute for Social Development, *Combating Poverty and Inequality – structural change social policy and politics*, 2010

Accordingly, while industry would retain responsibility for negotiating agreements and play a lead role in mitigating impacts on communities, the Australian Government's overseas development assistance program could:

- Build regional planning capacity to identify local services (employment, health and education) and infrastructure capacity, and capacity to negotiate agreements that maximise the direct benefit opportunities of minerals development;
- Develop mechanisms for private and public sector partnerships at the local/regional level to enable both appropriate and effective leveraging of private sector and government funding to support development outcomes; and
- Undertake research/evaluations of policy interventions that have been successful in driving poverty alleviation and economic development in resource rich economies and assess their applicability in new contexts – i.e. context driven interventions.

A facilitated, collaborative and proactive approach between governments and the private sector would assist in ensuring that the benefits of private sector investment are realised in a sustainable manner.

The MCA strongly supports the commitment by the Australian Government to reposition overseas development assistance in the context of Australia's national interest, and its recognition that the "private sector is a major driver of growth and it is a powerful contributor to development programs".³⁸ This approach mirrors the technical cooperation agenda of nation's such as Brazil, which in aligning its development-related activities to advance national interests has delivered substantive benefits in terms of increasing market access for Brazilian firms; strengthened administrative and technical expertise both within the recipient country and Brazil; and produced development outcomes focussed on partnership and sustainability.³⁹

The MCA considers that while this may have been the objective in establishing the International Mining for Development Program in the former AusAID, the culture of that organisation and many of the individuals leading the implementation of the initiative has led to suboptimal outcomes and a lack of genuine industry engagement. While the MCA has had signals that this will change under the new arrangements with the Department of Foreign Affairs and Trade, there are as yet no tangible outcomes.

³⁸ Australian Foreign Affairs Minister the Hon. Julie Bishop MP, *Opening address - 2014 Australasian Aid and International Development Policy workshop*, 14 February 2014.

³⁹ Sean Burgess, *Brazil's International Development Co-operation: Old and new motivations*, Development Policy Review 32(3)

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