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QUEENSLAND resources COUNCIL

Working together for a **shared future**

18 February 2014

Committee Secretary
Joint Select Committee on
Northern Australia
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

(Via email: jscna@aph.gov.au)

Dear Committee Secretary

As the peak representative organisation of the Queensland minerals and energy sector, we welcome the Inquiry and appreciate the opportunity to comment on the various matters raised under the terms of reference.

Whilst the resources sector in North Queensland has the potential to flourish, there exist a number of real and significant issues that are impacting upon the competitiveness of current operations and are serving as a brake on new investment. The development of a white paper that is broadly supported by governments and industry, and that offers a comprehensive suite of practical solutions, presents a significant opportunity to realise the potential of the north.

QRC's membership encompasses minerals and energy exploration, production, and processing companies, and associated service companies. The QRC works on behalf of members to ensure Queensland's resources are developed profitably and competitively, in a socially and environmentally sustainable way.

The predominantly coal, base and precious metal, and bauxite resources businesses that operate in Queensland above the Tropic of Capricorn (for these purposes being those in the Far North, North West, and Northern statistical divisions) make a significant economic contribution to these regional economies and the state more broadly. Expert economic modelling commissioned by the QRC[1] estimates that resources operations in these statistical divisions made the following contribution in 2012/13:

- $13.9 billion in value of production (out of a Queensland total of $46.5 billion)
- $334 million in royalties paid to the state government (out of a Queensland total of $2.6 billion)
- Direct employment of 10,000 resource workers living in these regions (out of a Queensland total of 43,320)
- Expenditure of $1.2 billion in wages to these workers and $3.1 billion in goods and services purchases from businesses in these regions which generated an additional 37,800 indirect jobs (out of a Queensland total of 393,000).

[1] http://www.queenslandeconomy.com.au/

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Significant also is that 17% of people employed in these regions rely directly and indirectly on a prosperous and growing resources sector, including a relatively high percentage of Indigenous people.

We note also that whilst there is currently $10 billion[2] in resources projects at either the publically announced, feasibility and committed stages of project development in these regions, only $500 million (approximately) of this is committed expenditure with the balance of projects remaining moderately to severely challenged.

Competitive strengths

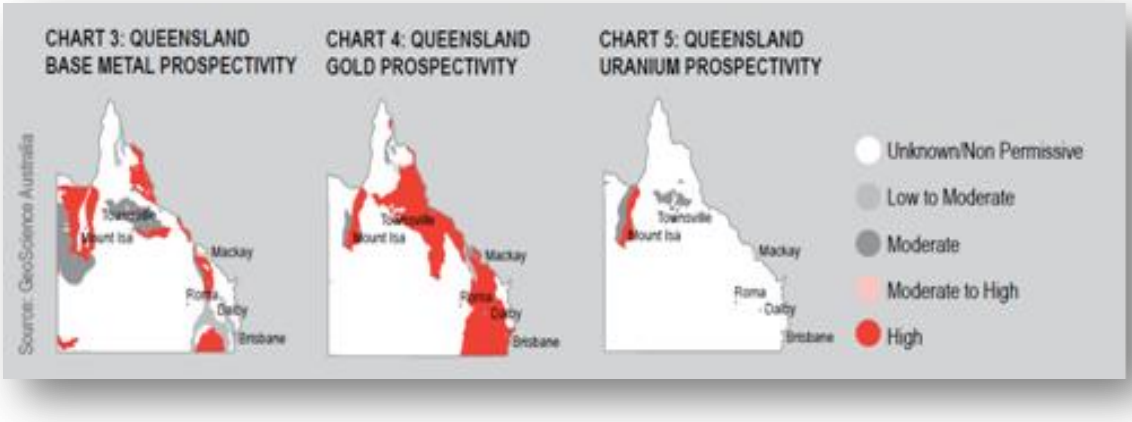
World class resources endowment and prospectivity

The region enjoys a comparative advantage in the export of resources. This advantage exists primarily because of the region's world class resources endowment and prospectivity. The region also enjoys a number of competitive strengths that make it ideal for further growth and higher employment and wealth creation.

