

> TRADE AND INVESTMENT ACTIVITY BRIEF

QUARTER

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2005

MARCH QUARTER 2005

BACKGROUND

The purpose of this quarterly Trade and Investment Activity Brief is to monitor and report on major trends in Australian minerals industry trade and investment activity during the quarter. The Trade and Investment Activity Brief is compiled by the Minerals Council of Australia (MCA) Secretariat, based on publicly available information from a variety of sources.

EXPORTS

- > In its latest *Australian Commodities* publication, the Australian Bureau of Agricultural and Resource Economics (ABARE) reports export earnings for minerals and energy rose 4 per cent to \$16.2 billion in December quarter 2004 (25 per cent higher than December 2004 quarter).
- > Major mineral exports were:
 - > gold, up \$136 million (10 per cent) to \$1,476 million;
 - > coking coal, up \$97 million (4 per cent) to \$2,272 million;
 - > diamonds, up \$82 million (81 per cent) to \$183 million;
 - > manganese ore, up \$53 million (71 per cent) to \$128 million;
 - > zinc, up \$51 million (18 per cent) to \$336 million;
 - > nickel, up \$44 million (5 per cent) to \$923 million; and
 - > alumina, up \$43 million (4 per cent) to \$1,099 million.
- > Smaller increases were recorded for synthetic rutile, copper, silver and salt.
- > Commodities that recorded decreases in export earnings in the December quarter 2004 were lead, uranium, aluminium and iron ore. Each of these commodities, apart from iron ore, recorded falls in export volumes. In addition, each of these commodities recorded falls in export prices. Smaller falls in export earnings were recorded for steaming coal, and titanium dioxide pigment.

PRICES

- > ABARE reports the export prices index of Australian minerals resources (export unit return) fell by 1 per cent in the December quarter 2004 compared with the previous quarter. While prices for energy minerals rose by 2 per cent, metals and related minerals prices declined by 4 per cent. However, compared with the December quarter 2003, the December quarter 2004 index was 25 per cent higher.
- > The charts on p2. (from ABARE) illustrate recent movements in prices for major commodity exports.
- > The 2004 MCA *Minerals Industry Survey* (MIS) reports that in 2003 04 average \$US world mineral prices rose by 18 per cent compared to 4 per cent in 2002 03.

