



MINERALS COUNCIL OF AUSTRALIA

POLICY BRIEF

EXECUTIVE SUMMARY

FOR THE FORTY-FOURTH COMMONWEALTH PARLIAMENT

SEPTEMBER 2013

MCA POLICY BRIEF: EXECUTIVE SUMMARY

INDUSTRY OVERVIEW

- The minerals industry (encompassing exploration, extraction and processing) is a major contributor to national income, investment, high-wage jobs, exports and government revenues in Australia. It operates in a global industry where competition for markets is intense, where investment opportunities abound in other resource-rich economies and where capital, people and technology are highly mobile.
- In recent years, the minerals industry has accounted directly for up to 8 per cent of GDP (significantly more when account is taken of related activity), upwards of 20 per cent of business investment and around 50 per cent of national exports.
- The industry is a vital source of economic activity and jobs in regional and remote Australia, including among Indigenous Australians. It accounts for up to 30 per cent of employment in some regions and is the largest private sector employer of Indigenous Australians. Research by KPMG has shown that across nine mining regions the industry is helping to boost incomes, attract families and reduce unemployment.
- The industry has paid more than \$145 billion in Federal company income tax and State royalties since 2001-02 – before additional taxes like the carbon tax and the Minerals Resource Rent Tax (MRRT). Deloitte Access Economics estimates the industry's tax ratio has averaged 42.3 per cent between 2007-08 and 2012-13.
- Ensuring Indigenous Australians realise employment and business opportunities from minerals resource development is an abiding focus of industry activities. The industry has led development of the Indigenous Community Development Corporation (ICDC), a vehicle to incentivise intergenerational wealth transfer and to support community and enterprise development from mining-related agreements with traditional owners.
- Less than 2 per cent of Australia's land mass is currently under mine lease. The industry is committed to ensuring mined lands are available both for alternative land uses consecutively with mining (including for biodiversity conservation through habitat management) and to support alternative post-mining uses (including agriculture).
- The minerals industry's number one value and commitment is the safety and health of its workforce, where everyone who goes to work in the industry returns home safely.

REBOOTING THE BOOM

- After a remarkable decade of growth, the Australian economy and the mining industry have entered a more constrained and demanding phase. Yet it is both wrong and defeatist to declare the so-called "mining boom" over. This view misrepresents mining's long-run growth trajectory, the large gains still to be won from future investment and export growth and the urgent policy challenge Australia now faces.
- Policy and regulatory settings are critical to the scale, duration and location of gains from future resource development. Research for the MCA concludes that policy decisions made now can create or destroy an economic opportunity equal to more than 5 per cent of the Australian economy in 30 years' time.
- The export expansion phase arising from past investment is still ramping up and there remains a significant opportunity for future investment in projects. The reality, however, is that Australia's position as a destination for investment and as a cost competitive supplier of minerals is not what it should be.
- According to research by Port Jackson Partners, more than half of Australia's existing mines across thermal coal, metallurgical coal, copper and nickel have operating costs above global averages. And on capital costs, whereas a few years ago Australia could build iron ore and coal projects as cheaply as our competitors, now iron ore projects are 30 per cent more expensive than the global average, while for thermal coal the figure is 66 per cent.

- Rebooting the boom requires a coherent and purposeful economic reform agenda to improve Australia's productivity, cost competitiveness and structural flexibility. Three inter-related points form a central message of this MCA Policy Brief to the 44th Commonwealth Parliament:
 - There is still significant future investment and export growth to be unlocked in coming years across a large number of projects.
 - Australia needs to be "hungrier" in bringing on projects of all sizes, including small and medium-sized mining projects.
 - The urgency with which policy-makers tackle the nation's structural competitiveness problem will determine if Australia secures maximum returns from future minerals resource development.

POLICY PRIORITIES

Macroeconomic policy and fiscal reform

- The Commonwealth's structural budget deficit and looming fiscal pressures mean budget repair remains a pressing challenge, notwithstanding softer domestic growth. The long-term focus of efforts to close the fiscal sustainability gap should be on spending restraint, not higher taxes.
- A National Commission of Audit of government spending is timely, though wider fiscal reforms are needed to improve budget transparency and the quality of public spending, to keep taxes down, to chart a credible path back to budget surplus and to secure long-run fiscal sustainability.
- Monetary policy should be the principal instrument supporting macroeconomic stability and sustainable, low inflationary economic growth.

