> MINERALS COUNCIL OF AUSTRALIA

2005 - 2006 PRE-BUDGET SUBMISSION

FEBRUARY 2005

Minerals Council of Australia

ACN 008 455 141
ABN 21 191 309 229

www.minerals.org.au

EXECUTIVE SUMMARY AND RECOMMENDATIONS

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The Australian minerals sector is enjoying a period of considerable expansion, driven primarily by strong growth in key overseas markets, especially China, and strong demand from Japan, the Republic of Korea, and Taiwan. The value of Australia's minerals and energy exports, including oil and gas, is forecast to reach $65 billion in 2004-05, an increase of 23 per cent from $53 billion in 2003-04. Preliminary estimates suggest that export trade could even reach $90 billion in 2005-06. The robust real and prospective growth in the value of minerals exports reflects the expansion of production capacity in recent years, and improved prices for commodities, driven largely by strong demand from East Asia, and particularly by China.

Global growth outlook is generally favourable...

Global economic growth is expected to moderate slightly in 2005 to around 4 per cent, but despite the impact of the recent tsunami, the outlook for key markets in East Asia remains favourable. Official forecasts expect China's economy to grow by 8.5 per cent in 2005, although Consensus Economics is forecasting growth of 8.2 per cent this year and 7.8 per cent in 2006. Meanwhile, the World Bank has forecast that developing nations in East Asia will expand by 6.6 per cent in 2005. Strong demand in the energy intensive industrial sector in East Asia is expected to underpin higher prices and robust exports of coal, iron ore and other minerals products.

Further trade liberalisation a key issue...

Global trade flows, which accounted for 27 per cent of global GDP last year (up from 17 per cent in 1986) are expected to grow by 9 per cent in 2005, up slightly from the World Trade Organization's estimate of 8.5 per cent growth in 2004. To further reinforce this trend, the Australian Government should press for the early completion of Doha Round of global trade negotiations. The government should also move ahead with the negotiation of free trade agreements with China, the ten nations of ASEAN, and Malaysia. Australia should also continue to take an active part in international efforts to find a genuinely global and practical solution to reduce greenhouse gas emissions. The minerals sector is ready to play a constructive role in these endeavours.

Domestic economy strong but vigilance required...

Over the last 8 years, the Australian Government has built a strong record of steady and prudent economic management. In the context of the competitive challenges facing the industry, it is vital that the 2005-06 Federal Budget builds on this record. Despite an expected cooling in consumption and in the housing sector, the overall outlook for the domestic economy remains positive, with official GDP growth forecast to reach 3 per cent in 2004-05 and 3.25 per cent in 2005-06.

Nevertheless continued vigilance, especially on fiscal policy, is essential to maintain a business environment characterised by low interest rates, low inflation, and low unemployment. Fiscal prudence will also provide insurance against short and medium term risks to growth, including a larger-than-expected downturn in the housing sector, hard landing for Chinese economic growth, and the adverse impact of a high-valued Australian dollar. This will invariably mean tough choices for the Australian Government, and the MCA urges the Australian Government to put investment in essential public infrastructure ahead of large scale personal tax cuts. The MCA also recommends that the Australian Government complete the process leading to the full privatisation of Telstra that it initiated in 1996. When considering options for the disbursement of the proceeds of the sale of Telstra, the Australian Government should strike an appropriate balance between debt retirement, investment in the proposed Future Fund, and investment in critical infrastructure necessary for wealth creation.

Microeconomic reform momentum must be maintained...

The momentum for further micro-economic reform must be maintained, and even accelerated. The minerals sector shares the International Monetary Fund's recent assessment that "it is necessary [for the Australian Government] to continue the reform process to close the productivity gap with the most advanced economies and maintain adequate rates of growth to face the long-term challenges of an ageing population". [1] Reform of national energy and water markets must be a priority in this effort, while the government should also take additional steps to increase the flexibility of labour markets.

Moreover, the productive sector of the Australian economy continues to be weighed down by unjustified regulatory and tax imposts. For example, while much progress has been made, the reform of business taxation is not yet complete. Further refinements are recommended to promote consistency in the treatment of capital allowances (including the tax depreciation treatment of long-life assets) to bed down the tax consolidation regime, and to remove anomalies in the application of fringe benefits taxes. Reflecting the increasingly global nature of the industry, the minerals sector also urges the Australian Government to embrace further reforms of international tax arrangements including the dividend imputation treatment of foreign source income; the dividend streaming of foreign source income; and changes to company residence rules. The Australian Government should scrap the Tariff Concession Scheme that imposes a 3 per cent tariff on imported business inputs that cannot be sourced in Australia. The scheme serves no industry policy purpose and costs Australian business $300 million annually.

The minerals sector is one of Australia's most technically advanced industry sectors. The Governor of the Reserve Bank, Mr Ian Macfarlane recently noted that research and development in the minerals sector accounted for 20 per cent

1 International Monetary Fund, *Staff Report for the 2004 Article IV Consultation* - Australia, August 30, 2004.

of all industry R&D undertaken in Australia, and pointed to estimates that Australian designers develop 60 to 70 per cent of mining software worldwide. [2] But spending on R&D in the sector has fallen steadily for nearly a decade, and expenditure in 2004-05 is expected to be down by 45 per cent on the 2003-04 figure. As part of efforts to reinvigorate this effort, the minerals sector urges the Australian Government to consider the restoration of the 150 per cent tax concession for R&D spending.

Infrastructure shortages are also limiting expansion...

The minerals sector is also deeply concerned that structural constraints threaten to limit the scale and longevity of the current export expansion. While the minerals sector has been substantially upgrading its production capacity, this expansion has not been matched by investment in essential infrastructure, especially water, energy, ports and the Hunter Valley rail system. If this gap remains or widens further, the minerals sector will not fully exploit crucial market opportunities, and could lose market share to its competitors. Inadequate port facilities are of particular concern, resulting in the rationing of access to some export hubs and causing costly delays at others.

The minerals sector acknowledges that reasons for the inadequacy of infrastructure provision, whether road, rail, energy, ports or water, are many and complex. In some cases state governments have the primary responsibility, in others state competition policy issues are at the forefront, while in some sectors the shortfalls in public investment go back decades. In still other cases, notably in the Hunter Valley rail system, the Australian Government has taken significant steps to address the problems. At the broadest level, the Australian Government must make the upgrade of infrastructure a national priority for the current parliamentary term. In some instances, that is likely to mean additional public investment, for example in rail and water. In others it will demand leadership and commitment, in concert with states, the minerals industry, farm and community groups. The minerals sector is ready to play its part in this national debate.

Skill shortages are also emerging ...

The potential constraints on the expansion of the minerals sector are not limited to 'hard' infrastructure. Skills shortages, both in professional and trades areas, are a pressing concern for the minerals sector which expanded its workforce by 12 per cent or 5400 employees last year. The skills shortage problem - an issue being confronted across many sectors of the Australian economy - is particularly acute for a high technology sector primarily located in regional and remote areas. The vacancy rate in the industry more than doubled in the 4 years to 2004, with demand especially strong in the scientific disciplines and skilled trades areas.

For this reason, the minerals sector already invests more than $10 million annually in a range of practical and diverse programs at the schools, tertiary and vocational education level to foster interest in related trades and disciplines. The minerals sector is also working to increase female employment in the mining industry, through the MCA's 'Women in Mining' initiative, while the industry is making a considerable investment in a range of programs aimed at increasing Indigenous employment levels. But significant obstacles remain, and the MCA urges the Australian Government to consider further measures that will reduce the cost of Indigenous employment training, including in basic literacy and numeracy at remote locations.

At the national level, the MCA acknowledges the steps the Australian Government has already taken to address the skills shortages issue, including most recently the National Technical Colleges initiative. The MCA is committed to working with the Government to ensure that the minerals industry's skill shortages are addressed in the courses to be offered by the technical colleges in regions where the industry has a strong presence. But further steps are also necessary, including measures to promote learning in the sciences and engineering, to target skills development in priority areas, and to expand career education.

To complement these initiatives, the Australian Government should also expand its skilled migration program. The minerals industry is a global business, and this means that the contest for skilled professional and technical staff is an increasingly competitive one. This is demonstrated by research showing that as many as 15 per cent of Australia's trained geologists and geophysicists have moved abroad over the last 5 years.

The minerals inventory is shrinking and exploration spending is flagging ...

Another looming threat to the industry's capacity for expansion is the shrinking national minerals inventory. 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 period 1996-07 to 2001-02, with only modest rises since then. In fact, spending on exploration in 2003-04 was 17 per cent below the average for the past 23 years, according to the Australian Bureau of Agriculture and Resource Economics. This shift contrasts sharply with international trends. In just 3 years, Australia has slipped from second to fifth in the global ranking of locations for minerals exploration spending. In its 2004 audit of Australia's minerals resources inventory, Geoscience Australia warned that "if this trend is sustained, Australia's mineral production and exports will decline over the medium to long-term". [3]

Given that there is typically a lag of as much as 10 years between the initial discovery of a deposit and the

2 Mr Ian Macfarlane, Governor, Reserve Bank of Australia, 'Geography, Resources or Institutions?', *Address to the Bottom Line Luncheon*, Melbourne, 25 August, 2004.

3 Geoscience Australia, Australia's Identified Minerals Resources 2004, December 2004.

commencement of production, an early policy response is necessary. In particular, the minerals sector urges the Australian Government to commit to the introduction of a flow through shares scheme for small, independent "junior" explorers and additional funding for pre-competitive geoscientific mapping, as part of a strategy to reinvigorate minerals exploration.

A flow through shares scheme would enable the transfer of tax deductions of individual exploration companies to individual investors. Estimated to cost $250 million over 4 years, the scheme would directly address one of the root causes of Australia's dwindling exploration effort – the fact that much exploration is undertaken by start-up mining companies with little income against which they can deduct exploration costs.

A similar policy shift in Canada is credited with a strong surge in exploration spending there. The Australian Government should also provide an extra $12 million per annum to achieve national coverage of basic geoscience data sets, a move that will also facilitate expanded minerals exploration.

It is worth noting in this context that the minerals sector receives a tiny fraction of the $11 billion in industry assistance annually disbursed by the Australian Government, and measured by the Productivity Commission. [4] In fact, the Productivity Commission concluded in late 2004 that when assessing 'combined' assistance - comprising budgetary, tariff, and regulatory measures – any benefits for the minerals sector are more than outweighed by the adverse impact of higher costs caused by benefits provided to other industry sectors. Addressing this 'negative net assistance' to the minerals sector should be a consideration in deliberations leading up to the 2005-06 Budget.

Overcoming constraints to development in regional and remote Australia...

The minerals sector plays an important role in building and sustaining regional and remote communities in all States and Territories. A recent survey of 14 minerals companies found that, in addition to employment and training, the collective contribution to community development by these companies totalled more than $17 billion. This includes $5.4 billion in domestic supply contracts, $3.7 billion on wages for employees and contractors, and $160 million in direct contributions to local communities including scholarships, sponsorships, environmental projects, and the provision of sporting facilities and equipment. As a consequence the minerals sector has a key stake in the Australian Government maintaining adequate physical and social infrastructure in regional and remote areas.

A particular feature of the minerals sector's operations in many regions is its engagement with Indigenous communities, reflecting that fact that 60 per cent of minerals operations in Australia have neighbouring Indigenous communities. The minerals sector is estimated to inject $26 million to these communities through direct Indigenous employment alone, an amount that is complemented by additional funds in education and training programs. This partnership is just one indicator of a relationship - once marked by suspicion and even confrontation - that is now characterised by co-operation and mutual respect. This is also reflected in the fact that 350 Native Title agreements have been reached between Indigenous communities and minerals companies. But inadequate government funding of Native Title Representative Bodies (NTRBs) is slowing this process and substantially increasing the costs to industry. The Australian Government should strengthen its support for these statutory bodies, a move that would accelerate the negotiation of further agreements, and thus facilitate the delivery of important social and economic benefits to some of Australia's most remote and underprivileged communities.

4 See Productivity Commission, Trade and Assistance Review 2003-04.

RECOMMENDATIONS

MACROECONOMIC POLICY

The Federal Budget should be shaped around the following parameters :

(a) aim to be in overall surplus over the course of the economic cycle;

(b) interest rate policy continue to aim for inflation of 2 to 3 per cent;

(c) taxation, competition (particularly related to energy, transport, legislative and water reform), regulatory, workplace relations, education and other microeconomic policies should be focused on increasing growth in Australia's productivity and in our workforce participation rates;

(d) migration policy to focus on addressing any longer-term skills shortages and any shortfall in Australian population growth arising from our below-replacement birth rates; and

(e) Budget choices need to be consistent with long-term domestic and global pressures – taking account of the 2002 Intergenerational Report – otherwise Australians will be locked out of the benefits of economic progress.

SPECIFIC POLICY INITIATIVES

Promoting Minerals Exploration

As part of a national strategy aimed at reinvigorating minerals exploration in Australia, the Australian Government should introduce, as part of the 2005-06 Budget, a flow through shares scheme for small, independent "junior" explorers, costed at $250 million over 4 years. The Australian Government should also provide an extra $12 million to fund pre-competitive geoscientific data to better map Australia's prospective exploration capability.

Indigenous relations and Native Title agreement making

The Australian Government should significantly increase its funding to the NTRBs to enable them to effectively carry out their functions under the Commonwealth Native Title Act 1993. Inadequate funding of the NTRBs is delaying the development of agreements between minerals companies and Indigenous communities, with consequent adverse impact on minerals production and local communities.

Environmental and Natural Heritage

The Australian Government should complement the $382 million spent by the minerals sector last year on environmental rehabilitation with continued funding support for environmental initiatives. The Australian Government should continue to seek opportunities for the development of joint programs and initiatives in which both industry and government can collaborate, such as the highly successful Best Practice program.

Community and Social Policy

The minerals sector is a major contributor to regional development and community infrastructure, with one survey estimating this contribution at more than $17 billion annually. The Australian Government should strengthen its contribution to the provision of appropriate community infrastructure in regional and remote Australia. Support for current and future generations, through key government services as education, health and welfare, is key to ensuring the equitable development of social capital and is critical to the success of any public policy approach to sustainable development.

Addressing Skills Shortages

The MCA and the minerals industry currently invests more than $10 million annually on a range of school, tertiary and vocational educational programs designed to attract, train and retain a skilled workforce.

> School Education

Collaborative proposals designed to enhance the skills and capabilities of secondary teachers and trainee teachers in utilising new learning technologies are a priority for support under the Australian Government's ASISTM Project.

The MCA advocates the Australian Government expand the provision of HECS relief for undergraduate and graduate teacher trainees in science, maths and technology.

> Vocational Education

Reforms to the VET system would deliver greater flexibility for the minerals sector to access public funding for the training and skilling of young and mature age workers.

Further, reforms to VET would deliver an employment (demand), rather than a training (supply) driven system.

The skills shortage needs of the minerals industry should be addressed within the courses offered at Technical Colleges in targeted regions throughout Australia where minerals industry support is evident.

> Higher Education

The MCA recommends that the Government complement the educational efforts of the MCA and the broader minerals industry by:

- assisting the MCA's Minerals Tertiary Education Council (MTEC) and its partner institutions gain market access to Latin American countries through organisations such as the Council of Australian and Latin American Relations (COALAR) to deliver courses in engineering and physical, environmental and social sciences relevant to the minerals industry; and

- moving from Cluster 8 to Cluster 10 the Commonwealth Course Contributions for Process and Resources Engineering (FOE Code 0303) to help offset the higher unit teaching cost per student, each of whom will make a significant economic contribution (> $600,000 pa) to export income after entering the workforce.

> **Indigenous Employment**

As part of its strategy of increasing the number of Indigenous employees, the minerals sector already draws on, and makes a substantial contribution to, a range of Indigenous employment programs, including under the Department of Workplace Relations Indigenous Mining Industry Framework. The MCA urges the Australian Government to expand these programs with a view to increasing recruitment and retention levels. The MCA also urges the Australian Government to ensure that the design of these programs takes account of the special challenges faced, and additional costs incurred in, the delivery of these programs in some of the most remote locations in Australia.

> **Increasing Female Participation in the Minerals Sector**

With women comprising only 7 per cent of the minerals sector's workforce, the industry recognises the value and importance of increasing the share of female participation in the industry. To this end, the MCA has initiated a Women in Mining dialogue aimed at engaging industry stakeholders on issues related to the effective participation of women in mining, and the extension of the socio-economic benefits of mining operations to women in neighbouring communities. The MCA urges the Australian Government to continue to co-operate closely in these efforts, including through practical support for research and other initiatives.

> **Expanding Immigration**

The aging of Australia's workforce and population, the drain of key competencies to minerals operations abroad and the emergence of skill shortages in priority areas, highlights the need for a continued, if steady, expansion in the skilled immigration program.

Promoting Research and Development

The minerals sector accounts for approximately 20 per cent of all industry R&D undertaken in Australia. The MCA advocates:

> further development of private/public sector cooperation to sustain competitive R&D across all sectors of the innovation system; and

> an increase in the R&D tax incentive to 150 per cent to encourage greater R&D in the economy.

Building Critical Infrastructure

> **Energy Reform**

The MCA considers that an open, competitive and integrated national energy market can be achieved by:

- the COAG adhering to clear principles and directions for reform;
- identifying the key issues to be resolved in completing all outstanding National Competition Policy electricity and gas reforms;
- ensuring there is robust energy market governance and a consistent regulatory framework;
- ensuring all energy policy decisions are set to maintain the reliable supply of competitively priced energy for business and individual needs while minimising adverse impacts on the environment; and
- establishing the processes and timelines by which key reforms are to occur.

> **Water Reform**

The MCA considers efficient and cost-effective access to water for the minerals industry can be achieved by ensuring:

- all water management decisions are based on sound science;
- water allocations are guaranteed, they should not be able to be altered (reduced or removed) by government except in exceptional circumstances such as drought;
- risks associated with changes to water allocations due to exceptional circumstances are shared between government and industry – this is critical as the extremely variable nature of water supply in Australia has the potential to create substantial risks;
- the establishment of a national water market within and between States and Territories that is based on the relevant parameters of the region (catchments or basins);
- the effective operation of a national water market should not be limited by the application of any sector based subsidies or rebates, or artificial barriers or impediments to trade; and
- water pricing is based on a user pays system that incorporates all costs.