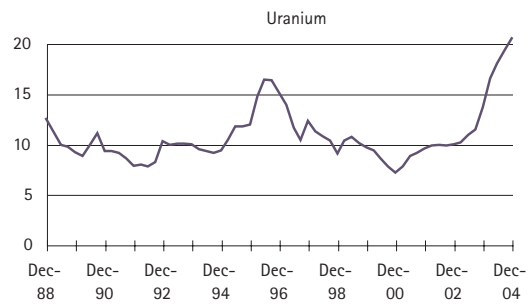
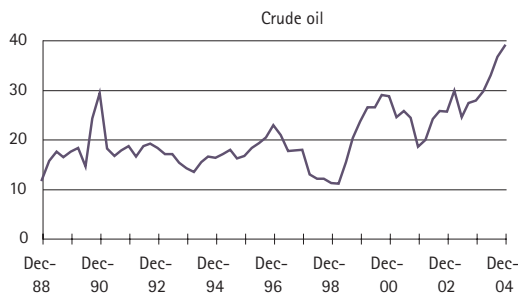
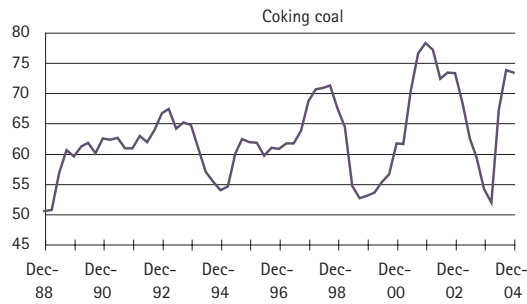
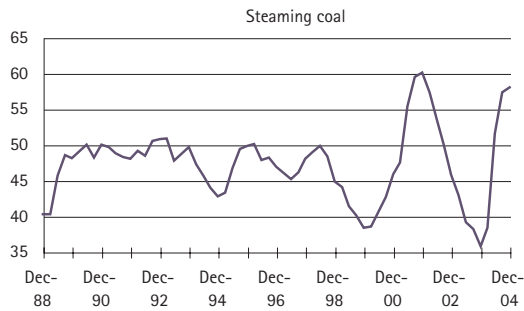
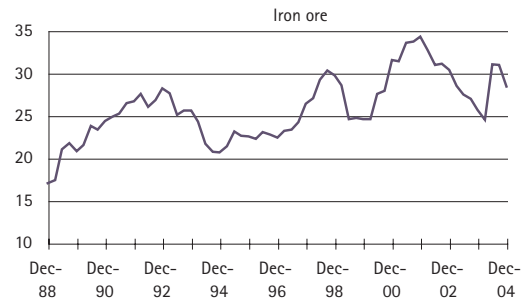
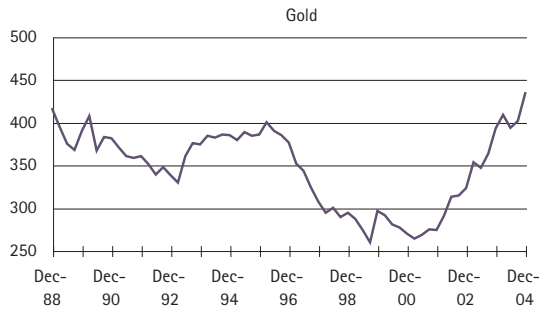
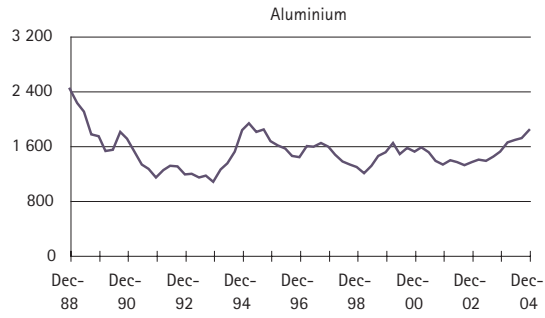
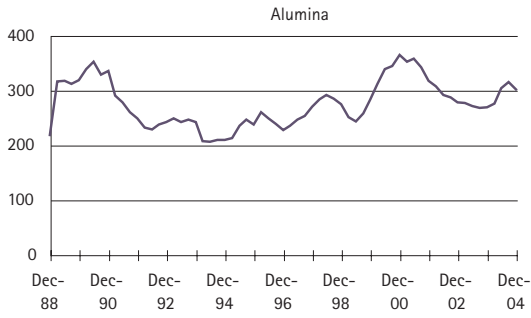
CONTRACT PRICES

