

> TRADE AND INVESTMENT ACTIVITY BRIEF

QUARTER

4
2004

DECEMBER QUARTER 2004

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 9 per cent to \$15.6 billion in September quarter 2004. (20 per cent higher than 2003 September quarter).
- > Major mineral exports were:
 - > Nickel up \$208 million (30 per cent) to \$900 million;
 - > Iron ore up \$190 million (13 per cent) to \$1,697 million;
- > Coking coal up \$180 million (9 per cent) to \$2,180 million;
- > Steaming coal up \$167 million (12 per cent) to \$1,552 million;
- > Uranium oxide up \$56 million (62 per cent) to \$147 million; and
- > Lead up \$27 million (11 per cent) to \$271 million.
- > Falls in iron, steel, zinc and copper – reflecting volume decreases.

PRICES

- > ABARE reports Export prices index of Australian minerals resources (export unit return) rose 7 per cent in September quarter (24 per cent higher than September quarter 2003) – this reflects higher world prices.
- > 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.

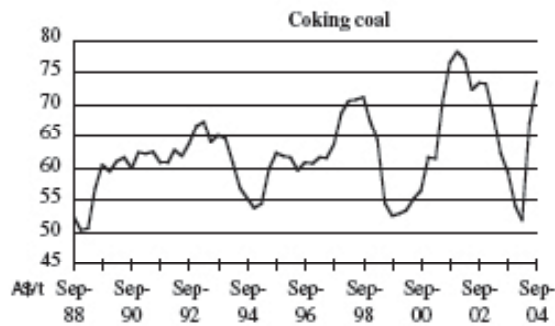
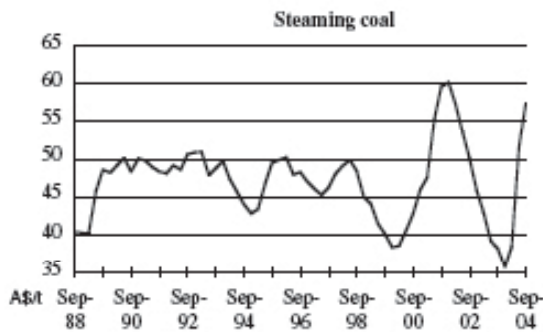
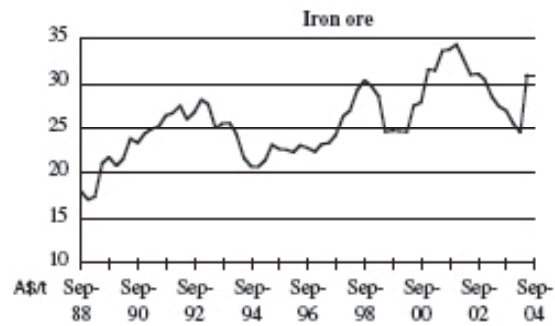
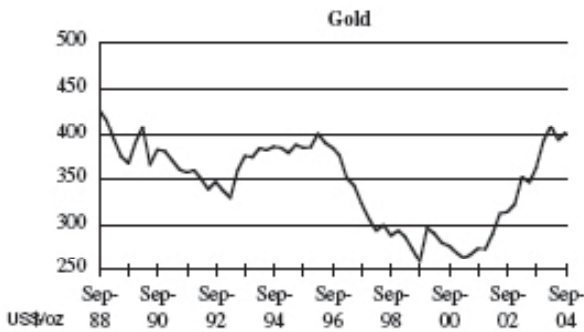
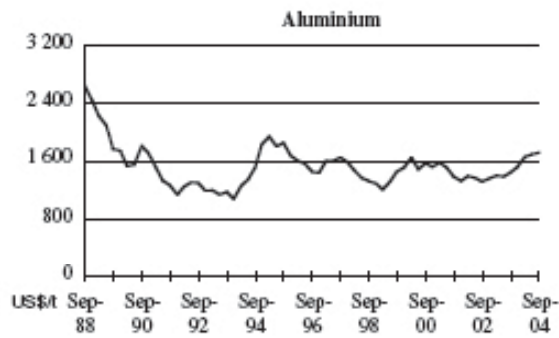
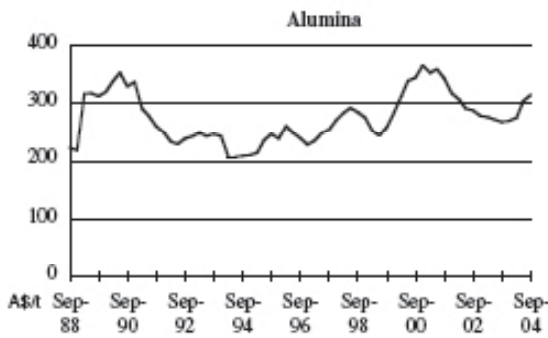
CONTRACT PRICES