> **Transport Reform**

The MCA recommends that:

- to improve the strategic planning of land transport solutions and their interface with ports and airports in Australia earlier consultation with the private sector take place and there be a sharper focus on bulk commodity land transport and port needs;
- strategic investment in rail be undertaken as a means of making it a competitive alternative to road. But given the continued growth in the road freight transport task, it is important that there are ongoing efficiency, safety and environmental improvements in the nation's road system;
- while port infrastructure largely rests with State and Territory governments and the private sector, the Australian Government should work with the States and Territories through the COAG:

    - to ensure the provision of adequate port and related facilities to ensure sufficient port capacity is available to meet the expanding needs of Australia's trade;
    - in promoting long-term access planning in relation to transport corridors between ports and other inter-modal centres and into ports via shipping channels; and
    - in long-term planning of land use around ports to allow adequate buffer zones, future port expansion and expansion of the related transport corridors.
- The MCA underscores the need for:
    - timely implementation of the Australian Rail Track Corporation's (ARTC's) capital expenditure program in the Hunter Valley as announced by the Australian Government;
    - development of new rail track access arrangements for the Hunter Valley rail network under the Australian Competition and Consumer Commission; and
    - ongoing consultation by the ARTC with all members of the Hunter Valley coal transport and logistics chain so that key expenditures are undertaken on time.

Expanding Trade Opportunities

The MCA supports :

> an early and ambitious outcome to the WTO's Doha Round of global trade negotiations;

> the launch of full-scale negotiations on a commercially meaningful free trade agreement with China; and

> the completion of commercially meaningful trade agreements with the 10 ASEAN economies, and with Malaysia.

Reducing Greenhouse Emissions to Manage Climate Change

The MCA advocates a global solution to the challenge of climate change. The MCA supports :

> the Australian Government's emphasis on Research, Development and Demonstration in developing a coordinated national approach to stimulating technology development relevant to climate change, building upon work overseas; and

> promotion of a nationally consistent and coordinated approach to managing climate change, and particularly measures for greenhouse gas abatement, through the COAG.

National Competition Policy

> While the scope of future review and reform and the framework in which these principles are applied are matters for COAG to decide, the MCA considers that the Productivity Commission's Discussion Draft proposals for a national reform agenda provide an appropriate basis for those decisions.

Regulatory Reform

> The MCA endorses the Productivity Commission's draft proposals on gate-keeping arrangements for new and amended regulation, vis:

To guard against the unwinding of previous reforms and to help ensure that new regulatory initiatives are in the public interest, all Australian governments should ensure that they have in place effective and independent arrangements for monitoring new and amended legislation.

Consideration should also be given to widening the range of regulations encompassed by gate-keeping arrangements and strengthening national monitoring of the gate-keeping arrangements in place in each jurisdiction and the outcomes delivered.

> In addition, sufficient funds need to be provided by all Australian governments to be able to independently and effectively undertake these tasks.

Legislative Reform

The MCA supports:

> an ongoing process of reviewing legislation (proposed and existing) to minimise its regulatory impact and reinvigoration of COAG's role in this area;

> a regulatory approach which adopts the concept of "minimum effective regulation" which is least cost, performance based and meets the criteria of community acceptance thus underpinning the industry's ongoing licence to operate;

> minimisation of all regulatory costs, such as compliance and adverse side-effects; and

> adoption of the best regulatory approach available to address a defined problem (including an assessment being undertaken of whether self-regulation or no regulation may be more appropriate public policy choices).

Taxation Reform

> **Fuel Excise Reform**

The MCA recommends the Australian Government proceeds with the proposed changes to fuel excise arrangements outlined in the Government's June 2004 Energy White Paper.

> **Uniform Capital Allowance Regime and Effective Lives for Depreciation Purposes**

Whilst these amendments were welcomed, a number of issues remain outstanding and the MCA recommends further amendments be developed to ensure the Parliament's intent in enacting the UCA regime is fully met.

The MCA recommends a cap (say of 20 years) on the effective lives of long lived assets for depreciation purposes be announced as part of the 2005-06 Budget. This would provide a consistent policy approach.

> Fringe Benefits Tax

The MCA recommends the:

- Australian Government extend and simplify the application of the remote area housing exemption. This would correct the current inconsistencies between the FBT treatments on different arrangements for the provision of remote area housing;
- Australian Government exempt other housing related remote area benefits (such as power and water). As remote area housing is intended to be exempt it would be consistent that services provided in relation to the housing itself should also be exempt; and
- Australian Government exempt remote area holiday travel allowance.
- list of excluded fringe benefits (sec 5E(3) of the Fringe Benefits Tax Assessment Act 1986) be extended to include fringe benefits in relation to water for remote area housing.
- $1,000 threshold should be increased based on the changes in the rate of inflation (as measured by the CPI) since 1999 and revised on an annual basis (for example, indexed annually in line with the CPI).

> International Tax Arrangements

The MCA recommends that the Australian Government give further consideration to three major areas of the reform considered during the recent Review of International Tax Arrangements and supported by the MCA:

- dividend imputation treatment of foreign source income;
- dividend streaming of foreign source income; and
- changes to company residence rules (the introduction of a “place of incorporation” test).

> State and Territory Business Transaction Taxes

The MCA, as a member of the Business Coalition for Tax Reform (BCTR), has submitted that the Australian Government, the States and the Territories should enter a new Intergovernmental Agreement (IGA) that maintains the objective of improving State and Territory taxation by removing those taxes listed in the IGA of 1999 that are still in force.

> Tariff Concession Scheme

The Australian Government should scrap the Tariff Concession Scheme that imposes an illogical 3 per cent tariff on imported business inputs that cannot be obtained in Australia. The scheme serves no industry policy purpose, and costs Australian business $300 million annually.

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1. A SUSTAINABLE,WORLD-CLASS MINERALS INDUSTRY

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1.1 THE ECONOMIC SIGNIFICANCE OF THE AUSTRALIAN MINERALS INDUSTRY

Although many Australians, especially those in capital cities, have little first hand contact with the minerals sector, their economic well-being is directly and indirectly influenced by the fortunes of the industry. The minerals sector accounts for 8.5 per cent of the economy, and is directly and indirectly responsible for 330,000 jobs, a large proportion in regional and remote Australia. In addition, minerals exports account for more than 37 per cent of merchandise exports, while the accumulated capital investment in Australia's minerals sector is more than annual output of the entire New Zealand economy.

The industry is one of the most technologically advanced in the world and is also at the forefront of new investment in Australia. Being a highly capital intensive industry, it now counts for around 24 per cent of total private new capital investment in Australian industry. According to Access Economics, the industry accounted for at least 9 per cent (or $20.3 billion) of national capital investment proposals in the pipeline, including those under consideration. In addition, a further $12.8 billion of capital investment proposals is being considered in the metal products sector of the economy, a significant proportion of which relates to minerals sector proposals.

Despite its size and contribution to the Australian economy, the minerals sector receives negligible direct industry assistance from the Australian Government. According to a recent report by the Productivity Commission, the minerals sector receives just over 1 per cent of the $11 billion in various industry assistance measures (outlays, tax incentives and trade protection) conferred by the Australian Government. [5] In fact, most of this assistance is confined to direct government backing for public research institutions, especially the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Instead, the minerals industry recognises that its past success and future prosperity is dependent on a sound and expanding national economy, an educated and cohesive society and a sustainable natural environment.

For this reason, the minerals sector supports public policy settings aimed at the following objectives:

> **sustainable economic growth** characterised by low inflation, low interest rates, fiscal prudence, and a skilled and productive workforce;

> **a sound, fair and stable society**, where effort is encouraged and rewarded and a helping hand extended to those in need; and

> **a sustainable natural environment**, reflecting national consistency and balance in policy settings.

These are ambitious and inter-related goals that can serve as a guide to policymakers, including in the formulation of the annual budget.

1.2 BALANCING FINANCIAL, SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

For its part, the minerals sector is acutely aware of the need to balance financial, social and environmental imperatives. Pursuit of the 'triple bottom line' is a daily feature of the interaction between the minerals sector and hundreds of local communities across Australia and internationally.

This embrace of an integrated approach to sustainable development has been recognised by leading policy analysts, including the Chairman of the Productivity Commission, Mr Gary Banks who told the MCA's 2003 Industry Seminar:

"...while an image of 'rapacious miners' is still held by some sections of the community, a sense of wanting to be good corporate citizens is palpable within the mining industry in Australia. Indeed this industry has probably had to come to terms with the social and environmental context of its activities earlier than most. In this sense, the mining industry is probably the pioneer in 'triple bottom line' corporate thinking." [6]

This approach is an integral feature of the industry's commitment to a 'social licence to operate', a concept that goes well beyond simply maintaining regulatory approvals. To be effective and successful, the minerals sector understands that it must have the support of the communities in which it operates.

This means placing the safety and health of its workforce as its number one priority, working closely with local and Indigenous communities to maximise the lasting economic and social dividend from mining and related operations, and minimising the impact of the operations on the environment.

Reflecting this commitment, the indices of workplace injuries are continuing to fall. But the number of workplace fatalities in the minerals sector (12 in 2004) is unacceptable. The pursuit of zero fatalities will remain the industry's highest priority.

5 Productivity Commission, *Trade and Assistance Review 2003-04*, December 2004.

6 Gary Banks, Chairman Productivity Commission, 'Minimum Effective Regulation and the Mining Industry', *Address to Minerals Council of Australia Annual Industry Seminar*, 3 June 2003.

In the contemporary Australian minerals industry, environmental considerations are now being integrated into every relevant aspect of decision-making, as is development of mutually beneficial relationships with communities (including with Indigenous peoples) in which the industry operates. The problem, 'the lowest common denominator performer', may drag down general perceptions of the industry, but a distinguishing feature of the contemporary industry is an unequivocal and clear commitment to meeting community standards and expectations. This extends equally to human resource and management considerations that are also very high on the contemporary industry's agenda.

This means that minerals projects need to be safe, financially profitable, technically appropriate, environmentally sound and socially responsible. Importantly it is about the interdependency of these social, environmental and financial considerations – a three dimensional prism through which the industry can focus on its contribution to the economy and to Australian society.

Indeed, **the industry considers its future is inseparable from the global pursuit of sustainable development** and has made considerable progress on a collective framework for continuous improvement through Enduring Value – the Australian Minerals Industry Framework for Sustainable Development (http://www.minerals.org.au/enduringvalue).

Enduring Value – the Australian Minerals Industry Framework for Sustainable Development:

> aligns with global industry initiatives, and in particular provides critical guidance on the International Council on Mining and Metals (ICMM) Sustainable Development Framework Principles and their application at the operational level;

> builds on the Australian Minerals Industry Code for Environmental Management – the platform for industry's continual improvement in managing environmental issues since its introduction in 1996;

> provides a vehicle for industry differentiation and leadership, building reputational capital with the community, government and the finance and insurance sectors; and

> assists the industry to operate in a manner which is attuned to the expectations of the community, and which seeks to maximise the long-term benefits to society that can be achieved through the effective management of Australia's natural resources.

A RESOURCEFUL NATION

Australia is the world's largest refiner of bauxite and the fourth largest producer of primary aluminium. It is the largest producer of industrial diamonds, lead and tantalum, and the mineral sands ilmenite, rutile and zircon. It is the second largest producer of zinc and nickel, the third largest producer of gold, iron ore, lignite, silver and manganese ore. Australia is the fourth largest producer and leading exporter of black coal and the fourth largest producer of copper. Australia has the world's largest resources of low-cost uranium.

Source : Geoscience Australia, Australia's Identified Minerals Resources, December 2004. www.ga.gov.au

2. AUSTRALIA'S MINERALS SECTOR: PERFORMANCE AND OUTLOOK

> The MCA Mine Production Index has risen by 43 per cent over the last 10 years.

> Industry profitability moderated in 2003-04, but remains at a level slightly above the average of the past 10 years and the long-term bond rate.

> Industry investment is expected to rise in 2004-05.

> The minerals industry is the best example of 'comparative advantage' in the Australian economy.

> Australia's economic future looks likely to emulate the past, with Asia's major "industrialising economies", China and India, fuelling demand for mining and downstream processing of our resources.

> The minerals industry is the agent for the wealth transfer from commodity-using China to commodity-producing Australia.

> For most minerals exports from Australia, China has become a major buyer so developments in the Chinese economy and especially its minerals and metals sector have important implications for the Australian economy.

> This complements Australia's very important trading relations with Japan, the Republic of Korea and Taiwan.

> There are risks to the outlook, with a worrying downturn in exploration expenditure : Australia is now outpaced by South America, Canada and Africa as locations for the share of world minerals exploration expenditure.

2.1 TRENDS IN THE AUSTRALIAN MINERALS INDUSTRY

The Australian minerals sector is undergoing a period of expansion. Production, investment and employment are all increasing, driven by strong demand from key markets, especially in East Asia.

Industry revenues recorded by respondents to the MCA's annual Minerals Industry Survey were 9 per cent higher in 2003-04 than the previous year. [7] Mine production was 4 per cent higher, while the smelting and refining production index rose by 6 per cent in 2003-04. Meanwhile, employment in the minerals sector grew by a robust 12 per cent last year. The increase in production output reflects the industry's response to steady expansion of demand from East Asia and other markets over several years. Indicative of this trend, the MCA mine production index is 43 per cent higher than it was 10 years ago.

Financial Performance

To date, the current period of improved demand has not yet been matched by an improvement in profitability. On most indicators, the financial performance of the minerals industry in 2002-03 was down on the previous year, but achieved a level similar to the average for the last 10 years. Mining sector profitability fell marginally and smelting and refining sector profitability improved slightly but from a low base. These results reflect 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.

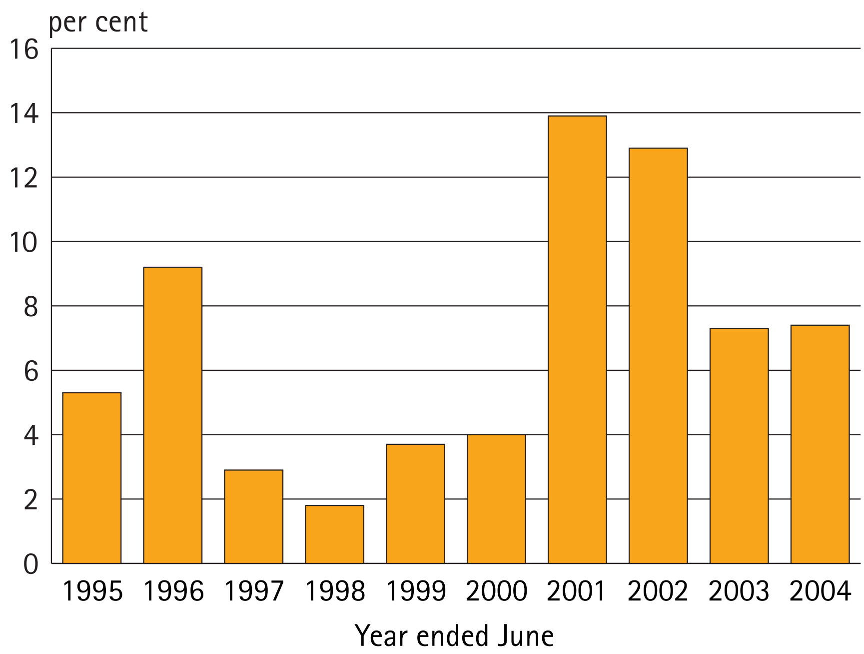
Net profit return on average shareholders' funds was 7.4 per cent in 2003-04, compared with 7.9 per cent in 2002-03 and 12.9 per cent in 2001-02. The 2003-04 result remains above the 10 year average (1994-95 to 2003-04) for the industry of 6.9 per cent.

Net profit return on average assets employed fell, however, from 2.9 to 2.7 per cent and remains below the 10 year average of 3.1 per cent.

At the end of 2003-04, borrowings were $12.2 billion, 1 per cent higher than at the end of the previous year. As a result of the rise in borrowings and the relatively larger rise in the level of shareholders' funds, the gross debt to debt plus equity ratio fell, from 0.26 in 2002-03 to 0.22 in 2003-04, below the average for the past 10 years of 0.28.

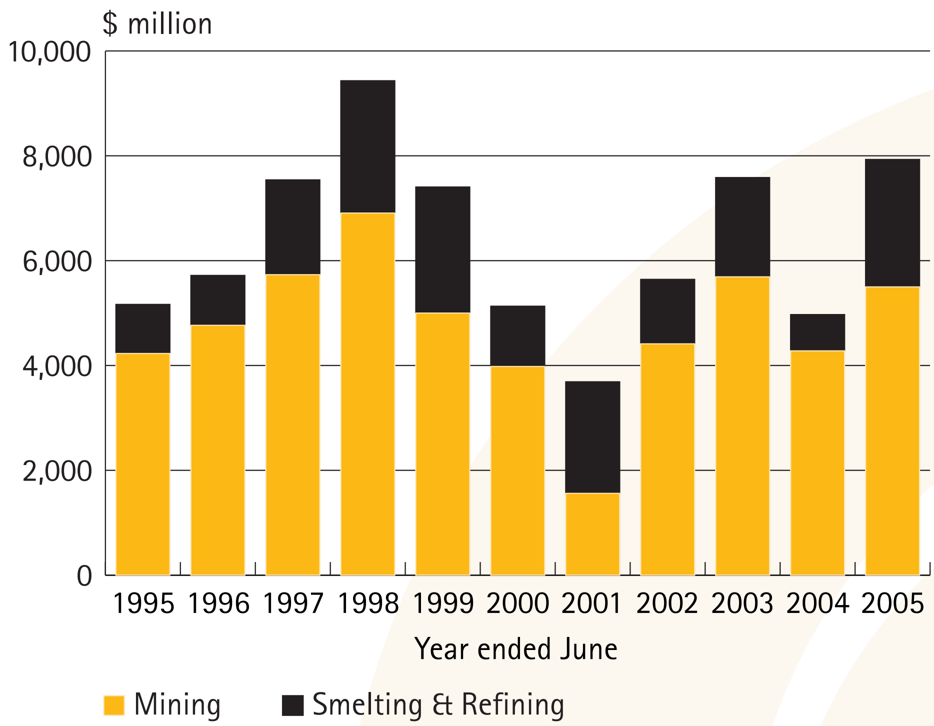
7 Minerals Council of Australia and PricewaterhouseCoopers, *Minerals Industry Survey 2004*.