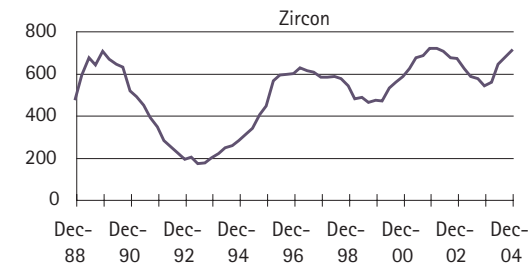
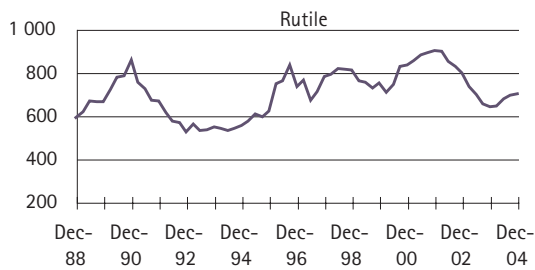
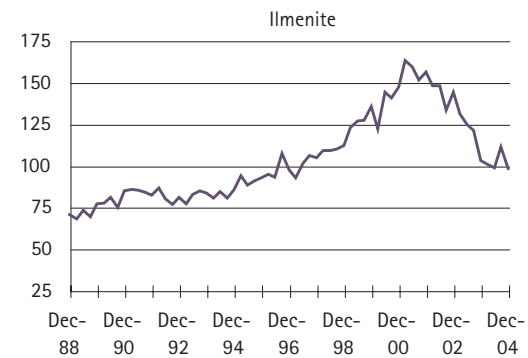
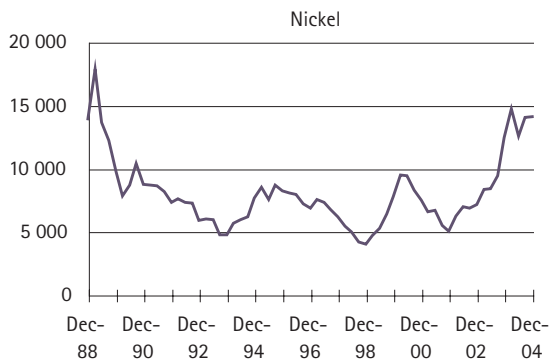
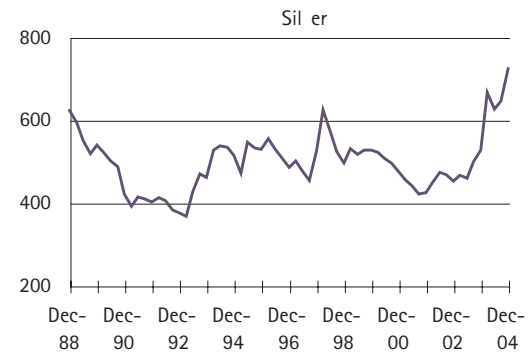
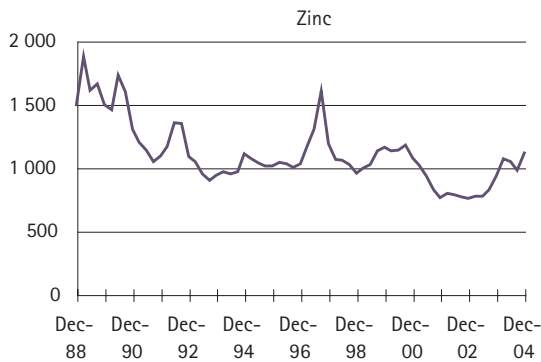
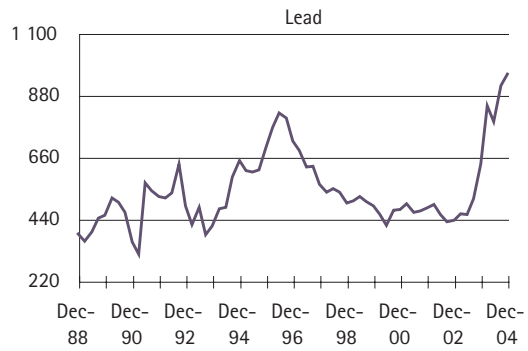
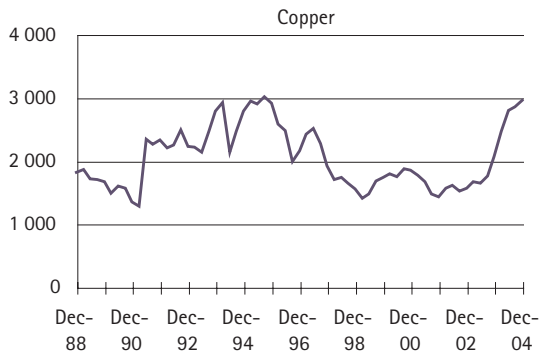
- > Coking coal to Japan – a record high at \$US 125 a tonne from 1 April 2005 (compared to around \$US 57.50 in the previous year). The spot price has risen from an average of \$64.26 in 2003 04 to be \$78.78 in the December quarter 2004.
- > Steaming coal to Asia – virtually doubled to more than \$US 50 a tonne in the past year. The spot price has risen from an average of \$40.98 in 2003-04 to be \$58.02 in the December quarter 2004.
- > Iron ore – the indicative price: prices for iron ore products, for Japanese fiscal year commencing 1 April 2005, are expected to rise 71.5 per cent for some Australian iron ore exporters.