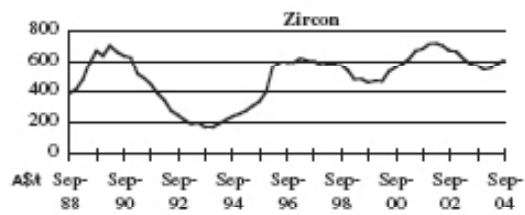
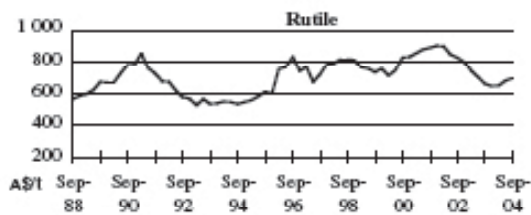
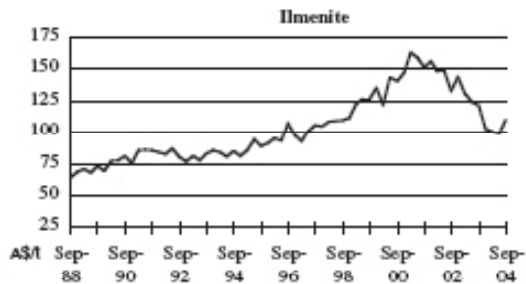
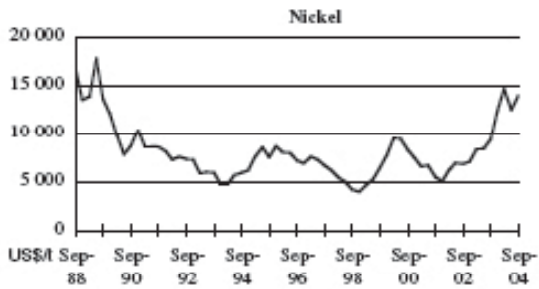
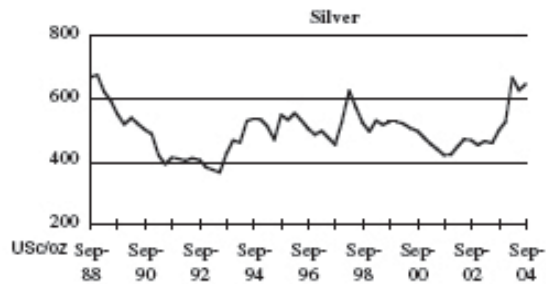
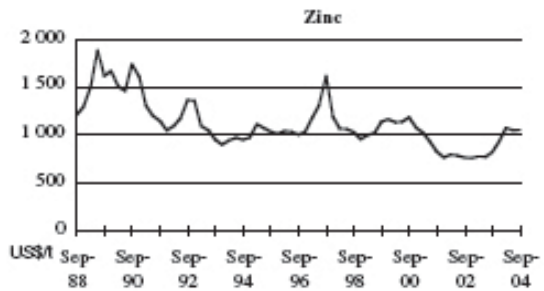
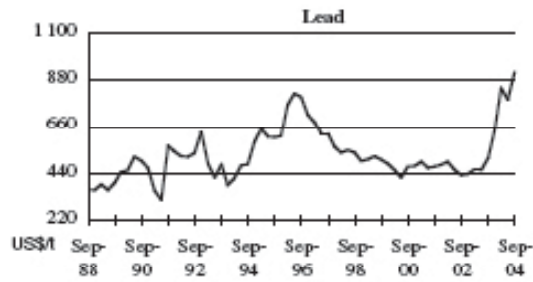
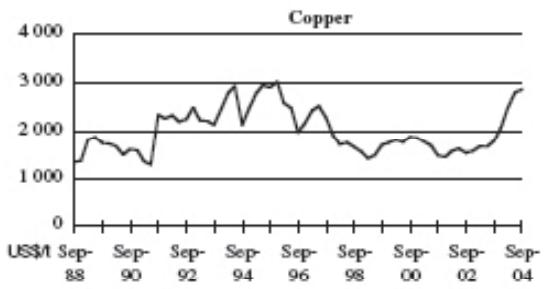
- > Coking coal to Japan – a record high at \$US 125 a tonne from 1 April 2005 (compared to around \$US 57.50 in the previous year). The spot price has risen from an average of \$64.26 in 2003-04 to be \$79.68 in the September quarter 2004.
- > Steaming coal to Asia – virtually doubled to more than \$US 50 a tonne in the past year. The spot price has risen from an average of \$40.98 in 2003-04 to be \$57.34 in the September quarter 2004.
- > Iron ore – the indicative price: Australian hematite fines to Japan (fob), per dry long tonne unit, for Japanese fiscal year commencing 1 April 2004, rose from \$US 0.3083 to \$US 0.3657, an increase of 19 per cent. Outcomes of price negotiations for the 1 April 2005 are expected to be announced in mid-January 2005.