CHART 1: NET PROFIT – RETURN ON SHAREHOLDERS' FUNDS



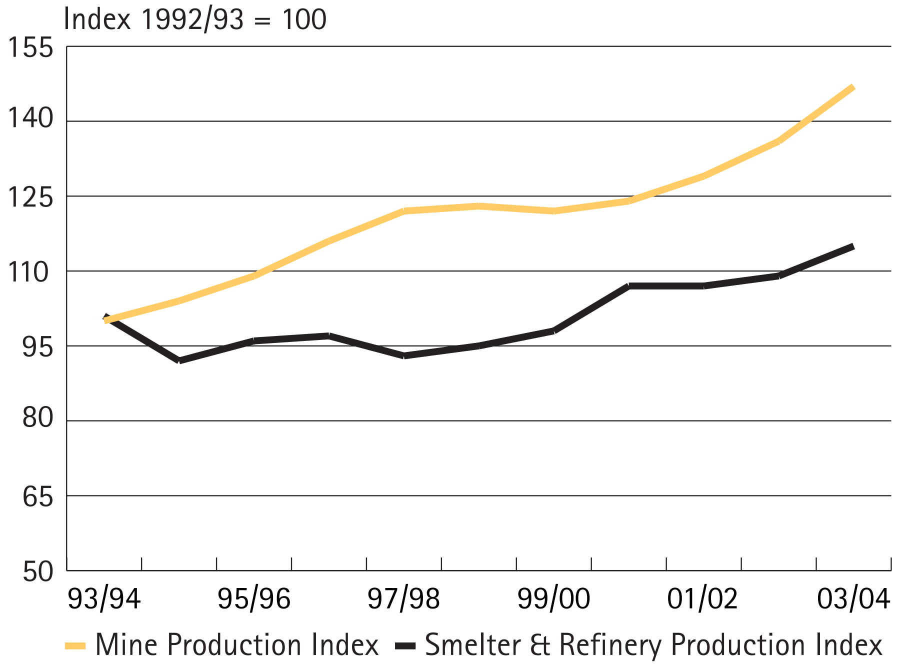
Source: Minerals Council of Australia, 2004 Industry Survey Report

CHART 2: REAL SPENDING ON FIXED ASSETS (2002/03 DOLLARS)



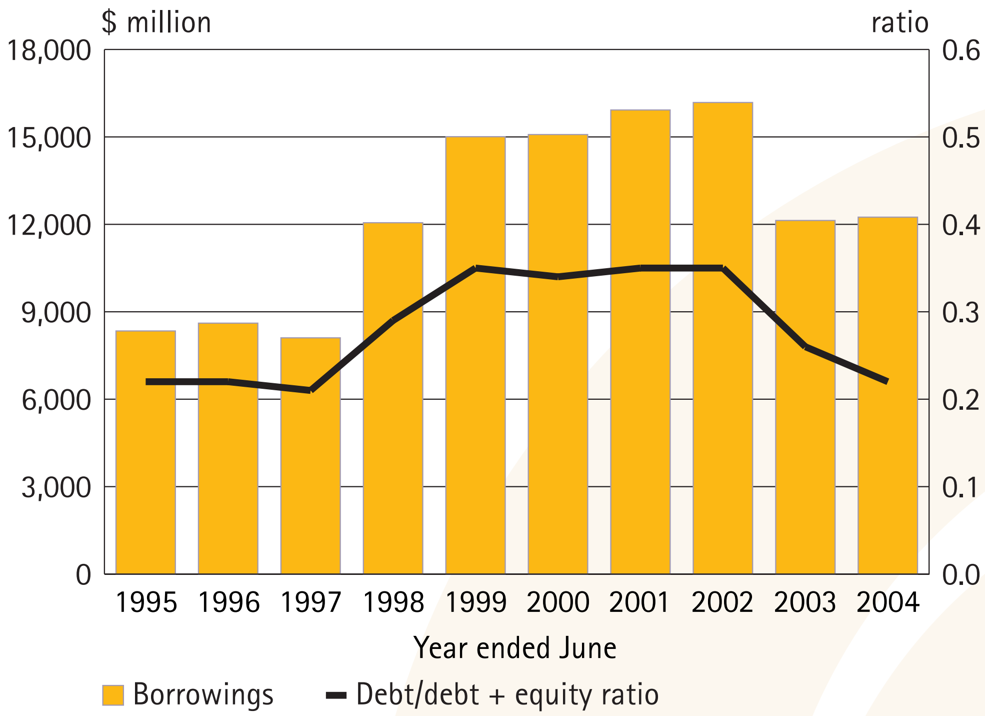
Source: Minerals Council of Australia, 2004 Industry Survey Report

CHART 3: MINERAL PRODUCTION



Source: Minerals Council of Australia, 2004 Industry Survey Report

CHART 4: BORROWINGS AND DEBT/DEBT+EQUITY RATIO



Source: Minerals Council of Australia, 2004 Industry Survey Report

Investment Trends

Despite modest returns over the last year, there is considerable optimism about near and medium term growth prospects. This is reflected in recent and prospective growth in investment in the sector. For example, Australian Bureau of Statistics (ABS) survey data show that new capital expenditure in the mining industry was $9.28 billion in 2003-04, 6 per cent higher than in 2002-03.

According to ABARE, in real 2003-04 dollar terms, new capital expenditure in 2003-04 was the highest since 1998-9, and approximately 26 per cent above the average annual expenditure for the past 23 years. [8] ABARE expects that capital expenditure in the sector will remain strong in 2004-05.

Separate data compiled by Access Economics shows the minerals sector accounts for some 9 per cent (or $20.3 billion) of national capital investment proposals in the pipeline including those under consideration. A further $12.8 billion of capital investment proposals are being considered in the metal products sector of the economy, much of which is minerals-related.

TABLE 1: MINERAL PROJECTS COMING ON-LINE

Sector	Under Construction ($m)	Committed ($m)	Under Consideration ($m)
Coal	1,345	358	3,738
Metal Ores	1,841	2,192	10,352
Other	336	--	158
Total Mining	*3,522*	*2,550*	*14,248*
Metal Products	1,110	2,914	8,760

Source: Delta Electricity and Access Economics' Investment Monitor, December 2004

Industry spending on associated infrastructure is also increasing, and is now 50 per cent higher than it was in 1997. But despite this strong increase in spending, a gap has emerged between production capacity and the infrastructure necessary to facilitate its export. If this gap persists, or widens further, Australia will fail to capitalise on the opportunities provided by strong growth in demand for mineral commodities in East Asia.

TABLE 2: INFRASTRUCTURE PROJECTS RELEVANT TO THE MINERALS SECTOR UNDER CONSTRUCTION OR COMMITTED

Sector	Queensland ($m)	NSW ($m)	Western Australia ($m)
Ports	168	--	2,380
Rail	270	254	42
Electricity (black & brown coal)	1,100	72	240

Source: Delta Electricity and Access Economics' Investment Monitor, December 2004

2.2 OUTLOOK FOR AUSTRALIAN MINERALS EXPORTS

The outlook for the value and volume of Australian minerals exports is favourable. ABARE expects minerals and energy exports to reach $65 billion in 2004-05, up from $53 billion in 2003/4. The expansion will include most commodities:

- the value of coal exports is expected to reach $16.1 billion in 2004-05, a 48 per cent increase;
- iron ore exports are forecast to reach $7.13 billion in 2004-05, up 35 per cent;
- the value of alumina exports is expected to reach $4.05 billion in 2004-05, an increase of 5.9 per cent, while aluminium exports are forecast to $3.68 billion this financial year, up 7.2 per cen;
- copper exports are tipped to reach $2.67 billion in 2004-05, up 23.1 per cent;
- exports of nickel are forecast to hit $3.72 billion in 2004-05, an increase of 20.7 per cent; and
- overseas sales of zinc are expected to reach $1.31 billion in 2004-05, up 7.8 per cent.

8 Australian Bureau of Agriculture and Resource Economics, *Australian Commodities*, Vol 11. No.4, December Quarter 2004, p.633.

Developments in Overseas Markets

Japan and the Republic of Korea remain our largest customers for resource products with 26 per cent, or $14.4 billion destined for Japan. Our major minerals exports to Japan for 2003 were:

> coal ($4.5 billion);
> iron ore ($2.0 billion);
> aluminium ($1.3 billion); and
> liquefied natural gas (export details are confidential).

Japan is also a key source of foreign investment – $48 billion as at 30 June 2003. Bilateral trade with Korea in 2003 was $12.8 billion. Korea is Australia's fifth largest export market worth $8.1 billion in 2003, comprising exports of:

> coal ($1.1 billion);
> crude Petroleum ($0.9 billion);
> non-monetary gold ($0.8 billion);
> iron ore ($0.7 billion); and
> aluminium ($0.5 billion).

The Emerging Role of China

For Australia, the continued growth in the Chinese economy promises to be the most enduring and advantageous trend for Australian wealth creation. This is because, as discussed in **Attachment A**, this growth supports additional minerals exports from Australia, and Australia's minerals industry is thereby a key channel through which China's rising prosperity is expected to support Australian economic growth over coming decades.

Australia is the world's best supplier of industrial inputs to rapidly growing economies in Asia – a genre represented by Japan in the 1960s, the north east Asian Tigers in the 1970s, the south east Asian Tigers in the 1980s, and China, India and Indonesia today. China's robust growth in recent years means that demand for Australia's resources has increased, as evidenced by rising world prices. Australia's top five goods exports for 2003 were mining and minerals processing related: coal, gold, iron ore, crude petroleum and aluminium – for which Chinese demand has been growing strongly.

Yet the current high world prices may not last – after all, Australia is not the only nation seeing rapid new investment in resource commodity capacity. As that comes on-stream globally through 2005 and 2006, world prices for Australia's resource exports are likely to moderate.

2.3 THE OUTLOOK FOR AUSTRALIA'S TERMS OF TRADE

The Australian mineral industry's terms of trade [9] have continued to decline on a long-term trend basis by around 2 per cent a year – reflecting a decline in prices in real terms of the same order. Indeed, competition between minerals companies has been so fierce that productivity gains of the past have been transferred almost entirely to customers in the form of lower real prices.

World commodity prices usually rise and fall on the back of world industrial demand, meaning Australian exports, the $A, and the terms of trade [10] all tend to be lower when the world is weak. This is not the case at present. There has been a rise in Australia's terms of trade since 1998-99, despite variable global trading conditions during this period.

The fundamental reason for this relates to Australia's role as a major commodity exporter. In effect, China buys minerals from us, and we buy manufactures from them, and the relative price between the two – how many manufactures Australia is able to buy for each tonne of mineral ore – has been moving in our favour since 1989.

That is transferring a tremendous amount of income to Australia – according to Access Economics, almost $30 billion (3.8 per cent of national income) more each year than we would be receiving had we retained the terms of trade between minerals and manufactures that Australia faced a decade ago.

In other words, most of the benefit to Australia of the rapid industrialisation of China comes not direct to Australia's minerals sector itself, but to the annual purchasing power of Australian families, companies and taxpayers.

That is not to say there is not a direct benefit to the minerals sector as well. **Chart 5** indicates China's share of global consumption for key mineral commodities and its share of world population. Clearly, China's rapid industrialisation opens up

9 For an industry, the 'terms of trade' is a measure of its output selling prices to its input cost prices.

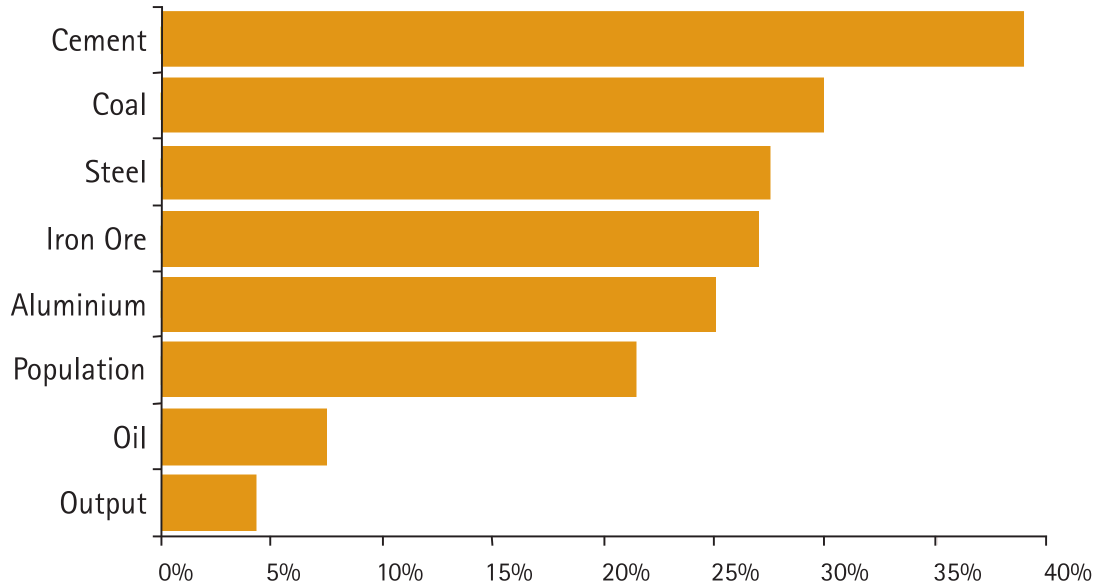
10 For a nation, the 'terms of trade' is the ratio of the prices our exports receive to the prices we pay for our imports.

opportunities for commodity exporters. The major Australian commodity exports to China are iron ore, alumina, copper and nickel. Related to that, China is investing in Australian iron ore, nickel and natural gas projects. Iron ore is fuelling China's steel production, supplemented with nickel in stainless steel production.

There has been much discussion about the outlook for China. An ongoing concern is that if policy measures implemented to moderate growth are too blunt, China's economic performance would weaken significantly with consequent impacts on world demand for minerals and world activity generally. This would also impact Australia significantly as recent significant increases in the demand for resources has been driven by Chinese demand.

Economic growth in the last few quarters has begun to slow slightly. The latest estimate of real GDP growth is that it grew in real terms by 9.1 per cent in the September quarter 2004 compared with 9.7 per cent in the June quarter and 9.8 per cent in the March quarter. Growth in industrial production and fixed capital investment also remain strong, but some other indicators are showing an easing in economic activity. The ABARE is assuming a contraction in growth from an average of 9.3 per cent in 2004 to 7.3 per cent in 2005 in its latest commodity forecasts.

CHART 5: CHINA'S CHARE IN GLOBAL CONSUMPTION AND WORLD POPULATION



Source: World Bank

Similarly, coal and metal ores dominate Australian exports to India.

For most minerals exports from Australia, China has become a major buyer so developments in the Chinese economy and especially its minerals and metals sector have important implications for the Australian economy.

In addition, China is becoming a significant producer of aluminium and in the longer-term could become a significant exporter. China also has sizeable but largely underdeveloped mineral reserves that could see it emerge as a competitor in the future. Currently, its development is constrained by significant local under investment in infrastructure. For example, poor extraction techniques and underdeveloped rail networks currently constrain alumina production. Moreover, perceived 'rule of law' weaknesses and relatively thin capital markets loom as short term constraints.

So, as Mr Glen Stevens, Deputy Governor of the Reserve Bank of Australia said recently:

> "For Australia, a global growth situation that is strong enough to be exerting upward pressure on energy (and other resources) prices, and where growth is weighted towards Asia, seems for the moment a favourable one." [11]

11 Mr Glenn Stevens, "Economic and Financial Conditions", address to the Australian Business Economics and the Economic Society of Australia (NSW Branch), 14 December 2004, page 4.

The International Monetary Fund (IMF) also believes that the near term outlook for Australia's terms of trade is a positive one, concluding that "a number of factors suggest that the improvement in Australia's terms of trade may continue for some time".

> "Given its vast rural population, China's industrialisation and urbanisation process is likely to last for a sustained period, feeding into a steady demand for raw materials and prolonged downward pressure on the prices of the manufactured products that China exports or will soon export on a large scale. In addition, other currently poor economies, especially India, are poised to repeat the Chinese experience, and become more important trading nations." [12]

The Australian minerals sector has a proud history of developing long-term strategic relationships with customers in the interests of trading with them for many years if not decades. In this regard, Australia's very important trading relations with Japan, the Republic of Korea and Taiwan stand out.

But it is important to keep a close eye on both developments in these markets and in China and ensure the Australian policy parameters are appropriate over the business cycle.

Risks to the Growth Scenario

The promising outlook for minerals exports is not a reason for complacency. Constraints on the scale and longevity of the export expansion are emerging, both on the macro- and microeconomic fronts. In the following two chapters, the MCA details a comprehensive set of policy recommendations designed to ensure that the Australian economy in general, and the minerals sector in particular, is positioned to overcome unforeseen economic shocks, and to fully exploit the opportunities presented by strong growth in Asian and other markets.

12 IMF, op cit, p.22.

3. GETTING THE MACROECONOMIC POLICY SETTINGS RIGHT

3. GETTING THE MACROECONOMIC POLICY SETTINGS RIGHT

> The minerals sector is the conduit for a vital wealth transfer from commodity-using Asia (especially China) to commodity producing Australia.
> Policymakers therefore have a responsibility to ensure macro policy settings are correct.
> Macroeconomic policy needs to be conducive to maximise the efficiency of this transfer.
> Australia is currently in a position of economic strength – but as always, there are a number of risks to this position.
> It is important to maintain an appropriate balance between fiscal and monetary policy and adopt an "investment over consumption" approach to macroeconomic policy.
> There is a strong case for fiscal policy to stop being expansionary in the 2005-06 Budget as current revenue growth is a temporary windfall and there are risks that it is being spent on permanent promises.
> Any expenditure savings in the 2005-06 Budget should be directed at real cuts in Australian Government recurrent expenditures rather than cuts to capital or infrastructure expenditures.
> Australia needs to make Budget choices consistent with long-term domestic and global pressures. If not, Australians will be locked out of the benefits of economic progress. It is important that the 2002 Intergenerational Report issues figure more prominently in the national debate.