Minerals
Council of
Australia

MINERAL RESOURCES PRICES

ended December Quarter 2004 (ABARE)





Note: Zircon; from January 1992 to September 1993 price refers to export unit value of standard grade only; thereafter, average export unit value of all grades.
Sources: Australian Bureau of Statistics, Canberra; ABARE

PRODUCTION

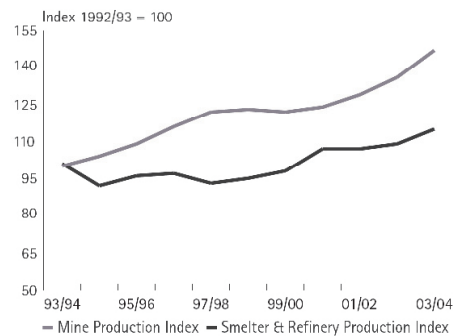
- > MCA Mine Production Index rose 4 per cent in 2003/04 (risen 43 per cent in past decade).

In 2003/04:

- > Bauxite production was up 21 per cent;
- > Iron ore production was up 12 per cent; and
- > Black coal production was up 2 per cent.

The following chart shows the MCA's Mine Production and Smelting and Refining Production Indexes for the last decade.

Mineral Production



INVESTMENT

- > Investment activity in the industry is expected to increase by 60 per cent in 2004/05, to \$8.2 billion from \$5.1 billion. This reflects the range of new investment projects under development in the industry, as Asia's major "industrialising economies", China and India, continue to fuel demand for mining and downstream processing of our resources.
- > Mining operations are very capital intensive, relying on high levels of new investment to sustain and grow production. Projects often have long lead times before exploration, feasibility studies, granting of approvals, and securing finance converts to production.
- > Investment levels in the minerals industry tend to be cyclic. A protracted high level of investment for mining and metals in the mid to-late 1990s drove production increases and recently mining and metal products investment has been steadily rising. The outlook remains positive, with continuing strong mining investment. How global demand and movements in the \$A pan out from here will play a key role in the extent of future minerals industry investment.
- > ABARE recently reported 43 minerals projects at an advanced stage – either committed or under construction, with total estimated investment of around \$13.6 billion. Committed mining projects include:
 - > BHP Billiton's Ravensthorpe Nickel Project in WA and expansion of its related Yabulu refinery in Queensland, with expected investment of nearly \$1.2 billion;
 - > BHP Billiton's Rapid Growth (iron ore) project in WA, with expected investment of \$820 million;
 - > Rio Tinto's Yandocooquina iron ore expansion in WA, with expected investment of \$1.25 billion;
 - > Iluka Resources Douglas minerals sands deposit in Victoria, with investment of \$300 million;
 - > Alcan's expansion of the alumina refinery at Gove in the NT, with expected investment of \$1.86 billion;
 - > Aldoga aluminium smelter in Queensland, with expected investment of around \$2 billion;
- > Comalco Alumina Refinery in Queensland, with expected investment of around \$1.5 billion. The Comalco Alumina Refinery (Rio Tinto 100 per cent) was officially opened on 4 March 2005. The refinery, which will produce 1.4 million tonnes of smelter grade alumina each year, was completed three months ahead of schedule and on budget;
- > upgrade of BHP Billiton's Worsley alumina refinery in WA, with expected investment of nearly \$270 million; and
- > expansion of Newcrest Mining's Telfer Deeps (Mariner) gold processing facility, with expected investment of around \$215 million – and possible further investment here if Telfer is developed as a "super pit". Telfer's second processing unit was commissioned on 14 February 2005. Whilst commissioning activities continue in minor areas the start-up of the second processing unit marks the commencement of Telfer as an operating project for Newcrest.
- > There is also a range of related infrastructure projects that have been committed or are under construction, including:
 - > port expansions at Gladstone Port in Queensland, with expected investment of around \$170 million;
 - > upgrades to port facilities at Hamersley Iron's Port Dampier facility, with total investment of nearly \$1 billion;
 - > a new 110 kilometre rail line and various rail line upgrades and expansions in Queensland, involving coal producers Xstrata and Rio Tinto and involving Queensland Rail, totalling nearly \$320 million;
 - > new sleeper cars for the Hunter Valley, at a cost of over \$100 million; and
 - > upgrades to the Kalgoorlie-Esperance rail line to enhance iron ore shipments, at a cost of over \$40 million.
- > These investments are significantly impacted by the outlook for the world economy, particularly China.