Minerals Resource Rent Tax

- Coal and iron ore mining were large and growing sources of government revenues in Australia even before the MRRT.
- Repeal of the MRRT will boost industry confidence and signal Australia's determination to remain a premier destination for investment in the years to come.
- Australia will remain a relatively high tax jurisdiction for coal and iron ore mining even if the MRRT is abolished.

Other business tax issues

- Internationally competitive taxation arrangements and regime stability are critical to sustaining investment in resource development. The viability of large mining projects is assessed based on the overall tax burden (the combination of all business tax rates and measures) not just the corporate rate or any other single tax measure.
- The minerals industry seeks early engagement with the Coalition Government on a range of taxation issues. The MCA is keen to cement a regular dialogue with the new Assistant Treasurer on taxation matters.
- The industry has long stressed the importance of sound taxation principles, compelling empirical evidence and detailed consultation processes in achieving successful taxation reform. The MCA will participate actively in the White Paper process on tax reform in the 44th Parliament.

Regulatory reform to improve productivity

- Industry confidence in Australia's regulatory framework has declined in the face of a steady stream of ad hoc regulatory changes, usually characterised by poor process.
- The minerals industry has a vital interest in efficient, stable and risk-based regulatory systems that meet policy objectives without imposing unnecessary cost burdens – costs that cannot simply be passed on to users. The MCA advocates the principle of minimum effective regulation, whereby regulation can both meet its policy objectives and do so at least cost.

- Australia needs a new wave of regulatory reform to improve productivity, cost competitiveness and enterprise flexibility.

Energy and climate change

- Australia's energy policy should reconcile energy security with the imperatives of sustainable development and climate change management.
- Australia needs a new carbon policy framework that is realistic in its ambition and consistent with the goals of energy security, international competitiveness and strong technological innovation as part of a measured transition to a low emissions economy. Direct Action provides an opportunity to recast climate change policy in a way that better meets these multiple policy objectives.
- Investment in low emissions technology needs to take full account of the global emission reduction challenge and Australia's particular resource endowment.
- Energy market reforms need to be reinvigorated with a focus on open and transparent markets to remove constraints on supply.

Infrastructure

- Private investment can and should be the most substantial source of funding for commercial infrastructure. Governments have a responsibility to nurture an open, transparent and competitive environment in which the market can operate and private property is respected. Regulation should only be used where it is the most efficient way of addressing market failure.
- The MCA welcomes the Coalition Government's commitment to strengthen the role of Infrastructure Australia and to create a more transparent, accountable and effective adviser on infrastructure projects and policies.
- Government underinvestment in social infrastructure in mining regions remains a critical capacity constraint on future minerals resource development.

Innovation and industry policy

- Australia is a global centre of mining production, research and innovation. Australia's mining industry spends around \$4 billion per annum on R&D with R&D intensity (the value of R&D as a proportion of industry gross value added) at around 4 per cent.
- Competing countries have stepped up their mining innovation programs and are proving to be strong competition in attracting investment and talent.
- Policy changes in recent years have not been conducive to mining innovation.

Trade and investment

- The minerals industry is Australia's largest export earner and most globalised industry. It supports continued trade liberalisation through multilateral, regional and bilateral forums and policy settings that encourage foreign investment.
- The industry also looks to the new Minister for Trade and Investment to be a strong advocate for open, competitive domestic markets to ensure export industries like mining are not forced to carry unnecessary cost burdens in any retreat to domestic protectionism.
- The minerals industry supports the Coalition Government's plan to establish a Ministerial Advisory Council on Trade and Investment as the pre-eminent source of advice from the business sector on trade and investment policy.

Workplace relations

- The minerals industry seeks a framework of workplace law and regulation that promotes cooperative and productive workplaces founded in direct relationships between employers and employees, flexibility and choice.

- Australia's workplace relations system has been re-regulated in a way that bolsters the power of trade unions and tribunals at the expense of employers and employees. The Fair Work Act has reduced flexibility and choice in workplace arrangements and created a more adversarial bargaining system.
- The minerals industry supports early reforms in areas such as union right of entry, Individual Flexibility Arrangements (IFAs), greenfields project agreements and the restoration of the Australian Building and Construction Commission in advance of the proposed Productivity Commission review of the Fair Work Act.

Occupational health and safety

- The minerals industry's number one value and commitment is the safety and health of its workforce. The industry has set itself the ambitious goal of becoming free of fatalities, injuries and diseases.
- Inconsistencies in legislation and its application are impeding industry effort towards the goal of zero harm.
- Originally scheduled for the end of 2016, the Council of Australian Governments (COAG) has committed to review the Model Health and Safety regime by the end of 2014. The MCA supports strongly the bringing forward of this review.