3.1 THE MACROECONOMIC OUTLOOK

Global growth in 2004 was the strongest seen in 30 years, and strong global growth continues to underwrite many commodity prices. Australia is currently in a position of economic strength. However, there are a number of risks to this position going forward. In brief, it is of concern that:

> US policymakers are not acting fast enough or substantially enough to rein in the huge US Budget deficit. That is putting considerable pressure on the $US, and therefore on the $A, running the risk of both curtailing global growth and pricing Australia out of key commodity markets;

> Japanese policymakers risk squandering the best chance of self-sustaining recovery in a decade unless they match the improvements in the corporate industry (achieved via considerable cost cutting) with policy courage of their own. Similarly, Europe's economies remain over-regulated, under performing and overpriced (the latter partly due to the current overvaluation of the euro);

> Another external challenge arises from the pressure of strong demand growth and supply fears on oil prices. Although prices have been this high before in real terms, the supply side of the oil market is struggling to keep ahead of the demand side, and chances are that 'sustainable' oil prices will now be over $US30 a barrel. The impact on global growth of such higher prices is somewhat unclear – on one hand, they will may well present a lingering constraint on global growth, while on the other hand they also create some opportunities in energy development in countries such as Australia.

Some, such as the Melbourne Institute of Applied Economic and Social Research [13], have argued that there are several differences between current oil price rises and those that preceded previous recessions (oil prices have been rising largely due to increasing demand for oil and the recently high oil prices are part of a correction of a price slump, rather than a spike to a new high). This means that they view the potential economic impact on Australia of higher oil prices as negligible, unless there is a significant slowdown in the global economy. They do note, however, that this depends to some extent on whether the RBA responds to higher oil prices by raising interest rates;

> Australia's domestic economic cycle is relatively mature, with both housing construction and retail sales growth facing risks through 2005 and into 2006, and with housing prices likely to be stalled. The latter means that Australia's household saving ratio – currently negative, as the average family borrows to make up a shortfall in its cash flow – will have to rise, as families can no longer rely on continued capital gains in housing to increase their wealth and provide for their retirement;

13 Associate Professor Mark Crosby for the Melbourne Business School, "The Economic Outlook", address to the Melbourne Institute Business Economics Forum: Melbourne, 2 December 2004, pages 3-12.

> The rising $A puts exports at risk, threatening the ability of exports to take an increasing share of the load as domestic demand growth steps down, the more so if increased global commodity supply through 2005 and 2006 undercuts the buoyancy in Australia's terms of trade (currently at their highest in three decades); and

> Tax receipts have grown rapidly, allowing the Australian Government to boost the economy via tax cuts and family benefits. However, remaining Budget surpluses are unlikely to afford continuing fiscal boosts.

Further discussion on the macroeconomic outlook is provided in **Attachment B**.

3.2 RECENT BUDGET POLICY

The recent Election campaign saw sizeable amounts of additional spending off the back of solid revenue growth and top of commitments made in the May Budget (according to Access Economics, $66 billion over five years has been committed since May 2004). There are two questions that follow:

> Will the revenue surge last?

> What should it be spent on?

Official estimates have robust revenues lasting to 2007-08. More broadly, the Intergenerational Report (IGR) of 2002 suggested a phase of surpluses into the first half of next decade. The answer to the second question is that money is best spent on improving future growth – in effect, the known spending threats of future decades will be more readily handled if we boost incomes in the meantime through higher productivity and participation. On the first, current projections to 2007-08 are the combination of current trends and current conditions projected forward several years. By definition, that locks in the recent revenue surge.

The MCA sees three risks to this continued revenue position:

> economic growth may slow, and reduce profit growth with it. A strong economy and profit share have helped revenues. As noted above, housing activity may wane, reducing spending on key consumer durables at the same time. All of these factors could weaken the tax take;

> capital gains tax revenues have lifted in response to the sustained surge in capital gains and higher levels of personal wealth (the net wealth of the average Australian family has gone from four times to six times pre-tax income in 10 years). The lag in capital gains tax receipts may see growth in revenue in 2005-06, and perhaps 2006-07, but ease thereafter as capital gains subside across many assets. This is a second risk to revenue strength; and

> as a result of the demographic bulge of the baby boom and the substantive shift of women into the paid workforce, there are now more Australians in work paying taxes as a share of the total population than ever before. This job ratio has provided strong revenues and reduced some of the pressures on spending. Although the job ratio will not fall notably until the early years of next decade, the end to its long rise may undercut a central driver of revenue growth.

In addition, the MCA remains concerned that State Governments have increased their reliance on dividend and other revenues from infrastructure-intensive Government Business Enterprises (GBEs), raising the prices of the services they provide and constraining their abilities and incentives to make infrastructure investments. While National Competition Policy (NCP) related reforms have increased competition and reduced the potential for such "dividend stripping" in many industries, others (particularly ports and electricity) remain dominated by GBEs subject to such pressures. [14]

3.3 RECOMMENDATIONS FOR THE 2005–06 BUDGET

The MCA advocates a macroeconomic environment characterised by stable growth, low inflation, fiscal prudence and relatively steady interest rates to achieve sustainable economic growth and low unemployment.

As in previous Pre-Budget submissions the MCA underscores the importance of maintaining an appropriate balance between fiscal and monetary policy and an "investment over consumption" approach to macroeconomic policy. There is also a need for increased investment in "soft" and "hard" infrastructure in preference to a redistribution of the Federal Budget surplus for consumption by virtue of tax cuts and family assistance payments.

In addition:

(a) interest rates need to be at a level to keep underlying inflation in the Reserve Bank's 2 to 3 per cent target range over the course of the business cycle and not place upward pressure on the $A/$US exchange rate. The RBA needs to keep rates relatively steady (and near 'sustainable' rates), and to avoid sudden changes of tack. This is now especially important given that Australian families have taken on higher debt-to-income ratios than previously;

(b) budget balances should be set to generate fiscal surpluses while the economy remains strong, given the knowledge that

14 For example, it was recently claimed that a $6 billion investment program by Queensland's GBE power distributors is simply making up for shortcuts and dividend stripping in the past and that the Queensland GBEs had been run more for paying dividends to the government than for providing service and security of supply to customers. See Stephen Wiesenthal, "Queensland energy plans criticised", The Financial Review, 22 December 2004.

coming decades will add considerably to spending pressures; and the budget stance should not require the RBA to focus on short term economic conditions at the expense of its objective to control inflation (that is, fiscal and monetary policies need to be kept in balance); and

(c) taxation, competition (particularly related to energy, transport, legislative and water reform), regulatory, workplace relations, education and other microeconomic policies should be focussed on increasing growth in Australia's productivity and in our workforce participation rates, while focussing migration policy on addressing any longer-term skills shortages and any shortfall in Australian population growth arising from our below replacement birth rates.

The discussion in the previous section is a reminder that recent strong revenue growth has been unsustainable. In addition, the matching surge in spending may not generate much additional productivity or participation.

If so, then the current revenue surge is a temporary windfall, and there are risks that it is being spent on permanent promises, implying that coming years will require some winding back of recent decisions.

Certainly there is a strong case for fiscal restraint in the 2005-06 Budget. This budget will need to see expenditure savings – the start of the long series of expenditure savings, the need for which was spelt out in the Intergenerational Report of 2002.

Moreover, any expenditure savings in the 2005-06 Budget should be directed at real cuts in Australian Government recurrent expenditures rather than cuts to capital or infrastructure expenditures, with a particular focus on greater efficiency in government administration.

Privatisation receipts

An issue in this is the use to which privatisation receipts are put. The MCA commends the consistent statements of the Treasurer, Mr Peter Costello that proceeds from privatisation should be largely used to retire debt. After all, to use privatisation receipts to retire debt means that there is no additional call on capital markets, as no new physical asset is being created.

With such "ordinary" privatisation receipts, the MCA commends the Australian Government for its view that the bulk of privatisation receipts should go to debt retirement, having regard to the budget position.

The MCA also notes the Australian Government has renewed its commitment to selling its remaining share of Telstra.

The importance of telecommunications, and the associated regulatory regime, to the level of social amenity in remote and regional Australia, and to economic efficiency generally is well understood.

The MCA is interested in the provision of efficient telecommunications services both as a user and because of the telecommunications industry's impact on the rest of the economy that supports the minerals sector. For example, efficient distribution and transportation chains require cost-efficient, competitive and technologically efficient telecommunications systems. This is best achieved through telecommunications regulation that follows National Competition Policy guidelines and principles.

It is also important that the proceeds of the full privatisation are not wasted (recognising the near neutral present value effect on the Budget). The Australian Government should give consideration to how these funds are to be allocated. This suggests the need for an appropriate balance between debt retirement, any Future Fund to address superannuation or health needs for the future with an aging population, and investment in essential public infrastructure directly linked to wealth creation.

3.4 THE BUDGET OVER THE LONGER-TERM

Recent spending has pressured the structural integrity of the Budget. Access Economics estimates suggest that the structural surplus rebuilt somewhat in 2002-03, but worsened in 2003-04 due to the personal income tax cut of July 2003, and 2004-05 and 2005-06 are expected to see a notable deterioration in the structural integrity of the Budget. There is a risk that by the latter year the structural Budget may return to deficit, driven by the policy decisions in the six months from April to October 2004.

An even longer-term perspective – such as that spelt out in the 2002 Intergenerational Report (IGR) – raises even deeper concerns. A little over a decade from now, the IGR pointed to the emergence of what may eventually become very large Australian Government primary deficits (fiscal deficits less net interest costs) if action is not taken to counteract that.

The IGR quantified those primary Federal Budget deficits rising to some 5 per cent of national output by the early 2040s in the absence of corrective action by governments. This would be the equivalent in today's money of an annual Australian Government deficit of $42 billion.

Addressing this is clearly a daunting policy task for the Australian Government. It can be expected that in addition to these spending pressures, others will come. This is likely to include the environmental issues surrounding the greenhouse effect and salinisation, as well as the need to upgrade obsolete defence equipment.

Even though the IGR identified the major task facing policy makers over the coming decades, the public debate on the issues raised by the Report has hardly progressed. Remedies for resolving future health and welfare system pressures could involve a combination of either spending pressures being brought under control or taxes drifting upwards.

The broad conclusion of the IGR is that tomorrow's taxpayers will not be able to afford today's health and welfare system. The preference of the MCA is for spending to be restrained and reduced over time rather than increasing taxation. Australia needs to make Budget choices consistent with long-term domestic and global pressures. If not, Australians will be locked out of the benefits of economic progress. It is important that the IGR issues figure more prominently in the national debate.

Summary of Recommendations:

> *the Federal Budget aim to be in overall surplus over the course of the economic cycle;*

> *interest rate policy continue to aim for inflation of 2 to 3 per cent;*

> *taxation, competition (particularly related to energy, transport, legislative and water reform), regulatory, workplace relations, education and other microeconomic policies should be focused on increasing growth in Australia's productivity and in our workforce participation rates;*

> *migration policy to focus on addressing any longer-term skills shortages and any shortfall in Australian population growth arising from our below replacement birth rates; and*

> *Budget choices need to be consistent with long-term domestic and global pressures – taking account of the 2002 Intergenerational Report – otherwise Australians will be locked out of the benefits of economic progress.*

4. MINERALS COUNCIL POLICY AND THE FEDERAL BUDGET

4. MINERALS COUNCIL POLICY AND THE FEDERAL BUDGET

To fully realise its growth prospects, the minerals industry needs to be safe, globally competitive, socially responsible and trusted, innovative in technology, processes and systems, and environmentally responsible. This in turn requires a stable and integrated mix of supplementary economic, social and environmental policies, the key planks of which are:

> policies to encourage minerals exploration and to increase Australia's national minerals inventory;
> policies conducive to undertaking R&D and accessing technology;
> a nationally structured, open and competitive energy market but with a premium attached to ensuring sustainable security of supply;
> an efficient and cost-effective national market for water;
> increased Australian Government resourcing of education, training, employment and community development programs in regional and remote communities;
> a national strategic approach to multi-modal transport solutions with a greater emphasis on bulk commodities in AusLink and delivering improvements to the Hunter Valley rail system in NSW;
> further market liberalisation and encouraging freer world trade through multilateral, bilateral and regional initiatives;
> working towards an effective global response to managing climate change, supporting R&D and demonstration plants to lower emissions and developing nationally consistent policies and strategies for greenhouse gas abatement;
> continued national competition policy conducive to markets operating competitively and efficiently;
> development of an efficient and internationally competitive tax system, which contains no non deductible business expenditures; and
> removal of taxes on business inputs, notably on fuel and other essential business inputs.

4.1 POLICIES TO INCREASE AUSTRALIA'S MINERALS INVENTORY

Mineral Exploration Action Agenda

There has been a very significant decline in the level of mineral exploration expenditure in Australia in recent years. While the exploration industry is cyclical, it is widely acknowledged by industry and governments that the current decline in exploration reflects structural changes to the minerals industry, changes to land access conditions and emerging gaps in pre-competitive geoscience information and human and intellectual capital. The decline also reflects market outcomes.

As noted in section 2.1, notwithstanding the increase in exploration expenditure in Australia, Australia's share of global exploration expenditure has fallen further, to the point where we are now outpaced by Latin America, Canada, Africa and countries classified in the "rest of the world" categories as locations for mineral exploration expenditure. In 2003-04, Australia's share of worldwide exploration expenditure fell to 14.7 per cent (down from 15.5 per cent in 2002-03). See www.metalseconomics.com for further details.

There were a number of key developments in this area during the year that sought to address the low level of mineral exploration expenditure in Australia.

In particular, the Australian Government has adopted much of an enterprising plan developed by industry to revitalise minerals exploration in Australia by addressing the structural and market failure impediments that have exacerbated the cyclical downturn in minerals exploration expenditure and discovery since the mid 1990s.

The announcement, in July 2004, of a Resources Exploration Strategy, featuring the report of the Minerals Exploration Action Agenda (MEAA), The Road to Discovery, includes joint industry/government commitments to address access to land, access to finance, the quality and availability of onshore pre-competitive geoscience data, and maintenance of a world class pool of professionals for the industry. See www.industry.gov.au/minexpagenda for further details.

However, the centrepiece of the plan, a flow through shares scheme, yet to be embraced by the Australian Government, would extend tax deductions for exploration expenditure to investors. Flow through shares are an alternative to ordinary shares as a means of raising external capital to finance exploration. The major difference is that under a flow-through share arrangement, the exploration company passes the tax deductions that it can't realise itself through to its investors where they can be realised immediately. Such a scheme has done much to revitalise exploration expenditure in Canada over the past decade, which recently overtook Australia as the world's number one location for exploration investment.

In Canada's case, the exploration company gives up the tax deduction that it would normally receive for qualifying exploration expenses. Instead, the investor receives the tax deduction and the investor pays capital gains tax on the full value received on the sale of flow through shares rather than just the actual capital gains. [15]

Further, the Australian Government has not yet agreed to increase public expenditure on pre-competitive geoscientific data to better map Australia's prospective exploration capability. The importance to exploration of modern pre-competitive fundamental geoscientific data (that is, high quality, digital data) has been identified. However, the present coverage across Australia is incomplete and patchy, varying considerably across jurisdictions. In general, the coverage of basic modern information is lowest in the larger States of Western Australia and Queensland: these States together account for nearly 75 per cent of all mineral exploration in Australia.

The MEAA has recommended that, in partnership with the States and Northern Territory, the Australian Government co-fund a major pre-competitive geoscience survey program to achieve national coverage of basic geoscience datasets to modern standards. The basic data should be augmented by pre-competitive datasets from new cost effective mapping technologies as appropriate. Expenditure on this program at $25 million per annum is recommended to complete the coverage by 2014.

These measures were central to a suite of recommendations put to the Australian Government in response to a series of State and Federal Parliamentary Inquiries into the parlous state of minerals exploration in Australia, and particularly relative to competitors like Canada.

The consequences of not responding to these changes are serious. Independent agencies have warned that if the current downturn in mineral exploration is sustained, Australia's mineral production and exports will decline over the medium to longer-term. Australia's leading commodity forecaster, ABARE has warned that "a return to higher levels of exploration expenditure may be necessary to secure a sufficient resource base to enable continued sectoral growth over the long-term". Geoscience Australia, which maps Australia's minerals resources, has put the problem even more starkly, warning that "if this [downward] trend is sustained, Australia's mineral production and exports will decline over the medium to long-term". [16]

Recommendation:

The MCA recommends the Australian Government announce as part of the 2005-06 Budget the introduction of a flow through shares scheme for small, independent "junior" explorer at an estimated cost of $250 million over 4 years, and additional Australian Government expenditure of $12 million on pre-competitive geoscientific data to better map Australia's prospective exploration capability.

Indigenous Relations and Agreement Making as Alternatives to Native Title Disputation/Litigation

Currently more than sixty per cent of minerals operations in Australia have neighbouring Indigenous communities. At the leadership level and on the ground, recent years have seen a watershed in the ways in which the industry and Indigenous communities work together to achieve mutually beneficial outcomes. Increasingly, both the industry and Indigenous people have recognised the large amount of public and private expenditure that has been spent on Native Title litigation and disputation, which amounts to several billion dollars over the last decade.

The minerals industry has demonstrated its commitment to working with Indigenous communities as an alternative to litigation with more than 350 Indigenous Land Use Agreements reached between Indigenous communities and more than 200 minerals companies. But the cost of reaching these agreements, even when the negotiations are run efficiently, is considerable. The minerals industry will continue with its strong commitment to working with Indigenous communities and individuals to achieve mutually beneficial outcomes. Currently the industry bears much of the costs associated with this work, mainly because traditional owners, their communities and their representative organisations, such as the Native Title Representative Bodies and Prescribed Bodies Corporate, are not adequately funded to carry out their statutory responsibilities.

