



MINERALS COUNCIL OF AUSTRALIA

TRADE AND INVESTMENT ACTIVITY BRIEF

DECEMBER QUARTER 2005

BACKGROUND

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

HIGHLIGHTS

- > Exports rise 3 per cent during the September quarter 2005 and by 29 per cent over the year to the September quarter 2005.
- > Mineral resource prices rise by 6 per cent during the September quarter 2005 and by 27 per cent over the year to the September quarter 2005.
- > As at October 2005, there were 44 projects (33 mining and 11 minerals processing), with expected expenditure of \$14.3 billion (\$10.6 billion in mining and \$3.7 billion in minerals processing) at advanced stages of development.
- > ABARE expects world growth to be 4.0 per cent in 2005, before easing to 3.8 per cent in 2006. This compares with estimated growth of 4.9 per cent in 2004. Rising world oil prices pose a significant downside risk in the current outlook for world economic growth.
- > In China, the government appears to be successfully managing the soft landing of the economy. Economic growth remains robust, with year on year growth of 9.4 per cent in the first nine months of 2005. China's economic expansion is likely to remain at rates of around 8-9 per cent in the next twelve months or so.
- > The MCA's *2005 Minerals Industry Survey Report* (the 29th annual report) was launched in Canberra on 7 December 2005. The full report can be downloaded at www.minerals.org.au/mis