Skills development

- The minerals industry faces a range of skills challenges (especially in relation to experienced professionals), linked to wider productivity and cost competitiveness challenges.
- The industry remains concerned about chronic underfunding of minerals-related higher education courses in Australia. Industry-led training in the Vocational Education and Training (VET) sector remains a key priority.
- Labour mobility is important to the success of Australia's mining industry. Strategies such as Fly-in, Fly-out arrangements and an effective skilled migration program provide the flexibility that allows Australia to secure major resource investments.

Land use and environmental approvals

- Land use decision making and approvals processes are plagued by a lack of co-ordination and integration.
- A number of reforms to the Environmental Protection and Biodiversity (EPBC) Act can be pursued within existing legislative provisions, including through administrative changes in the way the Act is applied and by more fully utilising existing mechanisms.
- However, wider reforms are needed to better direct Commonwealth resources to strategic matters, including as a "standard setter" for State and Territory processes under bilateral agreements. The minerals industry is committed to working closely with the new Australian Government on its plan to streamline environmental approvals through a "one-stop shop", consistent with the shared objective of reducing unnecessary regulation and costs without compromising high environmental standards.

Water access and use

- The minerals industry is a strong supporter of water market reform to promote the highest value uses of Australia's scarce water resources. Impediments to water reform have included the difficult process of establishing the nature and extent of existing property rights, establishing the legal and market processes for trading those rights and ensuring demands for non-commercial uses (such as ecological flows and cultural entitlements) are properly accounted for.
- The inclusion of the "water trigger" for coal seam gas and coal projects within the EPBC Act has resulted in unnecessary referrals and duplicative processes and, in turn, considerable delays in major projects with little or no substantiated environmental benefit. There is a strong case to remove the water trigger.
- Clause 34 of the National Water Initiative, which recognises the unique and temporary nature of water use in the minerals industry, should be formalised and integrated with water sharing plans and other water market mechanisms.

- The MCA has led a landmark effort to better understand the industry's water use (and future needs) through the development of a water accounting framework.

Regional development

- The minerals industry is a significant (often dominant) source of economic activity in regional and remote Australia and is a catalyst for employment and enterprise development. While the industry accepts that it has a key role to play in regional development, this can only be effective and sustainable as part of a long-term partnership in which governments accept their responsibilities for infrastructure provision and service delivery.
- The industry is committed to ensuring the economic benefits of mining operations can extend beyond the life of mine and that those communities most impacted by mining operations are also the communities that most benefit.
- The MCA recommends the new Australian Government develop a strategic framework for regional development in cooperation with State and Territory Governments, industry, Indigenous organisations and other stakeholders.

Indigenous economic development

- Untapped opportunities exist to leverage mining activity to improve the lives of Indigenous Australians. In particular, payments under Native Title agreements constitute a foundation for the long-term investment of such monies to ensure sustainable, intergenerational benefits to Indigenous communities, provided appropriate government policies and infrastructure are in place to support Indigenous economic development.
- A systemic lack of investment in social and physical infrastructure and the absence of effective governance arrangements in remote and regional Australia remain important constraints on the ability of Indigenous people to realise available opportunities.
- The Indigenous Community Development Corporation offers a critical mechanism to generate sustainable and intergenerational wealth creation and the MCA recommends strongly its implementation by the new Australian Government.

Maritime transport

- Legislative changes in 2012 have reduced the supply of vessels on critical Australian domestic routes, resulting in higher costs and less choice for shipping consumers. These restrictions came on top of changes to wage rules for foreign crews operating in Australian waters that also increased costs.
- The Productivity Commission should be charged with reviewing changes to shipping rules in the interest of ensuring a competitive market for shipping services consumers.

Exploration

- Australia's exploration expenditure has fallen noticeably since 2012 and trends suggest a longer term decline in the share of global exploration expenditure in Australia. The Productivity Commission has highlighted rising costs and lower productivity as factors, along with a long list of unnecessary regulatory burdens.
- Taxation policy relating to exploration has been marked by uncertainty and incoherence in recent years. The new Australian Government is urged to resist measures (including those announced in the 2013 Budget) to curtail legitimate deductions for exploration expenditure.
- The MCA welcomes the Coalition Government's recognition of the need to reinvigorate Australia's exploration effort and looks forward to consulting closely on the implementation of the proposed Exploration Development Incentive.