The MCA has advocated strongly for a significant increase in the allocation of resources to enable the NTRBs to do the work for which they have statutory responsibility under the Commonwealth Native Title legislation.

15 House of Representatives Standing Committee on Industry and Resources, Exploring : *Australia's Future : Impediments to increasing investment in minerals and petroleum exploration in Australia*, 15 September 2003.

16 Geoscience Australia, *Australia's Identified Minerals Resources 2004*, December 2004.

The minerals industry also works very closely with other relevant bodies such as the National Native Title Tribunal and Reconciliation Australia. Reconciliation Australia has relationships with a number of the MCA's member companies (BHP Billiton, Newmont, Rio Tinto) and other stakeholders (National Native Title Tribunal, Native Title Representative Bodies, Land Councils) in relation to a range of issues relevant to the MCA's work (governance, access to banking and financial services, employment, family and sexual violence).

Recommendation:

The MCA recommends the Australian Government significantly increases its funding to the Native Title Representative Bodies to enable them to effectively carry out their functions under the Commonwealth Native Title Act 1993.

4.2 ACHIEVING ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE OUTCOMES

Environment and Natural Heritage

The Australian minerals industry spends many millions of dollars per annum ensuring that its operations are conducted in an environmentally responsible manner, and is the single largest employer of environmental professionals in Australia. For example, in 2003-04 the industry provided $382 million for expenditure on rehabilitation, taking the accumulated balance of financial provisions for rehabilitation to $2,793 million. Importantly this expenditure represents only a small part of the industry's total financial commitment to environmental management. In addition to mine site rehabilitation, substantial environmental expenditures are incurred in research, environmental monitoring, biodiversity conservation and capital expenditures designed to minimise the environmental impacts of mining and minerals processing.

The industry's commitment to excellence in environmental management is founded in the Australian Minerals Industry Code for Environmental Management. Developed in 1996 and revised in 2000, the Code established the fundamentals for the industry in meeting its environmental stewardship responsibilities, beyond regulatory requirements.

In recognising that the industry's commitment had moved well beyond environmental management, the industry, in conjunction with a broad range of stakeholders nationally, developed Enduring Value – the Australian Minerals Industry Framework for Sustainable Development. Enduring Value strengthens the industry's commitment to continuously improving its environmental performance as outlined in the Environmental Code and incorporates the other two dimensions of sustainable development, namely social responsibility and economic development.

Through the introduction of Enduring Value, the industry's focus on environmental management has been broadened to incorporate a more comprehensive focus on materials stewardship; biodiversity and land management; and community and environmental health.

Within the overarching framework of Enduring Value, MCA is currently developing strategic approaches to key environmental policies. These include materials stewardship, as a more proactive and comprehensive alternative to 'Extended Producer Responsibility', and through extending leading practice water management in the industry. For example, the industry accounts for about 3 per cent of overall water use in Australia, nearly all of which (95%) is self-sourced and, typically, is self-treated from naturally saline groundwater – which can be saltier than the sea and therefore useful for very little else.

While the minerals industry has a lot to offer other sectors as a leader in sustainable water use, reuse and value-adding, industry is keen to continue engaging with the Australian Government in the development of policies and trading regimes under COAG's National Water Initiative.

MCA is also exploring ways the industry can work together with the Australian Government to build its leadership position in sustainable land management, such as in maximising conservation outcomes in the regions in which the industry operates, through policies and programs designed to make net gains to biodiversity wherever practicable.

In this vein, the MCA welcomes recent commitments by the Federal Department of Industry, Tourism and Resources, to work towards the reinstatement of the Best Practice Program for the Minerals Industry. This program was a highly successful partnership between industry and government focussed on the extension of leading industry practice in environmental management, and was ceased due to a withdrawal of resources in the then Environment Australia in 2003.

Programs such as this are critical to industry in developing and extending the awareness and understanding of the key challenges and opportunities in implementing sustainable development. Australian Government participation in developing and maintaining the program has been an important aspect of its quality and value to industry. Similarly, Australian Government endorsement of the program and its outputs has underpinned its standing across industry and in the community, to the extent that the booklets in the BPEM program have been in demand from the industry and its stakeholders around the world. Clearly, for this level of engagement to continue, Australian Government agencies need to direct sufficient resources to enable the appropriate review and input necessary to gaining that endorsement.

The reinstated program, properly resourced and with a broader focus on sustainable development capacity building and extension, will provide the Australian minerals industry with a range of tools critical to assisting its continued improvement in sustainable development implementation. This partnership will also enable the Australian Government to facilitate the extension of sustainable development beyond the minerals industry, through the Department of Industry, Tourism and Resources' strong links with other sectors.

Recommendation:

The MCA recommends the Australian Government continue to provide funding towards mineral industry related initiatives, and continue to seek opportunities for the development of joint programs and initiatives in which both industry and government can collaborate, such as the highly successful Best Practice program.

Community and Social Policy

The Australian minerals industry strongly supports the role of a 'social licence to operate' as a complement to a regulatory licence issued by government. To the minerals industry 'social licence to operate' is about operating in a manner that is attuned to community expectations and which acknowledges that businesses have a shared responsibility with government, and more broadly society, to help facilitate the development of strong and sustainable communities.

Simply defined the 'social licence to operate' is an unwritten social contract, and is demonstrated through industry practices such as:

> engaging stakeholders to identify and address their concerns, to contextualise the operating environment and to seek opportunities to develop mutually beneficial partnerships;

> developing and implementing programs to minimise the social and environmental impacts of operations and to manage and prevent future liabilities;

> undertaking social and environmental accounting, auditing and reporting that enables industry to be open and transparent about its impacts and its management approach; and

> developing and implementing Enduring Value – the Australian Minerals Industry Framework for Sustainable Development, a framework within which business can demonstrate its commitment to operating in a manner which is attuned to community expectations.

The minerals industry acknowledges that as a major source of income and employment opportunities to remote communities that it has a shared responsibility for ensuring the development of strong and sustainable communities, during and beyond the life of mining and minerals processing operations. Industry has recently been demonstrating leadership across key social areas – particularly reflected in Indigenous employment and retention rates in remote areas across northern Australia.

An example of this commitment is the minerals industry's contribution of over $26 million per year in direct Indigenous employment, and substantial additional funds in education and training programs.

Above and beyond employment and training, a recent survey of 14 companies of various sizes operating in the Australian minerals industry found that the collective contribution to community development by these companies in the 2003 calendar year represented over $17bn, including:

> $5.4bn on domestic supply contracts, a significant proportion of which were in communities surrounding mining operations;

> $3.7bn on wages for direct employees, and additional wages for contract employees, much of which is spent in the employees' local communities; and

> over $160m in direct contributions to the community including scholarships, sponsorships, entertainment, environmental and cultural heritage projects and the provision of sporting facilities and equipment.

While mining operations can improve local communities' income, opportunities for employment, business and social development, the challenge facing the sector is to promote social capital development at the community level. However, the minerals industry is often the sole provider of social infrastructure – health, education and welfare – in remote areas of Australia. This infrastructure is developed in response to demands on companies to provide social and industrial infrastructure that is usually provided by governments and often endures long past the completion of mining activities. Communities therefore can become dependent on the mining operations to access basic services, and are adversely affected when such operations cease or no longer provide or generate a consistent source of funding to the community.

While the industry is developing strategies to address dependency issues through the application of leading community development initiatives, it is clear that the Australian Government must maintain and build its contribution as an enabling partner to capitalise on the opportunities presented by the leadership of the minerals sector. This is necessary to enable local people to develop the capacities and resources they need to secure the sustainability of their own future prosperity and well-being.

Recommendation :

The MCA recommends the Australian Government strengthen its commitment to the provision of adequate and appropriate community infrastructure in regional and remote Australia. Support for current and future generations, through key government services such as education, health and welfare, is key to ensuring the equitable development of social capital and is critical to the success of any public policy approach to sustainable development.

4.3 HIGHLY SKILLED HUMAN RESOURCES

A globally competitive Australia requires a highly skilled workforce. Yet, Australia's ability to capitalise on the predicted growth in world demand for minerals has the potential to be impeded by an aging population and a shrinking workforce. Improved workplace competencies will be required and labour supply, particularly in remote areas where the minerals industry largely operates, will have to be maintained. While the workforce is predominantly male dominated, the minerals industry is proactively working at all levels, to attract more female and Indigenous employees. The industry is increasingly demonstrating successful long-term employment of Indigenous people in remote communities and is drawing upon its extensive research data in its strategies to attract and retain more female workers,

For its daily operation, the Australian minerals industry relies on ready access to the best human and intellectual resources, which in turn are reliant on the nation's teaching, education and training institutions that provide the necessary learning. In the face of a severe shortage of skilled employees in many areas relevant to the minerals sector, education is the cornerstone of our continued productivity growth and subsequent economic prosperity.

The MCA has developed a long-term, strategic approach to education and runs integrated programs at the primary, secondary and tertiary levels that are national in nature and linked to existing capital city and regional teaching institutions. The Australian minerals industry currently provides funding of around $10 million per annum to its education initiatives across these three levels – directly $4.5 million per annum and indirectly $5.5 million in work experience programs.

School Education

The MCA's National Education Program (NEP) is regarded as one of Australia's pre-eminent industry-education partnerships, building capacity in both teaching and learning in subject areas of relevance to the Australian minerals industry and in delivering appropriate career advice.

The NEP is the minerals industry's seed program to achieve a highly skilled workforce. To do so the NEP encourages and supports innovation in teaching and learning in science and other key disciplines at the upper primary and secondary levels. It is building capacity for teachers to engage their students in interactive learning and has shouldered its responsibility in making high quality minerals related career and further education information accessible to secondary students, their teachers and careers advisers.

The NEP operates as a collaborative partnership between the MCA and the State and Territory Minerals Councils and Chambers. This collaborative arrangement provides the flexibility for industry objectives to be met in line with individual State and Territory primary and secondary school curriculum requirements.

The MCA supports the Australian Government's national priorities for shaping schooling over the next decade especially in relation to greater national consistency in schooling, expanding national testing of students, better reporting of student performance, transparency of school performance and values education.

The MCA welcomes the Australian Government's commitment of $33.7m over seven years in the Australian School Innovation in Science, Technology and Mathematics (ASISTM) Project for school projects that will:

> encourage innovation in schools;

> promote world class teaching and learning in science, technology and mathematics; and

> assist in attracting and retaining high quality graduates in the teaching profession.

To grow the teaching capacity in the areas of science, engineering and technology, the MCA strongly supports the many new initiatives introduced by the Australian Government following its comprehensive Review of Teaching and Teacher Education and the subsequent release of the report Australia's Teachers, Australia's Future - Advancing Innovation, Science, Technology and Mathematics.

In cooperation with The Le@rning Federation an initiative of state, territory and Governments of Australia and New Zealand, the MCA has made a substantial contribution to the availability of online curriculum content through the production of secondary science-based interactive multimedia learning objects and digitised online resources. In 2005, the MCA, through its team of State and Territory based NEP managers, will further support The Le@rning Federation initiative by delivering workshops to assist teachers and trainee teachers to incorporate these new learning technologies in their classroom teaching.

Recommendation:

That collaborative proposals designed to enhance the skills and capabilities of secondary teachers and trainee teachers in utilising new learning technologies are a priority for support under the Australian Government's ASISTM Project.

The Australian Government expand the provision of HECS relief for undergraduate and graduate teacher trainees in science, maths and technology.

Vocational Education

The MCA welcomes the Australian Government's emphasis on addressing the current skills shortage in Australian industry. The MCA and the Chamber of Minerals and Energy of Western Australia are partners with the Australian Government in a $500,000 project under the Department of Education Science and Training's National Skills Shortages Strategy (NSSS). The MCA welcomes the increased focus on vocational education training (VET) as evidenced in the passing of the Vocational Education and Training Amendment Bill 2004. .

The MCA is supportive of Australian Government initiatives that will increase the skills base of young Australians and focus on the traditional trades areas in view of the mounting difficulties companies are facing in sourcing sufficient numbers of skilled workers, for the minerals industry's many new projects and expansions.

Specific initiatives that are likely to deliver longer-term positive impacts on the minerals industry are:

- mandatory career education (professional and trade) for all secondary students;
- establishment of 24 national technical colleges in regions where there are identified skills shortages;
- supporting the expansion of the New Apprenticeships scheme;
- incentives for training in metals, engineering and related trades areas; and
- further reform of the vocational education and training (VET) system to make it more demand rather than supply driven.

Recommendation:

That reforms to the VET system deliver greater flexibility for the minerals sector to access public funding for the training and skilling of young and mature age workers.

That reforms to VET deliver an employment (demand), rather than a training (supply) driven system.

That the skills shortage needs of the minerals industry are addressed within the courses offered at Technical Colleges in targeted regions throughout Australia where minerals industry support is evident.

Higher Education

While the MCA's National Education Program (NEP) is focussed on improving scientific literacy and understanding of the minerals industry and the associated career and further education pathways available to school leavers, the Minerals Tertiary Education Council (MTEC) is working to ensure the supply of well-qualified and motivated professional staff to drive the industry forward.

MTEC is a major industry-led and financially resourced initiative of $2 million per annum, fostering partnership between industry, government and academia in which all three participate in the delivery of undergraduate and postgraduate learning in the specialist disciplines of earth science, mining engineering and metallurgy.

Major elements of the initiative are:

- collaborative development and delivery of undergraduate and postgraduate courses;
- a national professional development coursework program;
- coordination of industry experience for undergraduates; and
- employment of new industry-experienced academic staff.

Recommendation:

The MCA recommends that the Australian Government complement its educational efforts and those of the broader minerals industry by:

> *assisting MTEC and its partner institutions gain market access to Latin American countries through organisations such as the Council of Australian and Latin American Relations (COALAR) to deliver courses in engineering and physical, environmental and social sciences relevant to the minerals industry; and*

> *moving from Cluster 8 to Cluster 10 the Commonwealth Course Contributions for Process and Resources Engineering (FOE Code 0303) to help offset the higher unit teaching cost per student, each of whom will make a significant economic contribution (> $600,000 pa) to export income after entering the workforce.*

Expanding Indigenous Employment in the Minerals Sector

The industry would like to work closely with the Australian Government, particularly the Federal Department of Employment and Workplace Relations (DEWR) and the Office of Indigenous Policy Coordination (OIPC), to ensure that the delivery of Indigenous employment programs is improved to enable the best outcomes for both Indigenous communities and industry operating in remote areas. The DEWR Indigenous Mining Industry Framework has been successful in increasing private sector employment of Indigenous employees. However ,the MCA is keen to see the Australian Government strengthen its approach to enable more members of the industry to engage in the program more effectively, to increase recruitment and retention levels.

In particular, while programs such as the STEP (Structured Training and Employment Projects) program, CDEP (Community Development and Employment Program) and the Corporate Leaders for Indigenous Employment Program have generally been very well subscribed by minerals companies, this has not been without a significant investment by individual companies over several years. For example, a number of companies have estimated that even accounting for the maximum rebates, allowances or other incentives, the average net costs of employing each Indigenous worker in the industry is between $60,000 and $90,000.

Mining companies have reached a level of success with their Indigenous employees because they have persisted in the face of limited support from the state based training providers. It is important to note that these figures reflect the recruitment and retention of the first-wave of the most 'job-ready' Indigenous employees, and that after early success, the challenges of relatively low levels of literacy and numeracy in potential employees can present at best considerable and at worst, insurmountable barriers to recruitment.

The high cost of delivery of training in remote areas appears to have been seen as an opportunity by training providers (funded by state and Australian Government resources) to add an impost to companies. For example literacy training – a basic right and a responsibility of government, is charged at a level of $1,400 per person per day in some areas and is unsustainable. In addition to or perhaps in concert with DEWR and OIPC, MCA would seek to work with the Department of Education Science and Training (DEST) and state based providers to achieve cost savings and ensure local high level training for Indigenous employees.

Recommendation:

The MCA urges the Australian Government to strengthen and expand its Indigenous employment programs with a view to increasing recruitment and retention levels. The MCA also urges the Australian Government to ensure that the design of these programs takes account of the special challenges faced, and additional costs incurred in, the delivery of these programs in some of the most remote locations in Australia.

Increasing Female Participation in the Minerals Sector

With women comprising only 7 per cent of the minerals sector's workforce, the industry recognises the value and importance of increasing the share of female participation in the industry. To this end, the MCA has initiated a Women in Mining dialogue aimed at engaging industry stakeholders on issues related to the effective participation of women in mining, and the extension of the socio-economic benefits of mining operations to women in neighbouring communities.

Recommendation:

The MCA urges the Australian Government to continue to co-operate closely in efforts to increase participation of women in the minerals sector, including through practical support for research and other initiatives.

Expanding Skilled Immigration

To complement the initiatives to address skill shortages through secondary, tertiary and vocational education, the Australian Government should expand its skilled migration program. The minerals industry is a global business, and Australia's industry is in a contest for finite skilled professionals and tradespeople with competitors around the world. That Australia may be losing this contest is graphically illustrated by the net losses of Australian trained geologists and geophysicists over the last 8 years. According to research conducted by Monash University's Centre for Population and Urban Research, 2372 Australian resident geologists and geophysicists left Australia over the period between 1995-96 and 2002-03. [17]

Moreover, in the five years ended June 2003, the net loss of geologists and geophysicists was 770, a figure which represents 15 per cent of the geologists and geophysicists employed in Australia in 2001-02. The drain of related scientific professions, including natural and physical sciences, was also significant. The study warned that "losses on this scale could be significant when continued for several years and if they turn out to be permanent". [18]

It is important to add that the skills shortages being experienced by the minerals sector are not limited to the professional sector. For example, in the 2 year period to May 2004, the number of tradespersons employed in the minerals sector grew by more than one half. In the 4 years to 2004, the job vacancy rate in the minerals sector doubled.

The minerals sector acknowledges the increases in immigration that have taken place in recent years. For example, Australia's immigration intake reached 111,590 in 2004, an increase of 20 per cent on the 2003 intake, and a significant increase on the 70,000 strong intake of a decade ago.

