



Chairman's Address

Annual Parliamentary Dinner
Great Hall, Parliament House
Canberra

GREIG GAILEY
CHAIRMAN
MINERALS COUNCIL OF AUSTRALIA

2 June 2004

Acting Prime Minister, Your Excellencies, Ministers and Members of Parliament, other distinguished guests, ladies and gentlemen. Welcome to the annual Parliamentary dinner of the Minerals Council of Australia.

For many years we have heard mention of Australia's "forgotten people". The people who first populated this country. Long before our forebears arrived. On behalf of the Minerals Council of Australia, I would like to take this opportunity to acknowledge the Ngunnawal (nun-a-wal) people, the Aboriginal people of this particular part of our country, and give my respects to their elders and ancestors.

Today, in many remote locations our Industry contributes significantly to the wellbeing of Australia's indigenous people. Tonight I feel that this is not our only association. Like them, we too fear that we are becoming forgotten – the forgotten Industry.

Tonight, on behalf of the Minerals Council of Australia I have an important goal. I want to:

- > remind you of the economic and social significance of the minerals industry to Australia;
- > to ask you not to take a continuation of that contribution for granted;
- > to implore you to work with us to ensure that Australia retains a vibrant, globally competitive minerals industry.

Our Industry is a major contributor to the well being of all Australians. As you have just heard:

- > We represent 8.5% of the nation's economy.
- > We generate around 30% of Australia's total export earnings.
- > We have directly contributed over \$500 billion to Australia's wealth over the past 20 years.
- > Of this amount some \$5.5 billion is in the form of taxes, pseudo taxes and royalties.

Royalties are a particular characteristic that separates us from many other contributors to the economy. Not only do we add value by the jobs we create and the services we buy. We also share the wealth inherent in the resources we develop directly with governments through royalties levied on production.

I would not be amiss in saying that, generally speaking, government take from mineral deposits is often more certain and greater than that of our private shareholders.

Our contribution to the nation is a very significant by any measure. Yet despite this contribution, we feel "unloved". We see ourselves as notable by our absence on the broader national agenda. We fear that our presence is being "taken for granted". That somehow we will always be there. That little needs to be done to ensure our continuation into the future. It is not totally surprising that this attitude might be held by the "public at large". We frequently operate in remote locations. The products we produce, although essential for modern living, are usually inputs to goods which consumers ultimately purchase. We have little direct interface with the population at large.

But, it is particularly disconcerting to perceive those who influence or determine public policy falling into the same mindset. We believe that our Industry is not receiving the attention that it needs. Our ability to compete in increasingly dynamic global markets is being eroded. Our capacity to contribute to Australia's future is at risk.

Maybe we are simply "out of vogue". An "old economy" industry. Nothing could be further from the truth:

- > Our number one priority is the safety and health of our employees. Our goal is zero harm!
- > We are recognised world leaders in innovation and the development and adoption of new technologies.
- > We contribute \$11M per year to education and training in the broader community.
- > Our Industry has undergone a paradigm shift in its' regard for the environment and the communities in which it operates.

Maybe we are victims of our own success? We are deemed big enough, strong enough and capable enough to continue to meet the challenges we face on our own.

We are not! Without the policies, environment and infrastructure necessary, the minerals industry in Australia will fall from prosperity. It will cease to deliver the benefits Australians currently enjoy.

We operate in one of the most global of businesses. We generally compete freely on a global scale with relatively undifferentiated products. As competitive industries go we are at the "pure competition" end of the scale.

There has been a tendency within our Industry towards polarisation. Large global corporations have evolved that must ration scarce capital between competing projects in different geographies. Many mid-sized national companies have disappeared. At the other end of the spectrum, there continues to be many start-ups. The spirit of the true entrepreneur survives. Small explorers by their nature provide a textbook definition of what "risk capital" is all about.

The continuation of a vibrant and successful minerals industry in Australia (or any other county for that matter) cannot simply be taken for granted. Many of us in our Industry are seriously concerned. Without appropriate policies our Australia might loose the enormous value which our Industry has contributed to the benefit of all Australians.

There are many issues that I could raise with you tonight. I will however keep it simple and focus on only two. Two, which are of vital importance to us. Two where we believe there are real opportunities for governments to ensure the future of the resources sector in this country.

Firstly exploration. Exploration is critical to the continuation of our business.

Without renewing its resource base our industry will simply disappear. We manage a wasting resource. Every day our assets disappear before our very eyes.

How many of you in this room tonight realise that without the new discoveries that exploration could bring, Olympic Dam could be Australia's only remaining base metal mine in as little as 20 years.

Minerals exploration in Australia has fallen dramatically over the last decade. From a high of \$1.15 billion in 1996/97 to \$730 million in 2003/03, the latest year for which statistics are available.

This decline in exploration is not unknown to decision makers. A number of reports and inquiries have been carried out over the last two or three years. These are:

- > the **Bowler Inquiry in Western Australia**, which was focused on greenfields exploration,
- > the report of the **House of Representatives' Standing Committee on Industry and Resources** which was chaired by Geoff Prosser, and
- > the **Commonwealth Mineral Exploration Action Agenda**, chaired, by Peter Lalor.

All three inquiries concluded that there were structural issues and impediments relating to mineral exploration that needed to be addressed. In particular, they provided support for or consideration of the **flow through shares proposal** and support for improved **geoscientific data** among others.

