

MEDIA RELEASE

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OUTLOOK FOR MINERALS SECTOR ROBUST BUT CONSTRAINTS EMERGING

Launching the *Minerals Industry Survey 2004* today, Minerals Council of Australia Chairman, Mr Greig Gailey, said the Australian minerals industry had grasped the opportunities generated by the recent resources boom and is now set to move into a new expansion phase.

“Production, revenues and employment have all grown robustly over the past year, in line with the strong trend growth enjoyed since the late 1990s,” Mr Gailey said.

“The industry now plans to invest more to meet the next wave of demand from China, Japan and Korea, and other emerging markets like India.

“New investment in plant and equipment is forecast to grow to \$8.2 billion in 2004/05, a 60 per cent surge on the \$5.1 billion spent in the last financial year.

But Mr Gailey warned that unless Australia can overcome critical short and long term constraints on its export performance, the minerals sector’s investment in new production capacity may not fully realise its potential.

“In the near term, we must tackle the growing mismatch between the mineral sector’s productive capacity and inadequate public infrastructure like water, energy, ports and other transport facilities,” Mr Gailey said.

“There is an urgent need for governments, both State and Federal, to work with industry to close this gap.

“If essential infrastructure can’t keep pace with production capacity, we will not fully exploit crucial market opportunities, and will inevitably lose market share to our competitors,” he said.

Mr Gailey said the looming constraints on growth were not limited to ‘hard’ infrastructure.

“Overcoming skills shortages will remain a top priority for the mineral sector, especially given the fact that direct employment in the industry grew by 12 per cent or 5400 employees last year,” Mr Gailey said.

“The minerals sector is naturally ready to play its part in attracting, developing and retaining skilled staff, and is especially looking to expand the number of women and Indigenous Australians working in the industry.

“But a continuing commitment from governments across the country will be crucial in ensuring the current skills shortages do not become a permanent brake on economic growth.

“Looking longer term, we are also concerned about the continuing shrinkage in the national minerals inventory – the industry’s essential resource base,” Mr Gailey said.

While investment in existing production capacity is growing strongly, Australia continues to fall behind other nations in identifying new mineral resources.

Exploration spending is expected to fall by 29 per cent over the next year, continuing a steady decline over the past decade.

In just three years, Australia has slipped from second to fifth in the global ranking of locations for minerals exploration spending.

“The industry believes the introduction of a flow through shares scheme, and a modest increase in spending on the collection of geoscientific data would play a critical role in reversing this decline,” Mr Gailey said.

A flow through share scheme would enable the transfer of tax deductions of individual exploration companies to individual investors.

“This approach, already adopted in Canada, is a practical and cost-effective way to boost investment in exploration, because many companies, especially start-ups, have no income against which to offset their deductions,” Mr Gailey said.

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A copy of the *Minerals Industry Survey 2004* can be found at the MCA's website <http://www.minerals.org.au/mis>

2004 MINERALS INDUSTRY SURVEY – HIGHLIGHTS

On most indicators of **profitability**, the performance of the minerals industry in 2003/04 was slightly down on the previous year, but remained at a level slightly above the average of the past decade, and is above the long-term bond rate.

- **Net profit return on average shareholders' funds** was 7.4 per cent in 2003/04, compared with 7.9 per cent in 2002/03, 12.9 per cent in 2001/02 and 13.9 per cent in 2000/01. The 2003/04 **profitability result** reflects in part capital investment in new projects that are not yet contributing to profit levels, world price movements, production volumes and the higher Australian dollar/US dollar exchange rate.
- **Investment growth moderates** – in line with expectations provided in last year's 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 – the bringing forward of investment from 2003/04 to 2002/03 (therefore increasing the 2002/03 result and decreasing the 2003/04 result) to meet stronger than expected demand – in the mining and minerals processing industry during the year.
- **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.

Direct employment rose by 12 per cent (some 5,400 people to 49,371).

- 2003/04 is the first year since 1994/95 that direct employment has increased.

- Around 24 per cent (or nearly 1 in 4) of full-time equivalent positions in the industry are now contracted out.
- Respondents forecast a further increase in employment, of 2 per cent, in 2004/05.

In 2003/04, average \$US **world mineral prices** rose by 18 per cent, following a 4 per cent rise in the previous year. However, with the **\$A rising around 22 per cent** between 2002/03 and 2003/04 (at its peak, rising over 45 per cent from around \$US0.55 in August 2002 to \$US0.80 in February 2004), this translated into a **3 per cent fall in the Australian dollar commodity price index** between 2002/03 and 2003/04.

Mine production by respondents to the Survey, as measured by the Minerals Council of Australia Mine Production Index, rose by 4 per cent in 2003/04, following a rise of 5 per cent in the previous year. Overall, the Mine Production Index has risen by 43 per cent over the last 10 years.

In 2003/04, respondents spent \$93 million on **overseas exploration activities** and \$513 million in **Australia**. Total exploration expenditure by all Survey respondents, of \$606 million, compares to the \$550 million spent in 2002/03.

- **Exploration expenditure by larger Australian minerals company** respondents fell by 5 per cent in Australia and 24 per cent overseas.
- Larger Australian minerals company respondents are currently spending around **22 per cent of their exploration budgets overseas**.

Some specific issues discussed in the Report are:

- The necessity for Australia's **investment climate** to remain competitive in the face of continued long-term price pressures and increased world competition. Critical issues include: ongoing tax reform; improving productivity; Native Title and Indigenous heritage issues; environmental issues, including greenhouse;

international trade and investment policy issues; streamlining of approvals processes; provision of world class economic infrastructure and continued microeconomic reform.

- The **safety and health performance** of the industry requires further improvement and the minerals industry continues to accord safety and health its number one priority.

- **Outlook: exploration expenditure in Australia** is forecast to fall by 29 per cent in 2004/05. The outlook for **research and development expenditure** is also lower, with the 2004/05 result forecast to be down 45 per cent on the 2003/04 outcome. Together with the low level of total exploration expenditure, this may have significant consequences for the next generation of minerals developments in Australia.

The full Survey Report is available at: <http://www.minerals.org.au/mis>