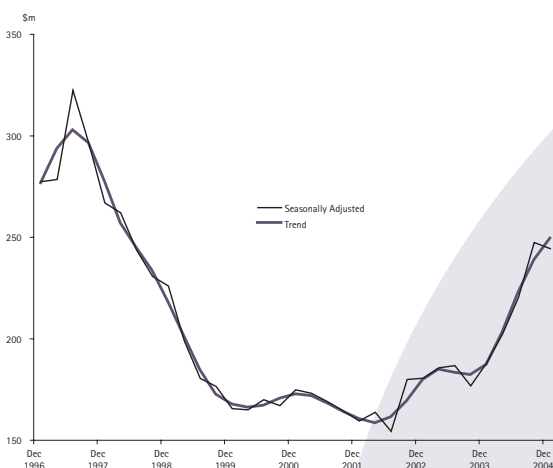
WORLD GROWTH

- > ABARE expects world economic growth to ease from an estimated 4.6 per cent in 2004 to 3.7 per cent in 2005 and 3.6 per cent in 2006. Over the medium term (to 2010) world economic growth is assumed to average around 3.5 per cent a year.
- > Economic activity in China increased by 9.5 per cent in the December quarter 2004, compared with 9.1 per cent in the September quarter and 9.7 per cent in the June quarter. ABARE expects economic growth in China to ease from 9.5 per cent in 2004 to 8.0 per cent in 2005 and 7.8 per cent in 2006.
- > Even allowing for possible overstating of the official economic statistics, China has been the stand out economic performer in the world over recent decades. Economic growth has been strong and sustained over the past two decades, averaging around 9 per cent a year.
- > This sustained growth has seen China's share of world trade increase significantly, with its current account surplus averaging around \$US 20 billion (about 21/2 per cent of GDP) in each of the past four years. China's trade growth has been such that it now accounts for 5 per cent of world merchandise trade, up from 2 per cent a decade ago.
- > Aided by its massive workforce, inflation has been zero over the past six years reflecting higher global productivity as productive resources move to their most appropriate (lowest cost) location.
- > In turn, the relocation of the world's manufacturing sector to China (particularly Japan, where the process of deindustrialisation in Japan and reindustrialisation in China has been pronounced) has disbursed deflationary pressures through the world economy.
- > Notwithstanding moves to avoid the economy 'overheating', which has implications for our industry, this high growth path also looks set to continue. China aims to quadruple GDP by 2020, which would require average annual growth of around 7 per cent. Consensus forecasts suggest that China will maintain its high growth path over the next five years, as will India.

8412.0 MINERAL AND PETROLEUM EXPLORATION, AUSTRALIA

- > The Australian Bureau of Statistics (ABS) provides quarterly estimates of expenditure on mineral exploration (and petroleum) in Australia. Exploration is defined as activity involving searching for concentrations of naturally occurring solid, liquid or gaseous materials and includes new field wildcat and stratigraphical and extension/appraisal wells and mineral appraisals intended to delineate or greatly extend the limits of known deposits by geological, geophysical, geochemical, drilling or other methods. This includes drilling of boreholes, construction of shafts and adits primarily for exploration purposes but excludes activity of a developmental or production nature. Exploration for water is excluded.
- > The seasonally adjusted estimate of mineral exploration expenditure decreased by \$3.1 million (1.3 per cent) in the December quarter 2004. Victoria had the largest decrease (\$4.2 million or 29.8 per cent), while Western Australia had the largest increase (\$1.5 million or 1.0 per cent).
- > In original terms, mineral exploration expenditure increased by \$9.7 million (3.9 per cent). This increase was dominated by exploration on areas of new deposits, which increased by \$9.4 million (9.6 per cent). Expenditure on areas of existing deposits increased by \$0.3 million (0.2 per cent).
- > In original terms, the largest increase by 'minerals sought' came from expenditure on nickel and cobalt exploration (up \$12.4 million or 22.9 per cent, with most of the increase coming from Western Australia) and iron ore (up \$5.3 million or 17.8 per cent). The largest decrease was for exploration on gold, which fell by \$13.1 million (11.9 per cent).

TOTAL MINERAL EXPLORATION



(ABS report – 8412.0 Mineral and Petroleum Exploration, Australia, December Quarter 2004)

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