An explosion in costs means Australia’s standing as a viable coal, iron ore and base metals producer is under serious threat, jeopardising $121 billion a year in resources revenue in the next two decades.

This is the conclusion of a landmark report prepared for the Minerals Council of Australia, which also warns that key policies and regulations will make it hard for the mining industry to maintain current production during a period of lower commodity prices.

The report’s author, Port Jackson Partners, argues high resource wages and productivity declines mean Australia has lost its competitive advantage over emerging miners in Africa, Asia and South America.

“Large market share gains over earlier decades have been replaced by stagnation or share losses – we have lost our competitive edge,” says the report, which calls for a suite of policy reforms to help increase the volume of mineral exports to protect market share and capture future investment and revenue. It found that more than half of Australia’s coal, coking coal, copper and nickel mines have costs above global averages, and the nation has lost its iron ore cost advantage for all but Pilbara projects established before 2008. Labour costs are a key driver, with a shortage in critical trades and an unworkable industrial relations regime producing wages that are not only among the highest in the world but are also growing at a faster pace, the report said.

It follows repeated warnings from BHP Billiton chairman Jac Nasser, who said last week the commodity price cycle had passed its peak and Australia must get its rising cost base under control.

The BHP Billiton Mitsubishi Alliance and Xstrata Coal last week said they would cut a combined 900 jobs partly because of rising costs, following job cuts at the Queensland operations of Rio Tinto, Anglo American and Ensham Resources. The largest single loss of jobs was when BMA, which has been the subject of a long-running industrial dispute, closed its Norwich Park mine in May, affecting 1400 employees and contractors. BHP has also put on hold a $20 billion expansion of its Olympic Dam copper, uranium and gold mine in South Australia.
Capital costs are also rising at a faster pace, making thermal coal projects 66 per cent more expensive and iron ore projects 30 per cent higher than the global average. The majority of the thermal coal pipeline is at risk, there are few prospects for growth in aluminium, where China and India enjoy a cost advantage of up to 80 per cent, and copper and nickel projects are under "great pressure", the report says, as new and strong rival countries have emerged.

"The easy assumption that we will be a competitive minerals supplier and location of choice for new investment because of our natural endowment can no longer be sustained," the report notes.

The sector has relied heavily on record prices to deliver windfall revenue gains in the past five years, with price rises contributing $44 billion of the $93 billion in minerals revenue growth between 2006 and 2011.

However, with the terms of trade – export prices relative to import prices – now falling, future returns will depend on increasing the volume of commodity exports, to take advantage of strong demand from industrialising economies, including China and India, South-East Asia and Africa. The vision for a price-led boom being replaced by an export volumes story is broadly consistent with the views espoused by the Reserve Bank of Australia and Treasury.

The report argues this means there needs to be a major policy rethink to save the economic opportunity - including a shift to ensure the benefits continue by slashing regulations, reducing labour and capital costs, mobilising skilled workers and building university capacity, maximising innovation to create productivity, a Fair Work Act overhaul, reforming approvals to reduce delays and locking in stable and internationally competitive tax and royalty regimes. The report warns this transition is being challenged by sharply rising operating costs in Australia and a loss of competitiveness against miners in Chile, Peru, Mongolia and Mozambique, which have policy-settings that constrain costs, are adopting new technology and finding new sources of capital.

The mining investment report, based on 301 interviews with mining industry stakeholders around the world, showed the industry was worried about increasing "nationalism" as governments moved to extract more revenue from the industry.

with Natalie Gerritsen

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Mine labour costs 'too high'  

AAP, The West Australian September 17, 2012, 7:10 am

A new report has warned that labour costs in Australia’s mining industry are among the highest in the world.

The Minerals Council of Australia report says the latest modelling reveals that capital costs have made new thermal coal projects 66 per cent more expensive and iron ore projects 30 per cent more costly to build than the global average.

The paper, produced by Port Jackson Partners, found that real gross domestic product would be 5.3 per cent lower in 2040 if Australia does not act to boost competitiveness, media reports say.

"Policy decisions made now can create or destroy an economic opportunity equal to more than five per cent of the Australian economy in 30 years, with lower minerals industry growth quickly translating into poorer economic performance," the report said.

The report outlines measures that could be adopted, including halting spiralling wage costs by deploying skilled immigration and sending workers in manufacturing jobs on the east coast to mining jobs in WA.

Earlier this year, the federal government sought to discredit preliminary modelling because Angus Taylor, a partner of Port Jackson Partners, was seeking Liberal Party preselection. Mr Taylor has since been pre-selected for the federal seat of Hume.