The main resources basins in the region are the Laura (gas), Carpentaria (bauxite, base and precious metals and gas), Isa Super (uranium, base and precious metals, shale and unconventional gas), Millungera (gas and shale oil), Galilee (gas and thermal coal), Drummond (gold and gas) and Georgina (gas).

Prospectivity refers to the likelihood that specific types of mineral deposits are present in a geological province and may be discovered with ongoing exploration. Figure 1 demonstrates the moderate to high base metal, gold and uranium prospectivity of northern Queensland. The northern regions are also considered to be highly prospective for unconventional gas but further exploration, discovery and conversion is needed to ascertain this.

Figure 1: Queensland resources prospectivity



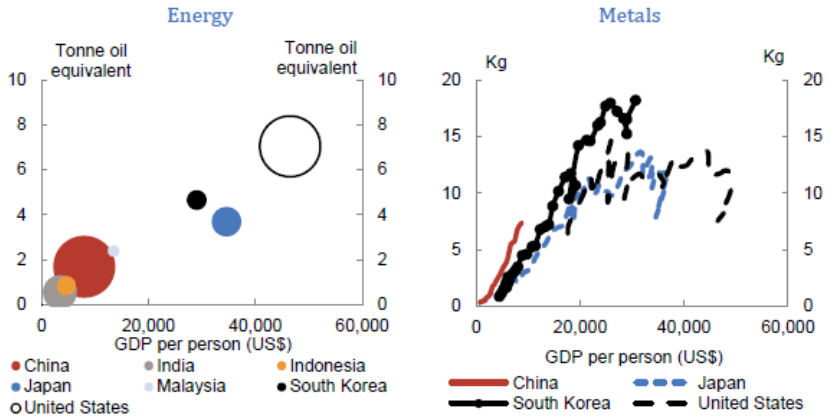
Proximity to burgeoning global markets

Global demand for these energy and mineral resources is expected to remain strong for the foreseeable future, especially given the growth aspirations of the developing world as they continue to urbanise and industrialise.

As Figure 2 demonstrates, the wealthier a nation gets the higher the nation's consumption of energy and metals per person, with demand at least slowing when growth reaches approximately $40,000 GDP per capita (US$) (energy maintains a more linear relationship). Given this relationship, it is believed that countries like China, India, Malaysia and Indonesia with GDP below $20,000 per capita (US$) have decades of strong growth to come.

[2] http://www.bree.gov.au/publications/resources-and-energy-major-projects

Figure 2: Energy and metals consumption per person, selected countries



Foreign Direct Investment settings

Given the ownership composition of resources companies with tenure in these regions, a significant percentage of the capital to sustain current operations and develop new projects will be foreign sourced.

It is important that Australia remains open to foreign investment. The progressive liberalisation of global investment regimes has been a major contributor to the expansion and consolidation of the global minerals industry, including that in the north of Queensland.

Constraints to growth

Exploration is high-risk and levels of economic reserves are very low

The north-west Queensland mining industry is largely the product of exploration and discoveries in the early 1990s and development activities completed in the early 2000s. The ore bodies on which these operations are based, such as Century, Cannington, Ernest Henry and Osborne, are expected to be depleted between 2015 and 2025.

Whilst north Queensland remains highly prospective, the sector is having difficulty converting the endowment from JORC 'resources' to 'reserves'.

These categories are applied under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (the 'JORC Code' or 'the Code'). The JORC code sets out the minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. A producer with a commodity that has been classified a 'reserve' can demonstrate against a number of factors that at the time of reporting that extraction could reasonably be justified. Conversely, commodity that has been classified a 'resource' is inferior with little prospect that it could be extracted.