Recommendation:

The aging of Australia's workforce and population, the drain in key competencies areas to minerals operations abroad and the emergence of skill shortages in priority areas, highlights the need for a continued, if steady, expansion in the immigration program.

4.4 PROMOTING POLICIES CONDUCIVE TO INNOVATION AND TECHNOLOGY ADVANCEMENT

Research and Development Incentives

Australia's mining and minerals processing sector is one of the most technologically developed in the world. To retain its international advantage it must remain at the cutting edge of technological excellence in exploration, extraction and processing activities.

While improved technologies boost hopes for major discoveries and their exploitation, the global marketplace is becoming more challenging. Commodity prices have been softening for decades, new suppliers are entering the field and existing competitors are upgrading technology. As a consequence, success depends on being the best in a very competitive world where incremental gains, through technological advances, are critical in maintaining a competitive edge.

Australia's minerals sector is at the forefront of harnessing new technology (including biotechnology, IT, e commerce, high technology equipment, remote sensing, satellite imagery, airborne magnetic surveying, etc). While new products are invented from time to time, it is a mature industry where the emphasis is more on process innovations aimed at reducing costs to remain competitive.

The Australian minerals industry has a long history of collaborative R&D including through:

> the Australian Mining Industries Research Association, now AMIRA International; [19]

> several dedicated Cooperative Research Centres (CRCs) including: [20]

- CRC for Clean Power from Lignite;
- CRC for Coal in Sustainable Development;
- CRC for Greenhouse Gas Technologies;
- CRC for Sustainable Resource Processing;

17 Bob Birrell, Virginia Rapson, Ian R Dobson, T. Fred Smith, Skilled Movement in the New Century : Outcomes for Australia, Centre for Population and Urban Research, Monash University, April 2004.

18 Ibid, p16.

19 See www.amira.com.au

20 Full details of these CRCs can be found at www.crc.gov.au

- AJ Parker CRC for Hydrometallurgy;
- Predictive Mineral Discovery CRC;
- CRC Mining; and
- CRC for Landscape Environments and Mineral Exploration.

> other initiatives, such as Coal21 [21] and direct collaboration with CSIRO and with universities in Australia and overseas.

Technology is a fundamental contributor to improved productivity and economic growth and the minerals industry is a leader in many technology developments. Even so, Australia's level of industrial research and development continues to be low by international standards. While the corporate tax rate reduction following the Government's consideration

Recommendation:

The MCA supports:

> *further development of private/public sector cooperation to sustain competitive R&D across all sectors of the innovation system; and*

> *an increase in the R&D tax incentive to 150 per cent to encourage greater R&D in the economy.*

Mining Technology Services Action Agenda

The mining technology and services (MTS) sector is representative of the high tech, smart end of the mining industry, where innovation and entrepreneurship are critical attributes of successful organisations.

The sector comprises companies, institutions, associations and other organisations which receive a substantial portion of their revenue, directly or indirectly, from mining companies for the provision of goods and services based on specialised technology, intellectual property or knowledge.

ABARE estimated that the MTS sector contributed over $3 billion to Australia's gross domestic product in 2000-01, with growth of 13 per cent per year predicted to 2005-06. In addition to its strong domestic focus, the sector is expanding export opportunities in the global mining industry marketplace with annual export growth rates predicted to be around 25 per cent to 2005-06.

The potential for even greater export growth exists if the MTS sector is able to capitalise fully on the current global demand for resources. Strong competition exists for the supply of mining technology and mining services from Canada particularly, where there are significant government incentives to encourage greater exports of branded "Canadian" products.

Recommendation:

As part of its global regional and bilateral trade agenda, that the Australian Government work with the mining services sector to identify and help overcome barriers to market access for its products.

4.5 POLICIES PROMOTING THE DEVELOPMENT OF EFFICIENT AND ADEQUATE INFRASTRUCTURE

Energy Reform

The MCA is a strong advocate for an open, competitive and integrated national energy market, which is critical to the continued competitiveness of the industry and to the economic and social welfare of all Australians.

The Council of Australian Governments (COAG) has agreed to a strategy for future energy market reform in Australia to:

> strengthen the quality, timeliness and national character of governance of the energy markets, to improve the climate for investment;

> streamline and improve the quality of economic regulation across energy markets, to lower the cost and complexity of regulation facing investors, enhance regulatory certainty and lower barriers to competition;

> improve the planning and development of electricity transmission networks, to create a stable framework for efficient investment in new (including distributed) generation and transmission capacity;

21 See www.acarp.com.au

> enhance the participation of energy users in the markets, including through demand side management and the further introduction of retail competition, to increase the value of energy services to households and business; and

> further increase the penetration of natural gas, to lower energy costs and improve energy services, particularly in regional Australia, and reduce greenhouse emissions.

COAG has also agreed to the establishment of two new commissions:

> the Australian Energy Market Commission, which will have economic policy responsibility for rule making and market development; and

> the Australian Energy Regulator, which will have responsibility for market regulation (excepting in Western Australia and the Northern Territory).

Recommendation:

The MCA considers that an open, competitive and integrated national energy market can be achieved by:

> *COAG adhering to clear principles and directions for reform in each of the above noted five areas;*

> *identifying the key issues to be resolved in completing all outstanding National Competition Policy electricity and gas reforms;*

> *ensuring there is robust energy market governance and a consistent regulatory framework;*

> *ensuring all energy policy decisions are set to maintain the reliable supply of competitively priced energy for business and individual needs while minimising adverse impacts on the environment; and*

> *establishing the processes and timelines by which key reforms are to occur.*

Water Reform

Water is one of the most critical resources in the current and future operations of the industry. It is used in all aspects of minerals operations, from exploration to mine closure and in smelting/refining operations. MCA supports and has been actively engaged in the COAG water reform process, and considers the appropriate resolution of the market and institutional arrangements for managing and trading water to be one of the most important and pressing natural resource policy issues facing Australia.

Water resources vary considerably across Australia. The diversity in water quantity and quality, as well as the location and type of mineral operations creates substantial water management challenges and opportunities for the minerals industry. Principal among these is efficient, cost-effective access to guaranteed supplies of water. In Australia there are a number of major minerals operations in significant wealth-generating regions that have had to restrict production due to water shortages. These include a number of coal mines in the Bowen Basin in Queensland, processing operations in and around Gladstone, as well as several operations in NSW and Victoria.

The minerals industry relies heavily on being able to access foreign capital for mineral development in Australia, and essential to this access is the ability to demonstrate that all elements to the successful establishment and management of an operation are guaranteed. The guaranteed supply of the necessary quantity and quality of water resources is essential if the minerals industry is to continue to translate its comparative advantage to international competitive strength.

Recommendation:

The MCA considers efficient and cost-effective access to water for the minerals industry can be achieved by ensuring:

> *all water management decisions are based on sound science;*

> *water allocations are guaranteed, they should not be able to be altered (reduced or removed) by government except in exceptional circumstances such as drought;*

> *risks associated with changes to water allocations due to exceptional circumstances are shared between government and industry – this is critical as the extremely variable nature of water supply in Australia has the potential to create substantial risks;*

> *the establishment of a national water market within and between States and Territories that is based on the relevant parameters of the region (catchments or basins);*

> *the effective operation of a national water market should not be limited by the application of any sector based subsidies or rebates, or artificial barriers or impediments to trade; and*

> *water pricing is based on a user pays system that incorporates all costs.*

Transport Reform

The MCA endorses the Australian Government's AusLink White Paper Building Our National Transport Future released on 7 June 2004. AusLink is significant for the extent of the Australian Government's commitment to investing in critical, national infrastructure and for the comprehensive, strategic basis by which Australia's longer-term land transport needs are to be met, including:

> the need for multi-modal transport solutions rather than a focus on improving individual modes;

> taking a long-term strategic approach to national transport planning and funding;

> the development of a comprehensive and integrated National Land Transport Plan;

> a coordinated and more effective response to future national land transport challenges; and

> opportunities for broader stakeholder participation in the national planning and program implementation processes.

Much still remains to be achieved in the area of road and rail efficiency and inter-modal strategic planning. This is because Australia's container land transport infrastructure demands are forecast to increase substantially over the next 20 years. Furthermore, Australia, which already has the largest minerals shipping task in the world, will also see its minerals exports continue to grow in volume over that period.

Adequate and reliable rail access to key minerals exporting ports is a key factor in companies being able to meet rapidly growing export demand. Furthermore, in many cases ports suffer from encroachment by the surrounding community making long-term port development problematic. Addressing anticipated port entry bottlenecks and providing for adequate long-term land planning should be a top priority for the Australian Transport Council.

The industry has demonstrated over many years its capacity to invest in essential infrastructure and to gear its production capabilities in partnership with the Australian Government to respond to the market. However, there are emerging public sector transport infrastructure requirements, particularly related to coal exports.

Rail improvements (such as track realignment, track strengthening, extra passing lanes and/or rail loops) and investment in new electricity transmission lines and development of solutions to shipping congestion outside ports need to be prioritised and targeted to the growing export requirements of the bulk commodity transport sector, particularly coal and iron ore.

In this context, the MCA particularly welcomed the historic rail agreement between the New South Wales and Australian Governments to lease the NSW interstate track and Hunter Valley rail freight corridors to the Australian Rail Track Corporation (ARTC), which was signed on 4 June 2004.

This involves a commitment of $152 million to upgrade the Hunter Valley Rail Network including track strengthening, elimination of bottlenecks to provide a reliable, cost effective system for transporting coal which will improve international competitiveness and our capacity to supply growing demand for Australian coal.

Recommendation:

The MCA recommends that:

> *to improve the strategic planning of land transport solutions and their interface with ports and airports in Australia earlier consultation with the private sector take place and there be a sharper focus on bulk commodity land transport and ports' needs;*

> *strategic investment in rail be undertaken as a means of making it a competitive alternative to road. But given the continued growth in the road freight transport task, it is important that there are ongoing efficiency, safety and environmental improvements in the nation's road system;*

> *while port infrastructure largely rests with State and Territory governments and the private sector, the Australian Government should work with the States and Territories through the Council of Australian Governments:*

  – *to ensure the provision of adequate port and related facilities to ensure sufficient port capacity is available to meet the expanding needs of Australia's trade;*

  – *in promoting long-term access planning in relation to transport corridors between ports and other inter-modal centres and into ports via shipping channels; and*

  – *in long-term planning of land use around ports to allow adequate buffer zones, future port expansion and expansion of the related transport corridors;*

> *The MCA underscores the need for:*

  – *timely implementation of the Australian Rail Track Corporation's (ARTC's) capital expenditure program in the Hunter Valley as announced by the Australian Government;*

- *development of new rail track access arrangements for the Hunter Valley rail network under the Australian Competition and Consumer Commission; and*
- *ongoing consultation by the ARTC with all members of the Hunter Valley coal transport and logistics chain so that key expenditures are undertaken on time.*

4.6 POLICIES TO PROMOTE COMPETITIVE ADVANTAGE FOR TRADE AND INVESTMENT

Global Trade Negotiations

The MCA is a strong supporter of trade liberalisation, primarily through the World Trade Organisation (WTO), but also through the pursuit of regional and bilateral free trade agreements.

The MCA is disappointed at the slow progress of the WTO's so-called Doha Round of trade talks commenced in November 2001. The WTO's 147 member nations failed to meet the original deadline of 1 January, 2005 for the conclusion of these negotiations, and it is likely that the talks will not be concluded until mid-2007 at the earliest.

While the slow progress of the Doha Round is due to circumstances beyond the control of the Australian Government, the MCA urges the Australian Government to intensify its efforts to bring about an early conclusion to the negotiations.

Three principles should underpin its approach:

> the outcome must be very ambitious. Multilateral rounds occur very infrequently, with only one only one completed (the Uruguay Round 1994) in the last 24 years. Therefore the market liberalisation achieved by the current negotiation should be deep and broad;

> the outcome must be comprehensive, with deep liberalisation and broad liberalisation commitments in all areas of the negotiation, including agriculture, industrial and non-agriculture market access, and trade in services; and

> the negotiations should continue to focus on trade related issues, and not be distracted by efforts aimed at justifying the use of trade sanctions and other trade restrictive measures to achieve non-trade (e.g. environmental and social) objectives.

> Other Multilateral Trade Negotiations

The WTO's 148-strong members are currently considering applications for membership from more than 25 nations. This process of 'accession' – and the associated market opening disciplines that must be met by the applicant countries – provides an important opportunity for WTO members to secure improved market access in countries of special interest.

The quality of the accession commitments made by Russia and Vietnam are both of keen interest to the minerals sector. Both nations have considerable resources sectors, and opportunities exist in both countries for Australian commodity exporters, investors and services providers. In the case of the Russian Federation, the liberalisation of Russia's heavily protected energy and mining services sectors is of keen interest to the Australian minerals sector. It is worth noting in this context that a recent paper suggested that ambitious liberalisation commitments could boost consumption in Russia by 7.2 per cent in the medium term and by 24 per cent in the longer-term. The same report predicted that nearly three quarters of these gains are likely to come from liberalisation of Russia's services sector. [22]

Bilateral and Regional Free Trade Agreements

> China

In April 2005, the Australian and Chinese Governments will decide whether to commence negotiations on a comprehensive bilateral free trade agreement. The MCA sees this deal as an important opportunity to cement an economic relationship that is already flourishing.

Minerals exports to China have more than doubled in the last 5 years, with the sales of iron ore increasing by 16 per cent last year. The strong Chinese demand has also had a significant impact on the prices of key commodities, and is reportedly responsible for a 25 per cent increase in the prices Australian exporters have received over the last 5 years. China also offers potential investment opportunities for the minerals sector in exploration and development. Chinese equity in Australian resource developments is also increasing.

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22 Jesper Jensen, Thomas Rutherford and David Tarr, 'The Impact of Liberalising Barriers to Foreign Direct Investment in Services : The Case of Russian Accession to the World Trade Organisation, National Bureau of Economic Research.

The strong growth suggests that there are few effective trade barriers to Australian minerals exports to China. But nuisance tariffs remain in certain areas, and there are also are also significant trade related 'beyond border' issues which could be addressed within the context of a free trade agreement.

Some of the priority issues identified by the MCA for possible inclusion in a free trade agreement include:

- maintaining China's momentum for full transition to a market economy and its full participation in the WTO as a leading global economy;
- reaffirmation of existing commitments enshrined in the WTO;
- extension of the scope or application of WTO rules;
- reductions in tariff and non-tariff barriers;
- capacity for Australian business interests to operate more freely in China's market, including domestic trading rights;
- measures that are not provided for in the WTO, but which enhance opportunities to improve the business environment:
    - removal of import licence restrictions;
    - certainty with respect to intellectual property rights;
- Transparency with respect to legislative and regulatory arrangements:
    - certainty of legal process;
    - rights of appeal;
    - dispute resolution; and
    - overlap and duplication between different levels of government.

Some issues of specific relevance to minerals exploration and mineral development in China include:

- access to pre-competitive geological data;
- the complexity of the licence approval processes;
- the right to mine and export; and
- the absence of a double taxation agreement.

Should Australia grant China 'Market Economy Status'?

China's has asked that that Australia grant it 'market economy status' for the purposes of the assessment of anti dumping actions as a condition of the launch of free trade negotiations.

The minerals sector believes that designating China as a 'market economy' for anti dumping purposes will not weaken the existing rights of Australian companies to file for relief against predatory dumping by Chinese exporters.

Even after such a change, Chinese exporters will still have to satisfy Australia's customs authorities that their prices are undistorted by non-market forces.

If they cannot, Australian officials will be able to apply the same procedures to examine the merits of the case as they do now.

Some will legitimately ask that if that is true, why is China insisting on this change as a condition of the launch of free trade negotiations?

The answer is that China's push for market economy status is motivated by other objectives. Its real concern is with the anti-dumping laws of the two giants of global trade – the United States and the European Union.

Beijing wants to use the campaign for market economy status – 36 nations have already granted it – to build pressure on Washington and Brussels for changes to their antidumping laws which are very different from those of Australia.

> AFTA/CER

In November 2004, Australia and New Zealand launched talks on a free trade deal with the 10 member economies of the Association of South East Asian Nations (ASEAN), with the negotiations due to be completed within 2 years. The MCA welcomes this development and will contribute actively to the negotiations. According to analysis undertaken by the Centre of International Economics, average tariff levels in ASEAN economies has estimated that a comprehensive and ambitious deal (involving zero tariffs within 5 years) could produce gains of $48 billion over 2 decades.

> **Malaysia**

A separate bilateral trade deal with Malaysia will provide additional opportunities for the minerals sector in a market that is already valued at more than $500 million annually. Malaysia maintains some tariffs on imported minerals products, including a 20 per cent tariff on certain aluminium products. The FTA also offers the opportunity to achieve improved access to the Malaysian market for energy and mining services.

Recommendation:

The MCA supports:

- *an early and ambitious outcome to the WTO's Doha Round of global trade negotiations*
- *the launch of full-scale negotiations on a commercially meaningful free trade agreement with China*
- *the completion of commercially meaningful trade agreements with the 10 ASEAN economies, and with Malaysia.*

4.7 ADVOCATE SOLUTIONS TO REDUCE GREENHOUSE EMISSIONS

Climate change is a global issue requiring a global solution. Australia's approach to this issue needs to be nationally consistent and co-ordinated, maintain the competitiveness of Australia's traded goods/services sectors and share the burden of greenhouse abatement equitably across the community.

The MCA considers technology to be the key to achieving consistent, large scale emission reductions. The minerals industry is significantly investing in technological measures to minimise generation of greenhouse gas emissions and welcomed the announcement of the Low Emission Technology Fund in the Government's Energy Policy statement in June.

The MCA is particularly concerned with the continuing trend by state/territory authorities to implement greenhouse policy measures in isolation of the broader national perspective and without due recognition to balancing other policy objectives is such areas as projected economic growth, employment, trade, investment, technology and energy.

To ensure the development of a nationally consistent and effectively co-ordinated approach to greenhouse policy, including reporting of abatement activities, a set of principles should be adopted to serve as benchmarks for considering the appropriateness of proposed policy responses. The MCA recommends the set provided at **Attachment C**.