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Local
Minerals council issues stark warning on mining wages

ANNABEL HEPWORTH, NATIONAL BUSINESS CORRESPONDENT

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17 September 2012
The Australian
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1 - All-round Country
1
English
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A COST crisis threatens to stall mining mega-projects and shrink the national economy by 5 percent unless Australia commits to controversial policies to regain its competitiveness, including loosening restrictive rules on enterprise migration agreements used to source foreign workers.

Landmark modelling to be released today by the Minerals Council of Australia and obtained by The Australian warns that labour costs in the mining industry are among the highest in the world, while rapidly soaring capital costs have made new thermal coal projects 66 per cent more expensive to build than the global average. Iron ore projects are 30 per cent more expensive to build than the global average.

The slump in the attractiveness of Australian projects comes just as resource-rich rivals -- including the Democratic Republic of the Congo, Mongolia and Mozambique -- are developing previously untapped reserves, the research warns.

The paper, produced by Port Jackson Partners, concludes that real GDP in 2040 would be 5.3 per cent lower than it would be if Australia were to take action to boost competitiveness.

Without improved competitiveness, real GDP would grow from $63,617 per person in 2010 to $97,111 in 2040; but it would rise to $102,511 in the modelled scenario where Australia has a "competitive edge".

This equates to a cut of more than $5000 per person in today's dollars and 6.3 per cent lower real wages.
``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, with lower minerals industry growth quickly translating into poorer economic performance,“ the report states.

The report will assist Julia Gillard’s efforts to talk up the longevity of the mining boom as it declares that neither a temporary slowdown in China, nor weakness in developed world economies or plunges in commodity prices will put an end to the boom.

But the report also creates a headache for Labor as it foreshadows a fresh policy brawl if the government scraps the diesel fuel rebate as part of its push for budget savings, revealing the move would impose cost increases of 4 per cent to 7 per cent on typical minerals projects.

Unions also are likely to be angered by some of the reforms demanded, such as measures to stop wage cost super-inflation by using skilled immigration and redirecting workers from manufacturing jobs in the eastern states to minerals jobs in Western Australia.

The Minerals Council argues such reforms are needed to lift competitiveness and stop more projects falling victim to a high-cost business environment.

Last month, BHP Billiton shelved its $US30 billion Olympic Dam project in South Australia and a planned outer harbour development at Port Hedland in WA, while Fortescue has cut back its expansion plans in the Pilbara and other projects, including Woodside Petroleum’s Browse project near Broome, have been delayed as costs soar and rival nations push for their assets to be developed.

Preliminary results of the modelling were detailed by Port Jackson Partners’ senior partner Angus Taylor in late May, but the Prime Minister criticised Mr Taylor as “talking the economy down” because he has preselection as the Liberal candidate for the seat of Hume.

Today’s report undermines Labor’s political message on the mining boom, which has focused on the redistribution of the wealth it has created.

Continued on Page 2

Continued from Page 1

‘At present, the national dialogue on Australia’s mining industry focuses primarily on how to distribute the earnings of the minerals sector, not on actions needed to ensure those benefits continue,” the report finds.

“There are calls for higher taxes on minerals producers, tighter restrictions on temporary migration to ensure jobs are filled by Australians, and new measures to force resource developers to source inputs from domestic manufacturers. Although still minority policy positions, these claims have gained increased prominence in recent times.”

Today’s report paints a grim picture of the outlook for commodities sectors where Australia has traditionally enjoyed success.

The majority of the project pipeline for thermal coal, which is used heavily by Chinese power stations, is at risk because projects in other countries are overwhelmingly more attractive to investors.

Every year, the completion date for thermal coal projects in Australia is delayed by a further three to four months, while
low-cost producers such as Colombia seek foreign investment in their projects.

Aluminium has few prospects for growth as Chinese and Indian producers have cheaper capital costs in smelting, while countries in the Middle East have access to cheaper energy.

By 2020, it will be cheaper to ship Brazilian iron ore to China, except for the most established, premier projects in the Pilbara.

And the shelving of Olympic Dam has cast doubt on the future of the copper industry as other copper projects are small and uncompetitive.

To address the cost pressures, the report calls for a more mobile workforce as workplace policies make it "needlessly difficult" to attract workers.

Specifically, it says that rules around enterprise migration agreements should be loosened and the threshold for protected industrial action lifted.

Despite the government's move to increase incentives for major projects to use Australian content, the report insists projects must have unfettered access to the most competitive supplies of inputs.