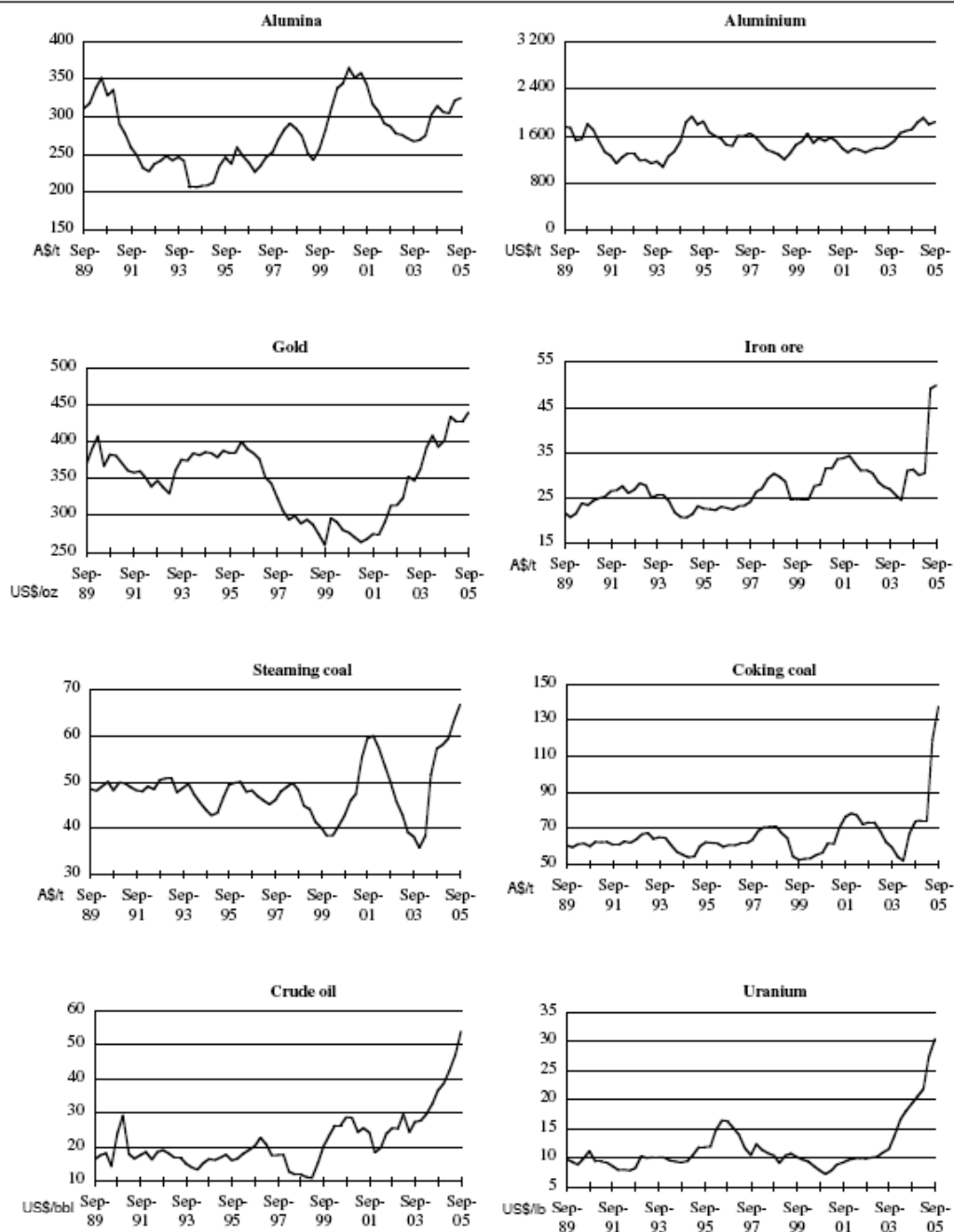
EXPORTS

- > In its latest *Australian Commodities* publication, the Australian Bureau of Agricultural and Resource Economics (ABARE) reports export earnings for minerals and energy rose 3 per cent to \$20.4 billion in September quarter 2005 (29 per cent higher than September quarter 2004).
- > Major mineral exports were:
 - Steaming coal up \$220 million (13 per cent) to \$1,905 million;
 - Coking coal up \$157 million (4 per cent) to \$4,120 million;
 - Gold up \$65 million (5 per cent) to \$1,445 million
 - Iron ore up \$64 million (2 per cent) to \$2,974 million; and
 - Uranium oxide up \$62 million (67 per cent) to \$154 million.
- > A few major commodities recorded significant decreases in the September quarter 2005. These were: nickel, down \$133 million (14 per cent) to \$829 million; manganese ore, down \$86 million (54 per cent) to \$73 million; iron and steel, down \$56 million (12 per cent) to \$402 million; and zinc, down \$51 million (13 per cent) to \$357 million.