Exploration is by its nature risky. For large integrated mining companies, exploration can often be offset against profits derived from production. For small explorers, such an offset is frequently unavailable. The investors who provide the capital for some junior explorers face the prospect of total loss should exploration be unsuccessful. They do not even enjoy the fallback of these costs being of benefit to the company making the investment.

This factor has been recognised in the recommendations the various Parliamentary Inquiries have put to Government.

Pass through shares would seem to offer a number of advantages in encouraging exploration. They would allow explorers to pass losses through to the providers of capital thus reducing the financial risk associated with this activity. This in turn would make capital raising easier and so encourage more exploration.

Such a scheme would cost a modest \$250 million over four years. This would permit an economically rational transfer the tax losses from individual exploration companies to their shareholders.

Flow through shares have been implemented in other countries. In Canada they have proven particularly successful. They have revitalised exploration in Canada over the past decade. Canada now surpasses Australia with the world's largest investment in exploration.

We understand that consideration of this item remains on the government's agenda, although without any firm commitment to introduction. We would hope that it might receive favourable consideration sooner rather than later. Introduction would go a long way to remedy the structural and market failures that exacerbated the downturn in minerals exploration expenditure that began in the mid-1990s.

Secondly, let me address the issue of public infrastructure.

We are major users of infrastructure. As such we have a vital interest in ensuring that Australia continues to invest in infrastructure. Infrastructure so necessary for future wealth generation.

Most importantly investment is needed in:

- > road and rail transport
- > ports and related facilities
- > energy and water
- > education and training

The Australian minerals industry is well positioned to emulate its past success in exporting to Japan, Taiwan and South Korea. China represents a once in a decade opportunity. Chinese demand for commodities is nothing short of amazing. Australia is uniquely positioned to service this demand and that of other rapidly developing Asian economies.

Australia's transport infrastructure is key to our ability to do this. Australia is already the largest shipper of bulk commodities in the world. Increasingly, we are seeing bottlenecks which threaten export growth.

Land transport limitations have led to some shipping delays. This situation is exacerbated by a tight global shipping market. The NSW port of Newcastle is the largest coal export port in the world. This is the most obvious, but not the only, example.

The Hunter Valley rail delivery system is the significant constraint to meeting sharply increased export demand for coal shipped from Newcastle.

We welcome the Federal Government's intention to increase expenditure on improving road and rail. Particularly, the \$450 million earmarked for the Australian Rail Track Corporation.

The Commonwealth's lease of the NSW interstate track and Hunter Valley rail freight corridors and the Government's commitment to upgrade rail infrastructure capacity should help in removing congestion and bottlenecks. This will go a long way to ensuring Australian exporters can meet immediate growth in coal demand.

These commitments aside, we view with concern the apparent desire by society to prioritise consumption over investment in Australia's future. We believe that the fastest GDP per capita growth will result from the prosperity created by industries such as ours. These benefits will exceed those available from easing the average tax burden or reducing the rate of public spending per capita.

Let me close now by re-iterating the key points that I have been trying to make.

The minerals industry has been a significant contributor to the wealth and prosperity Australia currently enjoys. It is clear that the industry has the potential to continue this contribution into the next two decades.

But neither the government nor the community should take the realisation of that potential for granted.

The continuation of our success and achievements depend on the appropriate policies, environment, infrastructure and above all, the support of government.

Ours is a global industry in which Australia competes in the provision of a frequently undifferentiated product against numerous other producers. Competes both on the level of everyday sales and for the next new project to be developed.

To retain our position we need sensible and pragmatic policies that:

- > enable Australia to compete on equitable basis
- > recognise the risks inherent in developments against the potential shared rewards
- > ensure appropriate investment in necessary public infrastructure

Such policies are essential to enable our Industry to prosper. Not to provide them places at risk our ability to contribute to the future prosperity and well being of all Australians.

For example, it is very pleasing to see the Government adopting a very pragmatic approach to the difficult question of climate change. Our industry is concentrating on what we can do to effectively and efficiently reduce greenhouse gas emissions. Accordingly, we welcome the Government's commitment to join with industry in the research and development of zero emissions technologies.

What we do not need are policies which make our Industry less globally competitive.

We view with concern the Federal Opposition's stated intention to reinstate a tax on diesel fuel to fund education initiatives. While we applaud the intention to further invest in education, this should not be at the expense of Australia's development.

Similarly the sudden and profound increase in coal royalties in New South Wales has adverse consequences for our Industry. We estimate that taxes have risen by as much as 70 to 100 per cent. Six months ago this industry was really doing it tough. Over the past 10 years, it has paid out around \$5.5 billion in taxes. Of this, \$1.5 billion as royalties. This represents about three times the Industry's reported net profits.

Let me be clear. We are not asking for handouts. That is neither appropriate nor required. What we are asking for are pragmatic and economically justified policies. Policies which will ensure that all Australians continue to benefit from the appropriate development of Australia's vast natural resources.

We ask both the Government and the opposition to take heed of the issues that our Industry faces.

In particular, we are hopeful that in the run up to the election both the Government and the Opposition will make a favourable pronouncement on minerals exploration.

Our Industry has made an outstanding contribution to the wealth of all Australians. With the right policy environment it can continue to do so. We ask government to work constructively with us to ensure that Australia retains a viable and vibrant resources sector.

Thank you.

GREIG GAILEY
MCA CHAIRMAN
2 June 2004