The report calls for increased national savings and says the exchange rate is "unnecessarily high" because of a "failure to run sustained budget surpluses".

The report urges higher enrolments in minerals-related higher education and improved quality in the courses, reforms to approval processes to reduce delays, and stable tax and royalty regimes.

To arrive at the 5 per cent figure, the modelling contrasts two scenarios. The "headwinds" scenario assumes the minerals resource rent tax and carbon tax stay, the workplace relations system is maintained, project approvals delays continue and there is inadequate investment in education and innovation -- prompting investors to apply risk premiums similar to those applied in Brazil or Chile. The "competitive edge" scenario assumes the MRRT and carbon taxes are not levied and state royalties are stable.

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Miners can adapt to tougher price competition: report

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John Kehoe

The easy days of sky-high commodity prices delivering fat profits to resources companies, shareholders and federal and state governments are fast coming to an end.

Chips Ń rapid industrialisation and a lag in mines coming into use around the world enabled commodity price rises to deliver almost half, or $44 billion, of the $93 billion in minerals revenue growth in the past five years.

Much of the success from the boom was good luck due to external forces, and less about good design. It always defied economics that the money-for-jam mining boom days could roll on without interruption. Inevitably, producers respond to the inducement of higher prices and supply catches up with demand.

So with new mines emerging from competitors in Africa and South America, commodity prices declining and sharply rising operating costs in Australia for labour, energy and transport, policymakers and managers will need to act to help the resources sector maintain international competitiveness and continue to deliver economy-wide benefits.

Operators of low-cost and high-grade iron ore deposits, such as BHP Billiton’s and Rio Tinto’s established Pilbara projects, are not under threat.

It is emerging mines with higher costs and less management experience which sprung up from 2008 in response to surging commodity prices which face the greatest pressure.

Capital costs soared 205 per cent at Sino Iron, 150 per cent at Midwest and 160 per cent at Gindalbie. Local iron ore projects are 30 per cent more expensive than the world average and thermal coal costs are 66 per cent higher, the Port Jackson Partners report says.

Brazilian iron ore will be cheaper to deliver to China than all other ore except that from established Pilbara projects by 2020.

The PJP report for the Minerals Council of Australia argues Australia must acknowledge it has a “home- grown” competitiveness problem.

That assessment appears at odds with the current record levels of mining investment, a point Treasurer Wayne Swan has identified to rebut those scaremongering about the so-called sovereign risk associated with the mining and carbon taxes.

History is not necessarily a future guide and complacency is a risk.

Resource-rich nations such as Australia have a track record of failing to take advantage of mining booms, which have often ended ugly. Notably, about 75 per cent of major projects currently listed by the Bureau of Resources and Energy Economics remain uncommitted.

To ensure the pipeline translates to export volumes, the report says a range of reforms are required so Australia does not lose out in sharing in the spoils of the forecast rise of 50 per cent to 200 per cent in global demand for minerals in the next 20 years.

Much of the demand will come from industrialisation in China and other developing economies such as India, south-east Asia and Africa.

To rein in spiralling costs and to boost productivity, policies being urged include: greater use of skilled migrant workers, more flexible workplace relations laws and increasing enrolments in mineral-related university courses. The industry says
these initiatives would address the primary driver of costs. Construction wages, which account for 35 to 50 per cent of total construction costs, grew 9 per cent a year in the past decade.

Other items on the wish list are: fixing the government's budget deficit to take pressure off the Australian dollar, optimising multi-user infrastructure, following Canada to improve project approvals to reduce delays and locking in stable and globally competitive tax and royalty arrangements.

The Minerals Council says this will help develop new low-cost brownfield and greenfield expansions.

Australia can generate an estimated extra $121 billion in minerals revenue a year by 2031 if it has the right policy setting to increase export volumes and maintain its present global minerals market share.

The Australian Financial Review

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No quick China fix, says Rio Tinto

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JOHN GARNAUT BEIJING

THE chief executive of Rio Tinto, Tom Albanese, has dampened hopes of any fast rebound in the Chinese economy, following meetings with pessimistic Chinese business and economic policy leaders.

Mr Albanese spoke of China’s confluence of challenges after attending a World Economic Forum meeting in Tianjin, where foreign visitors were generally struck by the degree of elite political uncertainty and its impact on policy making.

Mr Albanese told the Herald China was coping with the crisis in its biggest export market, Europe, at the same time it was cleaning up after the infrastructure-led "over-stimulus" that followed the 2008 global financial crisis.

