Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 369-373

Topic: Rate of Extraction of Natural Resources

Hansard Page: Written

Senator WATERS asked:

369. What would be the impact if the extraction of our natural resources occurred somewhat slower?

  a) Dr Gruen said the exchange rate would probably be lower. Would interest rates be lower?

  b) Would skill shortages be less of a constraint on companies outside the mining industry?

  c) Would this imply a more diverse economy?

  d) Would less infrastructure (ports, rail etc but also schools, hospitals etc in remote mining towns) be needed to be built, but it be useful for longer?

  e) Would mineral prices be higher for those commodities in which Australia supplies a significant proportion of global supply?

  f) Is anyone asking and answering these questions before major mining projects are approved?

370. Treasury mentioned measures such as tariff on mining exports and more prohibitive regulatory approvals as means of slowing a mining boom. If a government was concerned about 'Dutch disease' effects and wanted to slow down the extraction of our non-renewable minerals resources, what would be the *best* policies to adopt?

371. If one company owned every coal mine in Australia, do you think it would be digging up the coal faster than is now occurring, slower or at the same pace?

372. Is the current, short-lived, 'construction' phase of the mining boom more labour-intensive than the longer-lived 'production' phase? If so, can you quantify this?

373. Treasury has cited estimates that Australia's oil reserves are equivalent to 12 years' production, gold reserves 33 years and iron ore 71 years and so forth. But these estimates are based on *current* production. Presumably, with the enormous investment in the mining industry, *future* production will be much higher. Do you have estimates of how long these non-renewable resources will last at the projected future rates of production?

Answer:

369. There are a range of influences that affect the level of the Australian dollar and the setting of interest rates at any time. This is also the case for factors affecting demand for, and the availability of, skills, and of decisions to invest in infrastructure.

Changes in the economy are also being driven only in part by the current resources boom. Other factors that are significantly influencing, and will continue to influence, the nature of production and demand include structural changes in the world economy, demographic changes which are leading to major changes in the population's needs, the propensity by households to purchase relatively more services as incomes rise, and the resumption of more 'normal' patterns of consumption, saving and debt incurrence after very strong consumption growth and increased leverage in the 1990s and 2000s.

Despite the rapid expansion of the mining sector, other parts of the economy are still growing. The growth of the mining sector is leading to growth in related sectors, including parts of the construction and manufacturing and services sectors. The non-resources part of the economy is also anticipated to grow at an average rate of 2 per cent over the next two years.

Allowing labour, capital and other resources to flow to, and be used productively in, the most value-adding activities of the economy will allow the possibility of further growth in output and incomes.

370. As noted in Budget Paper No.1, Statement 4, 2011-12, international evidence suggests that concerns in relation to Dutch disease are overstated and tend not to apply to advanced countries, which typically have policy and institutional settings conducive to the accumulation and development of investment, skills and expertise.

371. In an increasingly globalised and competitive commodity market, multinational mining companies are continuously searching for mineral deposits which offer the most attractive returns on investment. The rate at which resources are extracted relate more to the return on investment rather than ownership structure.

372. As a general rule, the construction phase of a mining project would be more labour intense than the operational phase. The Bureau of Resource and Energy Economics releases a 'Mining Industry Major Projects Listing' report on its website, which provides employment statistics for each phase on a project-by-project basis.

373. To assist with an assessment of the future supply capability of identified resources, Geoscience Australia has developed an indicator of resource life using ratios of Accessible Economic Demonstrated Resources to current mine production rates. Further information can be found in Geoscience Australia publication 'Australia's Identified Mineral Resources' https://www.ga.gov.au/image_cache/GA20563.pdf

As noted in the publication, ratios of ore reserves to current production rates are a much more conservative indicator of what is likely to be available for mining in the foreseeable future. It is important to also note that these duration indicators can change rapidly with significant variations to rates of production and/or major changes to resources.