Figure 3 shows the quantity of reserves (proved and probable) for a number of commodities and the years of reserves (reserves divided by current yearly production). Of concern are the very low levels of years of reserves for the base and precious metals. This reflects an inability for producers to control costs and convert the rich endowment into deposits that can be economically extracted.

Figure 3: Queensland years of reserves, by commodity, 2012-13

Source: IntierraLive, BREE Resources and Energy Quarterly, Department Natural Resources and Mines

Commodity	QLD Production	QLD Proved & Probable Reserves	QLD Years of Reserves (Proved & Probable/Yearly Production)
Bauxite ('000t)	23,257	1,533,000	66
Copper (t)	232,303	3,163,841	14
Gold (oz)	494,484	7,145,240	14
Lead (t)	389,581	7,390,051	19
Silver (oz)	40,604,864	576,895,475	14
Zinc (t)	966,764	17,343,323	18
Coal (Mt)	179	11,471	64
Including:			
Coking*	90	4,702	52
Thermal*	44	6,556	150
Coal-seam Gas (PJ) (year ending 2012)	235	36,460	155

* The figures for coking and thermal are the numbers which Intierra can separate. Some figures are reported as 'Coal', or 'Coking + Thermal' and cannot be separated hence why 179>(90+44).

Market failures in the provision of associated infrastructure

As well as the often multi-billion upfront capital expenditures, resource operations require significant additional on-going investment to replace depleted reserves, promote the competitiveness of the operation, and to attract and retain workers.

These capital and operational expenditures create very high levels of economic spillovers and require high levels of profitability over the life of the project. Metal ore mining in Australia has traditionally been a high profit sector. By way of comparison, the average profitability (as a percentage of sales) of metal ore mining in Australia between 2009 and 2011 was 49%. This compares to 15% for agriculture, forestry and fishing and 7% for manufacturing[3]. Whilst the potential of high profitability and economic spillovers is a competitive strength in that it encourages investment, producers in Northern Queensland are finding it increasingly difficult to achieve financial close on new projects and sustain the global competitiveness of current projects due to rapidly increasing costs.

These cost problems stem primarily from the inability to secure cost-effective gas, power, rail and port supply which is caused by supply chain complexities, so-called investment 'timing mismatches', and the existence of natural monopolies. Compared to other mining regions, these issues are somewhat unique, and often result in the so-called 'market failure' requiring some form of government intervention.

For example, a mining company in attempting to obtain electricity generation capacity from Mount Isa must 'juggle' a complicated array of commercial arrangements to secure gas, pipeline, compression and transmission capacity. Further, miners typically need 'lumps' of an extra 10,20 or 40 MW while gas transport or generation capacity expansions are often in larger increments. If capacity expansions need to be fully underwritten, as is the case in north Queensland, new load will often not be economically justified, and if a miner does invest, will be subject to the free rider problem as new producers come on line. In addition, many new electricity/energy loads may endure for a period less than would typically be required to underwrite investment in new capacity.

[3] ABS, 81550DO002_201112 Australian Industry, 2011-12

There is also a large risk of non-competitive outcomes. Existing and new miners must deal with monopoly generation and local transmission suppliers, monopoly pipelines, and a small number of gas suppliers at any point in time prepared to offer gas. Such situations inevitably affect market responsiveness and price competition. Further, and importantly, there has been imperfect information available to the key players. It is, for example, difficult to understand the true likely demand of the existing and likely future mines, and to compare the relative energy costs from the different supply options.

In relation to rail, there is also significant fragmentation and a lack of transparent information across the many different stakeholders in the supply chain and between transport modes that constrain the overall efficiency of the supply chain. The below rail charges set by the monopoly provider Queensland Rail on the Mount Isa-Townsville line are also becoming exorbitant and may result in resources being placed on road transport instead. To be completed by May this year, a State Government-led committee has received funding from the Commonwealth to assess likely future demand, whether a supply chain coordinator is required, and whether there are capacity constraints on the system.