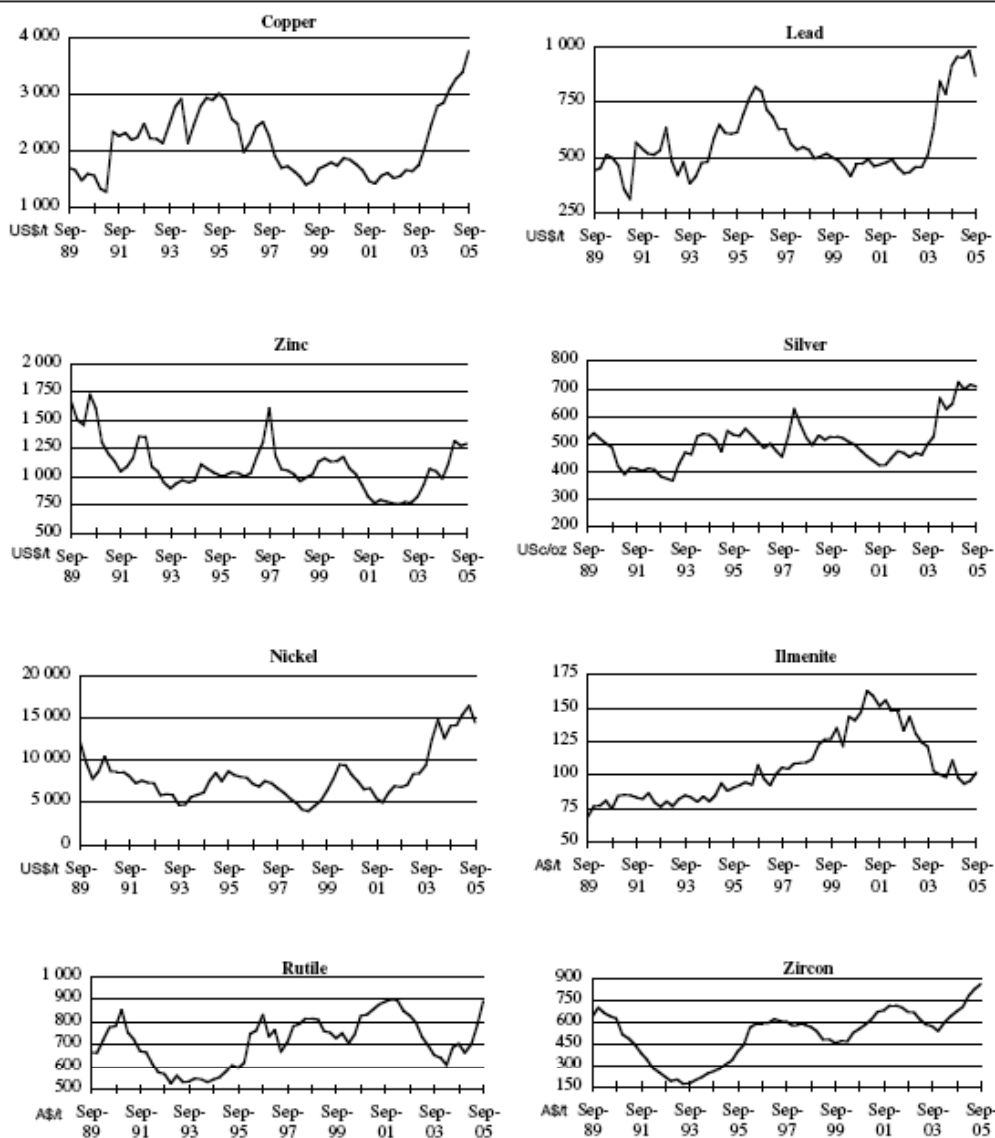
PRICES

- > ABARE reports the index of export prices of Australian minerals resources (export unit returns) rose by 6 per cent in the September quarter 2005 compared with the previous quarter. Prices for metals and related minerals prices rose by 2 per cent. Compared with the September quarter 2004, the September quarter 2005 index was 27 per cent higher.
- > The following charts (from ABARE) illustrate recent movements in prices for major commodity exports.

Mineral resources prices, ended September quarter 2005



Mineral resources prices, ended September quarter 2005



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

- > Results from the 2005 MCA *Minerals Industry Survey* (MIS), released on 7 December 2005, show that in 2004-05 average \$US world mineral prices rose by 33 per cent compared to 18 per cent in 2003-04. See www.minerals.org.au/mis for further details.

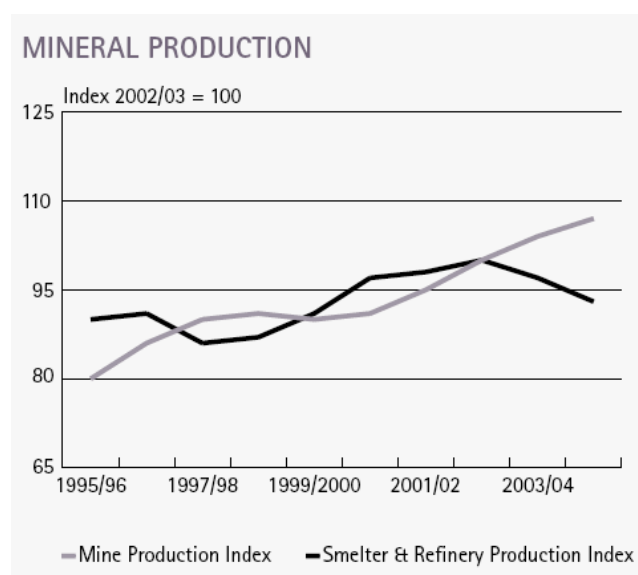
CONTRACT PRICES

- > 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 \$A 85.93 in 2004-05 to be \$A 153.02 in the September quarter 2005.
- > 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 \$A 59.55 in 2004-05 to be \$A 66.74 in the September quarter 2005.
- > Iron ore – the average export unit value of Australian lumps and fines rose to \$A 62.72 compared to the average over 2004-05 of \$A 35.42. Prices for iron ore products, for Japanese fiscal year commencing 1 April 2005, rose

71.5 per cent for some Australian iron ore exporters. Outcomes of price negotiations for the 1 April 2006 are expected to be announced in January 2006.