The MCA opposes a blunt, indiscriminate carbon tax and considers that it is premature to be making any decisions, including in principle decisions, to proceed with broad, market based measures with Australia on track to meet its international commitments over 2008-12.

Recommendation:

The MCA supports:

- *the Australian Government's emphasis on Research, Development and Demonstration in developing a coordinated national approach to stimulating technology development relevant to Climate Change, building upon work overseas; and*
- *promotion of a nationally consistent and coordinated approach to managing climate change, and particularly measures for greenhouse gas abatement, through COAG.*

4.8 NATIONAL COMPETITION POLICY (NCP)

The minerals sector, in particular, relies on the efficiency of the rest of the economy to maintain its international competitiveness and the profitability of its activities. While the reforms initiated under the NCP have not been costless, the associated improvements in efficiency, and the changes in the performance of public utilities, have led to improvements in the welfare of most of Australia's population through enhanced economic performance and improved resilience to the inevitable and unrelenting changes in international conditions.

The MCA strongly endorses the proposition that competitive markets will generally serve the interests of Australian consumers and the wider community and accordingly, strongly supports, in principle, the NCP reforms, including in electricity, gas, public transport infrastructure and water.

The MCA is shares the the Productivity Commission's (PC's) suggestion in its NCP Discussion Draft that there is evidence of Australian "reform fatigue". It is easier to discuss reform when the need for it is readily apparent. However, Australia must continue the process of institutional reform and economic reform to maintain and improve our international competitiveness. Even while Australian industry is catching up to its offshore competitors they are in turn moving on and the reform imperative never wanes – it is a constant.

The principles underlying the NCP provide the basis for worthwhile ongoing review and reform. The changes started through the COAG agreements in 1994 should not be seen as a "once-off" piece of policy housekeeping, but more as the basis for a set of benchmark "rules of thumb" that should continue to guide new policy formation and review of existing legislation and institutional structures.

Recommendation:

> *National Competition Policy*

While the scope of future review and reform and the framework in which these principles are applied are matters for COAG to decide, the MCA considers that the Productivity Commission's Discussion Draft proposals for a national reform agenda provide an appropriate basis for those decisions.

> *Regulatory Reform*

The MCA endorses the Productivity Commission's draft proposals on gate-keeping arrangements for new and amended regulation, vis:

To guard against the unwinding of previous reforms and to help ensure that new regulatory initiatives are in the public interest, all Australian governments should ensure that they have in place effective and independent arrangements for monitoring new and amended legislation.

Consideration should also be given to widening the range of regulations encompassed by gate-keeping arrangements and strengthening national monitoring of the gate-keeping arrangements in place in each jurisdiction and the outcomes delivered.

In addition, sufficient funds need to be provided by all Australian governments to be able to independently and effectively undertake these tasks.

> *Legislative Reform*

The MCA supports:

- *an ongoing process of reviewing legislation (proposed and existing) to minimise its regulatory impact and reinvigoration of COAG's role in this area;*
- *a regulatory approach which adopts the concept of "minimum effective regulation" which is least cost, performance based and meets the criteria of community acceptance thus underpinning the industry's ongoing licence to operate:;*
- *minimisation of all regulatory costs, such as compliance and adverse side-effects; and*
- *adoption of the best regulatory approach available to address a defined problem (including an assessment being undertaken of whether self-regulation or no regulation may be more appropriate public policy choices).*

4.9 TAXATION REFORM

The MCA has long supported simplification of Australia's business income tax system to make it more equitable, efficient and transparent. It is the combination of all business tax rates and measures, and not just the corporate rate (or any other single tax measure), which is important in assessing project viability. In this context, the MCA welcomes the pragmatic approach the Australian Government has taken in many aspects of its ongoing reform of the Australian business taxation system.

Fuel Excise Reform

Fuel tax has been a major issue for the minerals industry for many years. Fuel represents one of the principal variable inputs into the diverse, capital intensive, internationally competitive minerals industry. Policies in relation to the taxation of fuel are therefore critical, not only to government revenue, but also to the sustainability of export oriented business operations

The MCA is fundamentally opposed to taxes on business inputs. A tax on business inputs distorts both production and consumption decisions, adversely impacting on resource allocation decisions and reducing overall economic welfare. After many years of strong advocacy, the MCA welcomes the proposed changes to fuel excise arrangements in the Australian Government's June 2004 Energy White Paper, even though they are constructed to be phased in over the next eight years.

The announced reforms, commencing on 1 July 2006, will effectively reduce fuel excise collections from businesses and households by around $1.5 billion phased in from 2008 to 2012. There will be significant benefits to the minerals sector and more broadly. Ultimately, fuel excise will only apply to business use of fuel in on-road applications in vehicles with a gross vehicle mass of less than 4.5 tonnes and private use of fuel in vehicles and certain off road applications.

When complete, the changes will meet a key objective of removing taxes on business inputs – in this case, on all fuels, whether they are used for transport, minerals extraction, minerals processing, construction etc.

Recommendation:

The MCA recommends the Australian Government proceeds with the proposed changes to fuel excise arrangements outlined in the Government's June 2004 Energy White Paper.

Uniform Capital Allowance Regime and Effective Lives for Depreciation Purposes

The industry has now worked with the Uniform Capital Allowance (UCA) regime since 1 July 2001. It was always recognised there may be a need to amend further the legislation once industry and the Treasury/ATO had had some experience in its practical operation. A number of important amendments to the mining provisions in the regime were passed by the Federal Parliament in June 2003.

Recommendation:

Whilst these amendments were welcomed, a number of issues remain outstanding and the MCA recommends further amendments be developed to ensure the Parliament's intent in enacting the UCA regime is fully met.

The Australian Government announced in the 2002-03 Budget that it would introduce statutory caps on the effective lives for taxation purposes of aeroplanes, helicopters and certain oil and gas assets. The Australian Government also announced in August 2004 that it would introduce legislation to set an effective life cap for the depreciation of trucks, truck trailers, buses and light commercial vehicles.

These decisions are commendable in so far as they represent steps in the right direction – they also provide the basis for developing a consistent policy approach regarding the effective life of all long lived assets across all industries. It would not be in the national interest if special consideration were given to any one industry in the absence of a consistent public policy position on all long-lived assets.

Recommendation:

The MCA recommends a cap (say of 20 years) on the effective lives of long lived assets for depreciation purposes be announced as part of the 2005-06 Budget. This would provide a consistent policy approach.

Tax Consolidation Regime

The new Tax Consolidation Regime, which for some groups took effect from 1 July 2002, treats wholly-owned groups as a single entity for income tax purposes. It will bring, over time, benefits to the entire economy. The Regime will:

> address efficiency and integrity problems in the existing taxation of wholly owned groups;
> reduce double taxation and tax avoidance;
> assist in the simplification of the tax system, resulting in both reduced compliance costs and administration costs; and
> improve the efficiency of business restructuring and the integrity of the income tax system.

As with the UCA regime, there will be a need to amend further the legislation once industry and the Treasury/ATO has had some experience in its practical operation. The introduction of tax consolidation raises not only a range of significant new tax technical issues, but more importantly the new Regime has far reaching commercial implications. It represents the largest change to the tax system since the introduction of the GST and surpasses it in many circumstances.

The major legislative elements of the Tax Consolidation Regime are in place. It is the case, however, for companies operating in the minerals industry, that there remain a number of unresolved issues, which creates uncertainty. The MCA is working with the Australian Government and relevant officials to resolve these issues.

Fringe Benefits Tax

Since 1 April 2000, the Fringe Benefits Tax (FBT) exemption for remote area housing (which previously only applied to primary producers) was extended to all employers. However, the application of the housing exemption remains limited and accordingly there are many exceptions to the exemption. Also, the exemption does not extend to related services (such as power and water).

Examples of remote area housing benefits that are currently taxable are:

- reimbursement/payment of remote area home loan interest or rent (a 50 per cent reduction applies);
- certain housing ownership schemes and other housing benefits not meeting the exempt housing definition;
- electricity, gas or other residential fuel (a 50 per cent reduction applies);
- remote area holiday transport (as is customary in the minerals industry an employee working in a remote area may be reimbursed for the costs of travelling from, or provided with transport from the area for the purpose of having a holiday) (a 50 per cent reduction applies); and
- water (the 50 per cent reduction does not apply to water as it is not a 'residential fuel').

This limited application of the exemption has created an inequity between minerals companies operating in remote areas depending on which type of housing they provide to their employees.

Recommendation:

The MCA recommends the Australian Government:

- *extend and simplify the application of the remote area housing exemption. This would correct the current inconsistencies between the FBT treatments on different arrangements for the provision of remote area housing;*
- *exempt other housing related remote area benefits (such as power and water). As remote area housing is intended to be exempt it would be consistent that services provided in relation to the housing itself should also be exempt; and*
- *exempt remote area holiday travel allowance.*

In addition, certain benefits are excluded from the reportable fringe benefits requirements. These exclusions extend to remote area housing and residential fuel. However, fringe benefits in relation to water for remote area houses are not an excluded fringe benefit (as it is not considered to be 'residential fuel'). This creates what may be an unintended inconsistency within the reportable fringe benefits regime.

Recommendation:

The MCA recommends that the list of excluded fringe benefits (sec 5E(3) of the Fringe Benefits Tax Assessment Act 1986) be extended to include fringe benefits in relation to water for remote area housing.

Finally, employers are required to record on payment summaries the grossed-up taxable value of certain fringe benefits provided to employees during the FBT year, where the value of the benefits provided to an employee exceeds $1,000.

This $1,000 threshold was introduced as part of the reportable fringe benefits regime effective for FBT years beginning 1 April 1999. As the amount has remained unchanged since 1 April 1999 the administration burden on employers has progressively increased as the 'real value' of $1,000 declines and more employees are exceeding the $1,000 threshold.

Recommendation:

The MCA recommends that the $1,000 threshold should be increased based on the changes in the rate of inflation (as measured by the CPI) since 1999 and revised on an annual basis (for example, indexed annually in line with the CPI).

International Tax Arrangements

The MCA also supports the continuation of a program of international tax reforms.

Recommendation:

The MCA recommends that the Australian Government give further consideration to three major areas of the reform considered during the recent Review of International Tax Arrangements and supported by the MCA:

- *dividend imputation treatment of foreign source income;*
- *dividend streaming of foreign source income; and*
- *changes to company residence rules (the introduction of a "place of incorporation" test).*

State and Territory Business Transaction Taxes

State and Territory business transaction taxes represent significant tax related dead weight losses to the economy.

Recommendation:

The MCA, as a member of the Business Coalition for Tax Reform (BCTR), has submitted that the Australian Government, the States and the Territories should enter a new Intergovernmental Agreement (IGA) that maintains the objective of improving State and Territory taxation by removing those taxes listed in the IGA of 1999 that are still in force.

The BCTR also submits that the primary responsibility for financing the removal of these taxes rests with the States and Territories. The changed intergovernmental financial arrangements entered into in 1999 has given some of the States and Territories the capacity to remove all remaining IGA taxes from 1 July 2005. All other States and Territories have the capacity to remove some of these taxes from 1 July 2005. The capacity of these States and Territories to remove the remaining IGA taxes is set to improve over the next few years. The BCTR submits that all the States and Territories should remove the remaining IGA taxes as soon as they have the capacity to do so from the growing GST revenue allocated through the Commonwealth Grants Commission.

Recommendation:

The MCA also recommends further reforms of State taxes, to be funded preferably by recognising GST windfall gains, broadening the GST base, State Government efficiencies and/or transfer of Commonwealth income tax receipts (primarily on account of efficiency gains on removal of State taxes) should also be pursued.

> Elimination of Tariff Concession Scheme

The Australian Government should eliminate the mis-named Tariff Concession Scheme that adds $300 million to business costs each year. The Scheme, introduced in the 1996 Federal Budget to help address the then budget deficit, imposes a 3 per cent tariff on business inputs which are not available in Australia. The Scheme serves no industry policy purpose, and instead adds unnecessarily to business costs and reduces the competitiveness of Australian companies in domestic and overseas markets. The Productivity Commission has argued that the elimination of the 3 per cent tariff would increase GDP, in part by stimulating extra activity in the minerals sector. [23]

Recommendation:

That the Australian Government scrap the elements of the Tariff Concession Scheme which impose a 3 per cent tariff on imported business inputs that cannot be obtained in Australia. The scheme serves no industry policy purpose, and costs Australian business $300 million annually.

MINERALS COUNCIL OF AUSTRALIA
FEBRUARY 2005

23 Productivity Commission, Review of Australia's General Tariff Arrangements, Report No.12, July 2000, p.108.

ATTACHMENT A
THE OUTLOOK FOR MINERALS EXPORTS

ATTACHMENT A. THE OUTLOOK FOR MINERALS EXPORTS

A.1 AUSTRALIAN EXPORTS AND ASIAN INDUSTRIALISATION: AN UPDATE

Australia's minerals industry is a key channel through which China's rising prosperity is expected to support Australian economic growth over coming decades.

Australia's minerals industry is the world's best supplier of industrial inputs to developing Asia – and Asia has been developing particularly fast.

East Asia accounted for less than 8 per cent of the global economy in 1965. Rapid industrialisation saw that share climb to over 25 per cent by the mid-1990s. The initial climb was driven by Japan, but Taiwan, Korea, Hong Kong and Singapore joined the climb in the 1960s, while Thailand and Malaysia joined in the 1970s, and China joined in the 1980s.

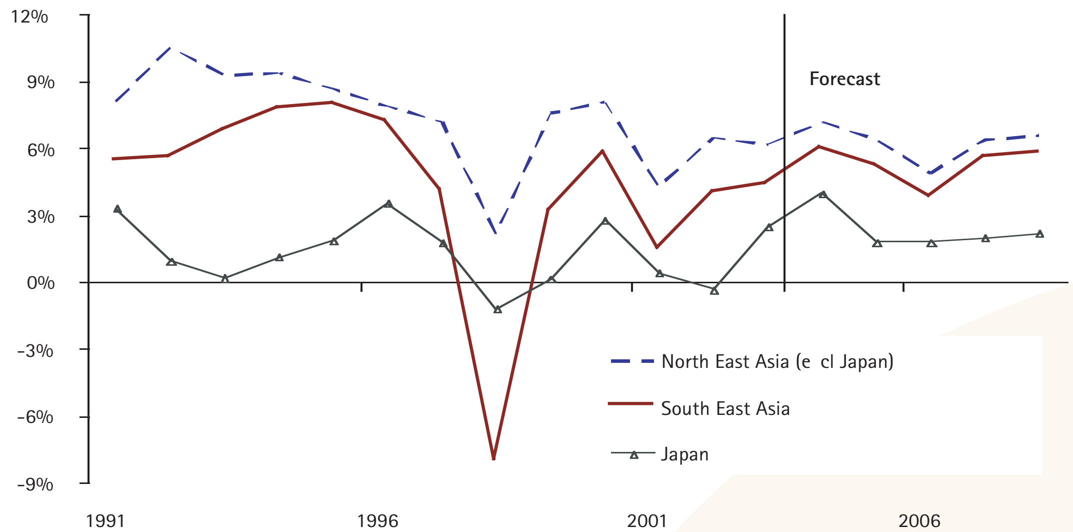
That growth, in turn, fed rising demand for Australian minerals.

While east Asia as a whole has shrunk as a share of the global economy in the past decade due to developments in Japan, that has not resulted in stagnating demand for Australia's mineral commodities. That is because the growth in Australian mineral sales tends to be to 'industrialising Asia' rather than to 'industrialised Asia'.

Or, as a generalisation, Australia sells commodities into Asia's heavier industries, and part of the reason for the relative stagnation of Japan has been that its industrial base has been increasingly transferred to lower cost locations elsewhere in Asia.

In particular, China has been increasing its share of the global economy, admittedly off a low base. East Asian economic growth picked up pace since global weakness in 2001. 2004 saw good growth, with prospects seen as remaining reasonable across non-Japan Asia over the next few years (see **Chart A.1**).

CHART A.1: EAST ASIAN GROWTH PROSPECTS



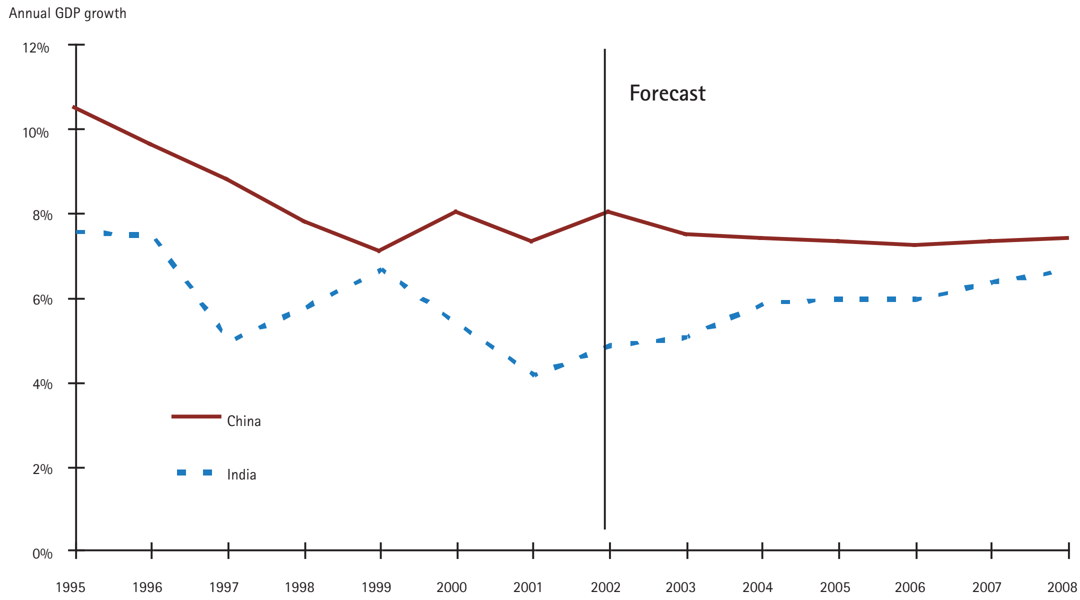
Source: Access Economics

China's rise is good news for Australian exporters, as it will continue to provide a key source of demand for the raw commodities Australia produces so well and this trend is set to continue and grow for some time.