Minerals
Council of
Australia

MINERAL RESOURCES PRICES

ended September Quarter 2004 (ABARE)





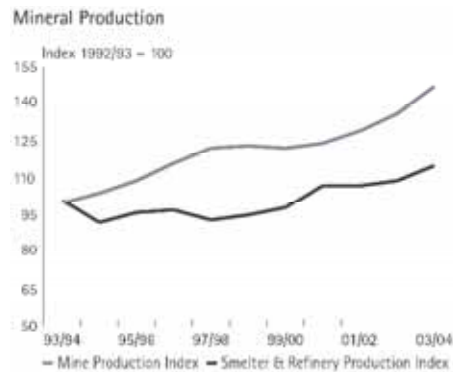
PRODUCTION

- > 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.



INVESTMENT

- > In line with expectations provided in 2003 Minerals Industry Survey – net capital expenditure on fixed and deferred assets was \$5.1 billion in 2003/04, down from \$7.9 billion in 2002/03. This moderation in investment spending (though still at a high level) reflects the commissioning of a number of significant projects.
- > Investment activity in the industry is expected to increase by 60 per cent in 2004/05, to \$8.2 billion from \$5.1 billion reflecting 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. 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 there are 43 minerals projects at an advanced stage, that is, 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 Yandocogina 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;
- > Development of the Aldoga aluminium smelter in Queensland, with expected investment of around \$2 billion;
- > Development of the Comalco Alumina Refinery in Queensland, with expected investment of around \$US 750 million (or \$1.1 billion at current exchange rates);
- > Upgrade of BHP Billiton's Worsley alumina refinery in WA, with expected investment of nearly \$270 million;
- > 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".
- > 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; and
 - > 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 – and particularly China.

WORLD GROWTH

- > ABARE expects world growth to slow to 3.6 per cent in 2005 from an expected average 4.5 per cent in 2004. In China, growth forecast to slow from 9.3 per cent in 2004 to (an impressive) 7.3 per cent in 2005.
- > 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 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 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.

AUSTRALIAN GOVERNMENT BUDGETARY ASSISTANCE - 2003/04

(Productivity Commission report - *Trade & Assistance Review 2003/04*)

- > The Productivity Commission each year produces a Trade & Assistance Review report that contains the Commission's latest estimates of Australian Government assistance to industry and also reports on selected developments in industry assistance.
- > Industry assistance is defined as: *"... any act that, directly or indirectly, assists a person to carry on a business or activity, or confers a pecuniary benefit on, or results in a pecuniary benefit accruing to, a person in respect of carrying on a business or activity."*
- > The Commission estimates the incidence of budgetary assistance by the benefiting industry. It reports the incidence using a four-sector classification of the Australian economy and a multiple 'industry grouping' classification. Using this classification, it found budgetary assistance (of some \$4.3 billion) was divided as follows:
 - > Mining 3 per cent (\$0.1 billion);
 - > Manufacturing 46 per cent (\$1.8 billion);
 - > Primary Industries 30 per cent (\$1.2 billion); and
 - > Services 21 per cent (\$0.8 billion).
- > The majority of funding to the mining industry went to R&D tax concession (\$26.2m), CRCs (\$9.8m) – also includes CSIRO funding of \$72.7m.
- > This relates only to budgetary assistance. The Commission also estimates the effective rate of assistance for the manufacturing, primary production and mining sectors for 2003-04. Effective rates are a measure of the net assistance to an industry divided by the industry's unassisted value added. They can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates.
- > At the sectoral level, the estimates indicate that, in 2003-04:
 - > the manufacturing sector attracted the most combined assistance, particularly in absolute dollar terms, but also in effective rate terms;
 - > primary production received a slightly lower rate of measured assistance;
 - > mining encountered slightly negative net measured assistance;
 - > combined assistance as measured to the services sector was negative; and
 - > compared to the levels of assistance recorded in earlier periods for some sectors, the goods-producing sectors recorded low average rates of assistance.
- > While mining recorded a negative rate, the forms of assistance covered in the 'combined' estimates are likely to play a relatively minor role in these industries compared with other government measures. Specifically, the mining industry is more affected by environmental regulation, prescribed royalty levels and accelerated depreciation provisions. Native Title legislation can also affect land access and tenure. The assistance implications of these measures, whether positive or negative, are not captured in the Commission's estimates.
- > In some cases, particular types of industry assistance, most notably R&D funding, can deliver net community benefits. Similarly, some policies that have industry assistance effects may be justified on other grounds, such as the achievement of cultural, environmental or equity objectives.

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