The government-driven investment boom “was good for our business but created some structural imbalances and some inflation which they are now attempting to work out of the system, which led to the drying up in financing and a dry up of property business,” he said.

And he hinted obliquely at the political questions that have been consuming his Chinese counterparts, following seven months of scandal and intrigue including the unexplained two-week disappearance of the president-in-waiting, Xi Jinping.

“You have other things happening in China in that period causing less investor sentiment than you would otherwise have,” Mr Albanese said.

In the corridors of the World Economic Forum, Chinese officials and analysts struck a tone of “despondency and cynicism … while the views of international attendees on China were generally bullish and upbeat,” the Financial Times wrote.

Seven months of political scandal and intrigue have amplified doubts about the leadership’s capability and willingness to tackle deepening structural and governance challenges.

The dents in the Party’s previously shiny armour include the highest-level attempted defection in 40 years, a Politburo member’s wife being convicted of murder, the President’s key power broker reportedly being killed in a high-speed Ferrari crash (with two scantily-clad female passengers) and a president-in-waiting who disappeared for a fortnight.

On Saturday the Vice-President, Xi Jinping, re-appeared in a televised university visit, without any public explanation of why he vanished from view just weeks away from his elevation at the 18th Party Congress.

The director of the China program at the Carter Centre, Liu Yawei, said the failure to set even a date for the all-important congress was unprecedented. “This level of uncertainty and chaos, and the lack of transparency, hurts not only the image of China but it hurts just about everything,” he said.

"Everything is paralysed while they wait for the big thing to happen, nobody wants to take a position on anything, and you have an escalating crisis with Japan and a dispute with the US at same time,” Mr Liu said the uncertainty was sapping the confidence of economic and investment decision makers.

Policy makers are disappointed a series of modest stimulus measures have not gained traction and that inflation appears to havebottomed earlier than expected.

But Mr Albanese’s long-term faith in Chinese domestic demand remains unshaken.

"We continue to see the long-term trends in China and a number of other emerging markets towards greater levels of
urbanisation and industrialisation,” he said. “The vastness of these numbers would suggest that over time, more and more of the materials we produce will be consumed and will be in demand.”

Mr Albanese said the iron ore market was “possibly picking up now”, after its shock collapse.

Sydney Morning Herald

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Local
Slowdown talk has boom town's rents, property values declining

ANDREW BURRELL
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17 September 2012
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KARRATHA real estate agent Harry Hipworth reckons the death of the resources boom has been greatly exaggerated.

But with house prices falling by 10 per cent and rentals down $400 a week, he admits there has been a sudden slowdown in the growth of the Pilbara town that has been at the epicentre of the boom.

Property prices in Karratha, with is surrounded by massive iron ore mines and liquefied natural gas plants, more than doubled in the past five years.

But with waning consumer confidence, fuelled by talk of the end of the boom, prices have slumped in the past few months.

Mr Hipworth, the principal of LJ Hooker Karratha, said several factors were contributing to the slump, including the West Australian government's program of land releases that had boosted supply and the end of construction of Woodside Petroleum's $14.9 billion Pluto LNG plant.

An average three-bedroom, one-bathroom brick house in Karratha now rents for $1200 a week, about the same as a fancy three-bedroom property in the exclusive Sydney suburb of Mosman.

The same property in Karratha was fetching $1600 a few months ago, according to Mr Hipworth. The average price of a three-bedroom house in Karratha had slipped `at least 10 per cent' to $720,000.

Mr Hipworth said investors in Karratha real estate would have to get used to returns of between 8.5 per cent and 10.5 per cent, rather than the 12 per cent yields of recent years.
Ray White Karratha principal Richard Naulls said the recent spectacular falls in iron ore prices had affected confidence in the Karratha property market. "Investors are reluctant to spend with all the talk of doom and gloom in the resources sector."

But he said the main factor in the price deflation had been the WA government's move to release more than 2000 blocks of land in the town in the past few years, which had alleviated a chronic under-supply.

The Barnett government also is injecting money into Karratha through its Pilbara Cities program, which will involve the construction of high-rise apartments.

Mr Naulls said there were about 240 properties on the market and another 150 available for rent in Karratha, much higher numbers than usual.

In the other Pilbara boom town of Port Hedland, prices have remained stable despite the torrent of bad news in the resources industry.

In the past month, BHP Billiton has shelved plans to spend $US20bn ($18.9bn) building a new harbour to export iron ore from Port Hedland, and Andrew Forrest's Fortescue Metals Group has slashed its growth plans and sacked 1000 workers from its mines near Port Hedland.

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