PRODUCTION

- > MCA Mine Production Index rose 3 per cent in 2004-05 (risen 34 per cent in past decade). In 2004-05:
 - Zinc production was up 34 per cent;
 - Uranium production was up 19 per cent;
 - Manganese ore production was up 17 per cent;
 - Lead production was up 15 per cent; and
 - Black coal production was up 9 per cent.
- > The following chart shows the MCA's Mine Production and Smelting and Refining Production Indexes for the last decade.



Source: MCA, 2005 Minerals Industry Survey Report.

INVESTMENT

- > As at October 2005, there were 44 projects (33 mining and 11 minerals processing), with expected expenditure of \$14.3 billion (\$10.6 billion in mining and \$3.7 billion in minerals processing) at advanced stages of development. 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 again been steadily rising. The outlook remains positive, with mining investment continuing to be strong.
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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.

- > Committed mining projects include:
 - Alcan's expansion of the alumina refinery at Gove in the NT, with expected investment of \$1.86 billion;
 - BHP Billiton's Ravensthorpe Nickel Project in WA (\$1.79 billion) and expansion of its related Yabulu refinery in Queensland (see below);
 - Rio Tinto's Yandocoogina iron ore expansion in WA, with expected investment of \$707 million;
 - BHP Billiton's Rapid Growth Stage 2 (iron ore) project in WA, with expected investment of \$767 million. Stage 3 has also been recently committed, with expected investment of \$2.04 billion;
 - BHP Billiton's expansion of Yabulu nickel refinery in Queensland, with expected investment of around \$613 million (linked to the Ravensthorpe Nickel Project in WA); and
 - Iluka Resources Douglas minerals sands deposit in Victoria, with investment of \$270 million.
- > There is also a range of related infrastructure projects that have been committed or are under construction, including:
 - Upgrades to port facilities at Hamersley Iron's Port Dampier facility, with total investment of \$1.1 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 \$230 million;
 - Port expansions at Gladstone Port in Queensland, with expected investment of \$168 million;
 - New sleeper cars for the Hunter Valley, at a cost of \$102 million; and
 - The Worsley Bunbury Port Berth 6 ship loader involving Worsley Alumina, at a cost of \$50 million.
- > These investments are significantly impacted by the outlook for the world economy – and particularly China.
- > The following map shows advanced stage minerals and energy projects in Australia as at October 2005.