Excessive regulation

Particularly in the context of Cape York, Queensland has experienced almost a decade of overly controlling environmental regulation from legislation such as the *Wild Rivers Act 2005 (Qld)* and now the Regional Interests Planning Bill 2013 (Qld).

The release of the draft Cape York Regional Plan on 20 November 2013, and the introduction of new environmental 'priority' areas, called Strategic Environmental Areas (SEAs), the Cape York Regional Plan has been seen by the Queensland Government as their successor to the Wilds Rivers framework, and has followed on from the Newman Government's election commitment to revoke the Wild Rivers declarations.

Unfortunately and ironically, the listing in the draft Cape York Regional Plan of the Bertiehaugh Station and the Wenlock River as SEA where open cut mining is banned, has seen the original Wenlock Wild Rivers area actually increased (now up to an eight times wider setback from the river where resources are completely sterilised from development).

Whilst the QRC has always been supportive of ensuring that areas of high ecological significance are conserved and protected, QRC does not believe that the legislation currently impacting on Northern Queensland (and indeed other areas of the State) has appropriately considered the principles of ecologically sustainable development. Indeed, with the current (and proposed) regulatory frameworks, a message that Northern Queensland is 'open for development' is not being believed by investors, when the regulatory framework points in the opposite direction.

QRC has noted in previous submissions to both the Federal and Queensland Governments the problems with the approvals process for major projects. The duplication, under-resourcing, lack of certainty, and need for timeframes and coordination have all combined to create an approvals system that can be overly cumbersome, clunky and inefficient.

QRC is strongly supportive of the federal and Queensland government's commitment to streamline environmental regulation. The unnecessary duplication of environmental approvals processes has recently been experienced by members in Northern Queensland, in particular through the delays experienced in the South of Embley approval process, along with the delays with respect to the Abbot Point Port Expansion.

The continuing importance of this reform process by both the state and federal governments will have long term benefits for the Queensland and Australia through increased royalties, jobs and revenue through taxes and we urge the Queensland government to continue to resource the work on this significant reform.

Promoting a workforce that is locally based

Resources companies indicate some real challenges in achieving a locally based Indigenous and non-Indigenous workforce in these regions.

Whilst fly-in/fly-out is utilised by many resources workers in the region (particularly for remote mine sites), many QRC members have indicated that their preference is to have workers reside locally where practical to do so.

Indigenous employment in the resources sector is often constrained because of complications associated with low literacy and numeracy levels, poor health or issues with drugs and alcohol. Additional support mechanisms are generally found to be necessary for companies to attract and retain suitable Indigenous workers.

Policy recommendations

The QRC supports the following policies as the cornerstone of a Northern Australia reform agenda to promote the competiveness of existing operations and encourage new investment in the Queensland resources sector:

- A need for all layers of government to partner with the resources sector to promote a shared 'national building' vision that transcends electoral cycles.
- This includes a role for governments state and federal to conduct feasibility assessments and fund essential infrastructure to promote the availability of secure, least cost gas, power, water and (below) rail supply. Furthermore, improved housing, medical and education facilities, and targeted Indigenous programs is needed to promote larger locally based direct and indirect workforces.
- Tax incentives and improved pre-competitive geo-scientific data and information to offset the significant risks associated with exploration, especially greenfields exploration.
- Removing unnecessary impediments to developing projects (approvals processes via the so-called 'one-stop-shop' in particular).
- Provide a certain and predictable regulatory and investment environment (The draft Cape York Regional Plan is a case in point).
- A focus on raising the literacy and numeracy levels of Indigenous people and skills development linked to industry needs.
- Continuation of the Qld governments support for the Memorandum of Understanding to increase the participation of Indigenous people in the resources sector.

The QRC would appreciate the opportunity to meet with the Committee and discuss these matters in more detail at a convenient time.

Yours sincerely

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