There are also risks to balance against these opportunities.

China's recent growth has been unsustainably high, and the local authorities are taking steps to ease this back. That will imply a weakening investment share and rising consumer spending share within China's economy in the next few years. However, as the forecasts in **Chart A.2** note, the general expectation is that the pull back in China's investment share will be modest, and overall output growth rates are expected to remain robust.

CHART A.2: LONG TERM OUTPUT GROWTH OUTLOOK



Source: IMF, Consensus Economics

A.2 THE CHANGING DEMAND FOR MINERALS

If the further industrialisation of China aids Australian economic growth via the attendant demand for our minerals exports, then that would merely continue the same process Australia has seen for many decades.

The trade 'boomerang' charts real income against the demand for imports (see **Chart A.3**). It shows the relationship between a country's stage of development and its need for raw material imports.

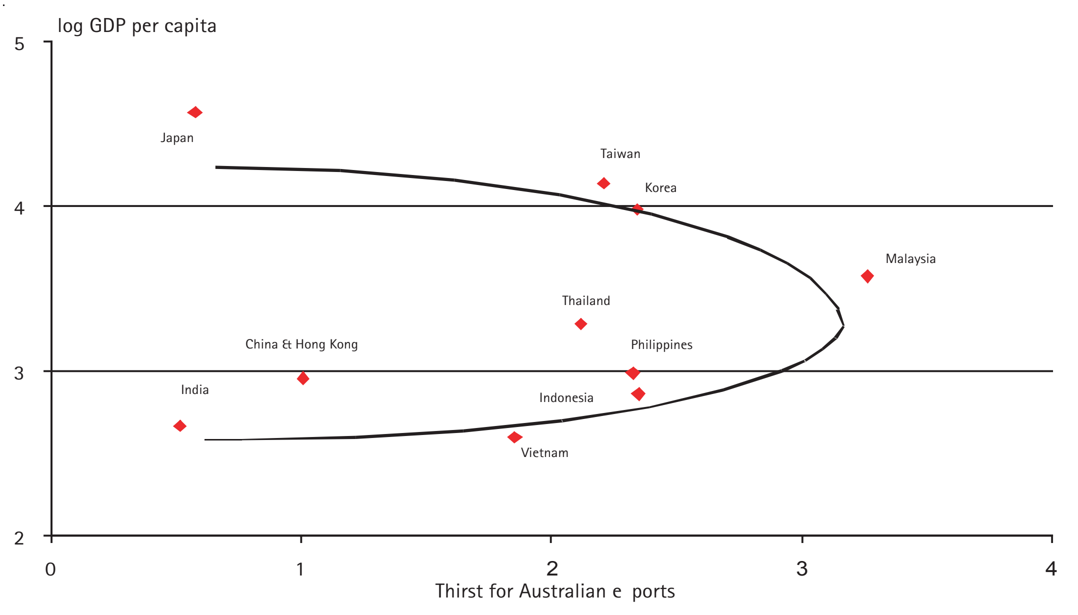
Japan illustrates this relationship well. It completed a traverse from the lower left of the boomerang in the 1950s, along the bottom of the curve to the right in the 1960s, around the curve in the 1970s and 1980s to a position at the upper left position today. It has been the years since 1960 that have seen Australia's minerals sector really develop its international focus. The initial impetus of this change was the economic growth of Japan followed by Taiwan and South Korea – markets geographically close to Australia with a need for coal and iron ore.

Thailand, Indonesia and the Philippines are a little further up the ladder of economic development than China or India, and their relative need for Australian exports is accordingly higher.

The boomerang starts to bend backwards when heavy industry is at the core of the economy and incomes are continuing to rise, as with Malaysia today.

The trade 'boomerang' holds great promise for Australian exporters and the minerals industry in particular. Of these major trading partners, there are 930 million people on the 'low opportunity' upper wing and bend of the boomerang (all those countries and regions north of Malaysia in **Chart A.3**), but 2,740 million on the 'high opportunity' bottom wing.

CHART A.3: AUSTRALIA'S TRADE 'BOOMERANG'



Source: Access Economics

For example, if China had the same level of economic development and requirements for our exports as say, Thailand, then nearly half of all our exports of goods in 2000-01 would have been just to China.

That is not to say that China is not already an important player for Australian exporters. Australia has benefited from the rapid growth of China's trade, such that China is now Australia's fourth largest trading partner, up from tenth position in 1990. While Australian manufactured exports have more than doubled, resource exports have grown at an average 15 per cent per annum rate over the past decade.

ATTACHMENT B
THE MACROECONOMIC OUTLOOK

ATTACHMENT B. THE MACROECONOMIC OUTLOOK

B.1 THE INTERNATIONAL ECONOMY

Global growth is close to its best since 1974, but that growth may be peaking as:

> capacity utilisation is already high;

> the impact of past tax cuts is fading;

> central banks couldn't keep interest rates at 'emergency lows';

> China's growth may be coming off its recent peaks; and

> oil prices are high.

Even so, growth in Australia's trading partners may remain above trend through 2005 and into 2006, with Asia leading the way, followed by the US. Europe and Japan may see more modest gains.

United States' profits are growing fast, which in turn is underwriting rapid business investment and improving job gains. However, consumers are now dampening overall economic growth rather than adding to it and, even with relatively steady consumer spending growth, the US current account deficit is unsustainably large. The next couple of years will bring lower US growth and higher interest rates – an unpleasant but necessary combination. 2004 may have been the high tide mark of this US growth cycle.

Japan's third attempt at recovery since its asset price bubble burst in the late 1980s is under way. This is a recovery driven by better export growth (partly thanks to China), a lift in business investment, and faster consumer spending.

Europe is expecting only modest growth (of around 2 per cent) in 2005. Growth in Asia remains very strong and is likely to remain so in 2005 and beyond.

B.2 OIL MARKET DEVELOPMENTS AND ECONOMIC IMPLICATIONS

Most of the recent increase in oil prices has been driven by the demand side strength in the global economy, notably from Asia as China gears up its industrial capacity. Thus the historically large users of oil in developed countries are competing for resources with rapidly developing Asian countries. Such has been the pace of Chinese growth that it has hit a series of capacity constraints, meaning that electricity supply has recently been boosted by placing a number of oil-fired generating plants back on stream ahead of a major upgrade of coal-fired plants.

Oil supply has been increasing rapidly to keep ahead of the fast pace of demand growth, with global production up 2.7 million barrels a day in 2003 and an estimated 3.4 million barrels a day in 2004. OPEC production is at an all time high, and non-OPEC production is at a record. Even so, demand has risen faster than supply. Although prices have been this high before in real terms, the supply side of the oil market is struggling to keep ahead of the demand side, and chances are that 'sustainable' oil prices will now be over $US 30 a barrel. That will present a lingering constraint on world growth, though it also creates some opportunities in energy development in Australia.

So far, the Australian economy has managed to absorb oil price increases over the past five years without the direct inflationary effects leading to wage and second-round price increase. This is undoubtedly a result of sound macroeconomic management. It underlines the importance of medium-term, credible policy approaches in dealing with shocks to the economy.

B.3 AUSTRALIAN ECONOMIC PROSPECTS

The Australian economy performed strongly in 2004. Australia's prosperity and growth is currently supported by three factors:

> strength in housing prices and construction, which have supported industries both upstream in manufacturing and downstream in retail;

> spending and tax cuts by the Australian Government: tax receipts have grown rapidly amid (1) strength in the economy in general and profits in particular (the latter a highly taxed form of income); (2) capital gains showing up as higher taxes; and (3) a sharp lift in the most basic ratio in any economy – the ratio of workers to the total population; and

> China's strong growth, which has generated an enormous hunger for commodities. In turn, that fed higher prices for the commodities that Australia exports, and lower prices for the manufactures we import. The resultant increase in our terms of trade means they are at their highest in three decades. Partly as a result, the Australian dollar also climbed through 2004, surging both early and late in the year.

However, these key factors currently supporting growth may weaken in coming years. For example, house prices are already falling, and moves already in place to slow Chinese growth may have an increasing impact and the recent leap in the Australian dollar is throwing obstacles in the path of exporters, as well as domestic producers who compete against imports. Or, in other words, some key supports to current growth and prosperity may weaken over the next few years.

B.4 COMMODITY PRICES, THE $A AND THE $US

The Australia minerals sector is particularly subject to fluctuations in demand, prices and exchange rates with many metal prices being cyclic in the short to medium term. Although, prices for metals have been falling in real terms for decades, in the shorter term they tend to be correlated with the strength of the international economy. The $A has therefore long been seen as a 'commodity currency', rising when faster global growth increased world commodity prices, and falling when global growth and hence commodity prices weakened.

Spot currency prices reflect the market balance in demand and supply for those currencies. Over time, short run fluctuations iron out to reveal some underlying drivers across currencies:

> currency valuation fundamentals can come down to issues such as relative inflation and interest rates, and the state of the commodity price cycle;

> when currencies depart from these fundamentals for long enough, then there may be sustained changes to past trends in current account deficits; and

> market timing can be highly variable, but values usually eventually revert back close to where the long-term fundamentals would have them.

The above observations imply the existence of a 'fair value' for a currency. However, as important as this longer-term measure of 'fair value' can be, it is also possible for 'fair value' to move over the course of a business cycle. For example, the difference between Australian and US interest rates may tend to vary over the cycle, as may global commodity prices.

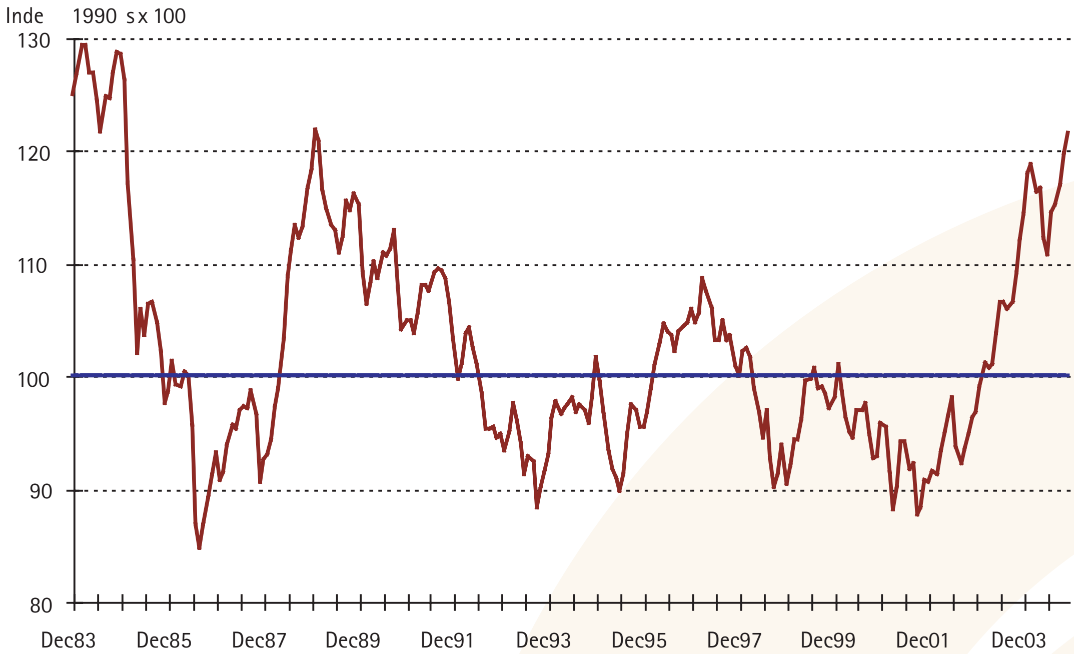
So there are two different questions here:

> what is the longer-term fair value of the $A?

> what are the shorter term swings in fair value arising out of the current trends in each of commodity prices, relative interest rates, and current account deficits?

There are several ways to assess the longer-term fair value of the $A. A relatively sophisticated measure of longer-term 'fair value' is provided by looking to the real effect of exchange rate indices compiled by JP Morgan. The latter are updated monthly, and have therefore not fully reflected renewed strength in the $A.

CHART B.1: THE 'REAL EFFECTIVE' $A



Source: JP Morgan and Access Economics

The JP Morgan measure aims to estimate the 'effective' exchange rate by measuring it against the exchange rates of nations that a given country trades with, having adjusted for inflation. [24]

The JP Morgan real effective exchange rates in **Chart A.1** also show the average rate of the 1990s (as the 100 line). If the current reading is above/below that average line, then it provides an indication (rough though it is) that the currency in question may be over/under valued, unless there has been a structural change.

By shifting to a measure of 'fair value' that is based on the average of the 1990s, the lingering strength in the $A seen for a couple of years after it floated is removed from the estimate. Unsurprisingly, therefore, the estimate of the $A's overvaluation on this measure compared to its 'fair value' rises notably to 21 per cent.

The implication is that, on key measures of the longer-term fair value of the $A, the latter has become increasingly overvalued of late. However, to say that the $A is overvalued against longer-term measures of 'fair value' does not mean that it could not rise further yet. In particular:

> the current global commodity price cycle is extremely strong;

> Australian interest rates are above their US counterparts, and may stay so for a while; and

> markets are becoming increasingly nervous about US economic fundamentals.

However, the current relationship between the $A and global commodity prices imply that while the $A is overvalued on long-term measures of 'fair value', it is undervalued on short term measures of 'fair value' based on the $A's past performance as a 'commodity currency'.

In addition, applying similar methodology would imply the $US seems to be close to long-term measures of 'fair value', but runs the risk of being driven below fair value if markets become impatient with inaction or slow action by US policymakers to address its huge fiscal and current account 'twin deficits' problem.

The latter raises the short term risk of a spike in the $A. Any such spike would most likely be temporary, and the $A would be likely to eventually return to its longer-term 'fair value'. However, past experience with floating exchange rates is a reminder that even a 'temporary' spike in a currency can last for years – implying the potential for considerable pain to be worn by Australian commodity producers.

24 It does not, however, reflect the impact of third currency competitiveness. Therefore the real effective exchange rate for, say, Australia, will be calculated with respect to the nations we trade with (such as Japan and the US) rather than the currencies of the nations we compete with (such as Canada and South Africa).

ATTACHMENT C
PRINCIPLES FOR MANAGING CLIMATE CHANGE

ATTACHMENT C. PRINCIPLES FOR MANAGING CLIMATE CHANGE

OBJECTIVES

> Australia to contribute to global action, in managing climate change, to reduce greenhouse gas emissions and develop and promote adaptation measures.

> Australia to encourage the international community through global, bilateral and unilateral measures to pursue global action to reduce greenhouse gas emissions and adapt to the impacts of climate change.

> Australia to develop a strategic national framework for greenhouse gas emission abatement and adaptation, founded in high level principles of sustainable development [25] and sound science, utilising advances in technology, recognising the interdependency of global trade and commerce, and underscoring the critical necessity for the internationalisation of effective abatement measures and commitments.

PRINCIPLES

In accordance with the 1992 Rio Declaration, there is sufficient scientific evidence to be concerned at the impacts of anthropogenic greenhouse gas emissions on the world's climate system although it is recognised that there are uncertainties in the science of climate change. The science of global warming needs to be continuously reviewed and evaluated.

Australia's strategic national framework for greenhouse gas emission abatement and adaptation, in managing climate change in a global context, to be founded in the following high-level principles:

> Internationalisation: pursue global action to reduce greenhouse gas emissions which is consistent with the United Nations Framework Convention on Climate Change and its ultimate objective of stabilisation of greenhouse gas concentration in the atmosphere at a level that:

- would prevent dangerous anthropogenic interference with the climate system;
- is within a time frame sufficient to allow ecosystems to adapt to climate change;
- would ensure that food production is not threatened;
- enables economic development to proceed in a sustainable manner;
- is in accordance with common, but nationally differentiated responsibilities and respective capacities; and
- distributes the burden equitably across the international community.

> Certainty: take a medium (to 2012) and long-term perspective (say, 2030).

> Consistency: be consistent:

- across state, territory and Australian Governments to ensure their policies do not distort investment flows and create barriers to trade between States/Territories;
- with Australia's overall economic policy of achieving high levels of sustainable economic growth; and
- with other national policy aspirations including: population growth, international trade and investment, energy supply and demand, regional development and environmental and social responsibility.

> Cost effective:

- develop cost effective actions that enhances Australian industry's competitiveness and promotes business opportunities in a way that does not expose Australian industry to costs its competitors do not face;
- promote investment in eco-efficiency;
- adopt commercially feasible greenhouse gas abatement options;
- promote continuous improvements by utilising as soon as commercially practicable new best practice greenhouse adaptation and abatement technologies; and
- promote relevant R&D/technology and sustainable industry development.

25 Sustainable development – defined in terms of the Bruntland Commission – "meets the needs of the present without compromising the ability of future generations to meet their own needs" – and developed around the three pillars of economic progress, social responsibility and environmental management.

> Non-discriminatory:
  - not discriminate between particular projects and locations and between existing and new entrants;
  - not disadvantage "early movers" in Australian industry that have implemented greenhouse gas abatement measures;
  - be trade and investment neutral in a way that does not expose Australian industry to costs its competitors do not face; and
  - be size and ownership neutral regarding positions reached.

> Comprehensive: address all greenhouse gases, all emission sources and sinks and recognise the need for developing a full suite of strategies including adaptation and abatement strategies.

> Equitable: distribute equitably the cost burden of emission abatement and adaptation across the community, including providers of goods and services and consumers.

> Market measures:
  - be based as far as is practicable on appropriately designed market measures – such measures provide a more economically efficient and least costly means of achieving abatement and adaptation goals; and
  - greenhouse business programs should be evaluated in a framework of market failure principles with:
    - interventions justified on market failure grounds (such as to promote R&D) aimed at improving the efficiency of competitive markets; and
    - interventions that constrain industry development - such as taxes (including the equivalent cost under emissions trading) on business inputs – being evaluated against the same market failure principles.

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