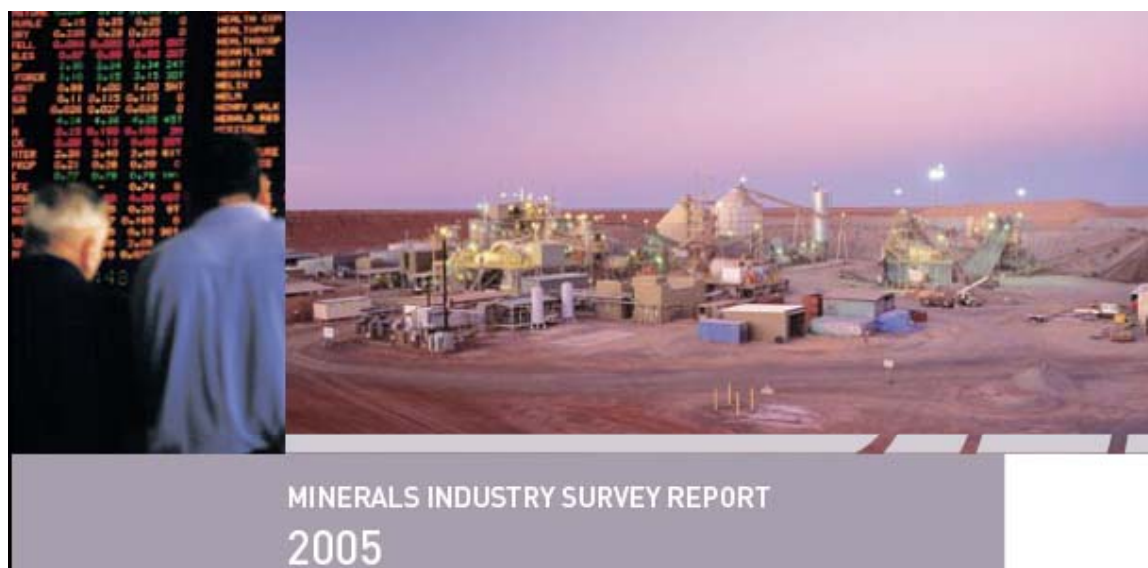


Source: ABARE

WORLD GROWTH

- > ABARE expects world growth to be 4.0 per cent in 2005, before easing to 3.8 per cent in 2006. This compares with estimated growth of 4.9 per cent in 2004.
- > Rising world oil prices pose a significant downside risk in the current outlook for world economic growth.
- > In China, the government appears to be successfully managing the soft landing of the economy. Economic growth remains robust, with year on year growth of 9.4 per cent in the first nine months of 2005. Industrial production, rising year on year by 16 per cent in October, and fixed asset investment, up year on year by 27 per cent in the first nine months of the year, have both eased from the highs achieved in 2004. Inflation also moderated from around 5.3 per cent in mid-2004 to a year on year rate of 1.2 per cent in October 2005. China's economic expansion is likely to remain at rates of around 8-9 per cent in the next twelve months or so.
- > 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 last 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 2½ 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 last 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.



2005 MINERALS INDUSTRY SURVEY – HIGHLIGHTS

- > The MCA's *2005 Minerals Industry Survey Report* (the 29th annual report) was launched in Canberra on 7 December 2005. The following presents an overview of the highlights on the Report. The full report can be downloaded at www.minerals.org.au/mis
- > Indicators of **profitability** show the overall performance of the minerals industry improved significantly in 2004-05.
 - **Net profit return on average shareholders' funds** was 14.0 per cent in 2004-05, compared with 7.4 per cent in 2003-04, and 7.9 per cent in 2002-03. The profit result was also well above the 10-year average (1995-96 to 2004-05) for the industry of 7.8 per cent and the highest result since 1989-90. Net profit return on average assets employed also rose, from 2.7 to 5.2 per cent and is well above the 10-year average of 3.3 per cent.
 - **Investment growth strengthens** – Net capital expenditure on fixed and deferred assets rose by 96 per cent in 2004-05 (to \$10.1 billion), comprising a 75 per cent rise in the mining sector and a 225 per cent rise in the smelting and refining sector of the industry (from a relatively low base in 2003-04). Reflecting expected future growth, a significant number of new projects were commissioned in 2004-05. These new projects continue the levels of investment expenditure by the industry since the mid-1990s, and should underpin future expansions in industry production and exports.
- > **Direct employment** rose by 4 per cent (some 2,200 people to 51,525).
 - Around 26 per cent (or more than 1 in 4) of full-time equivalent positions in the industry are now contracted out.
 - Respondents forecast a decrease in employment, of 4 per cent, in 2005-06.
- > In 2004-05, respondents spent \$63 million on **overseas exploration activities** and \$488 million in **Australia**. Total exploration expenditure by all Survey respondents, of \$551 million, compares to the \$606 million spent in 2003-04 and the \$550 million spent in 2002-03. Larger Australian minerals company respondents are currently spending around 15 per cent of their exploration budgets overseas. This underlines the critical importance of Australia's mineral investment climate remaining competitive.

