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EXECUTIVE SUMMARY

A slowing economy and worsening fiscal outlook

The Australian economy is facing a number of related challenges. On the one hand, economic growth is slowing. Real GDP declined by 0.5 per cent (in seasonally adjusted terms) in the September quarter 2016 – the first quarter of negative growth for five years. And Treasury expects the Australian economy to grow below its traditional long-run average growth rate (3.25 per cent) over the next four years.

On the other hand, budget deficits are growing and are expected to total \$95 billion over the forward estimates – \$10.4 billion higher than forecast in May 2016. Net interest payments are expected to reach \$14.7 billion in 2019-20, \$500 million higher than previously forecast.

Economic policy generally, and the 2016-17 Budget in particular, must engage these challenges directly. Stronger growth will deliver better living standards, more employment and help budget repair. While higher economic growth is necessary to assist budget repair it is not sufficient. After all, while estimates of company tax receipts have been revised down by \$5.9 billion, company tax receipts are still forecast to increase by \$20 billion and total tax receipts by \$80 billion over the forward estimates. It is implausible to blame falling revenue as the culprit. The spending side of the balance sheet must also be tackled.

This submission is focused on the growth agenda. Over the last decade the minerals sector has been the single largest contributor to economic growth, accounting for nearly 14 per cent of growth in this period.

After the mining investment boom, a bigger mining industry

Before outlining the policy imperatives for growth, it is important to dispel one key misconception in the prevailing national economic debate. It is said that Australia is ‘transitioning’ from a mining investment boom to a ‘new’ economy. This implies that the sector’s importance to the national economy has declined. This is wrong. There has been a transition from an investment phase to a production phase. The industry is now three times bigger than it was before the mining investment boom.

Australia’s resources industry remains the nation’s largest source of export revenue, accounting for 64 per cent of Australia’s merchandise trade and 50 per cent of total exports in 2015-16. Export income in the year to June 2017 is expected to increase by 30 per cent on the previous year. The resources sector employs approximately 230,000 people in high-value, high-wage, high-skilled jobs, mostly in remote and regional Australia. That is nearly three times higher than a decade ago. And these are well-paid jobs. Average weekly earnings (full-time adult) in the resources sector are \$2,706 per week, 77 per cent higher than the average for other industries.

According to Deloitte Access Economics, the Australian minerals industry paid \$177 billion in company tax and royalties alone over the decade to 2015-16. Despite the fall in commodity prices since 2011-12, minerals companies have paid \$39 billion in company tax since 2012-13, including more than \$4 billion in 2015-16. Royalty payments are estimated to have totalled \$8 billion in 2015-16 which is almost three times the amount collected a decade ago. Better prices will deliver an estimated \$2.4 billion boost in royalties to Queensland and Western Australia in the current financial year. While the industry is a substantial contributor to federal and state budgets, it is not a drain on revenues. According to the Productivity Commission the Australian mining industry receives ‘negligible’ industry assistance.¹

It is imperative that policymakers appreciate that Australia’s comparative advantage in minerals and energy exports is not simply a function of its natural endowment, important as it is. Rather, this comparative advantage has to be achieved by productive firms that are prepared to bear the risks of

¹ Productivity Commission, [Trade and Assistance Review 2014-15](#), released 25 July 2016.

investing, employing and innovating to derive market value from mineral resources. As the Prime Minister, Malcolm Turnbull MP, has pointed out, the mining industry 'is now and always has been the most innovative and the one that takes the greatest risks in Australia's whole corporate sector.'²

The policy focus must be on generating economic growth

In his final speech as Governor of the Reserve Bank, Glenn Stevens noted that Australia must 'maximise our efforts in those areas that can lift potential growth.'³ For a small open economy like Australia, the priority must be on structural reforms that enhance the competitiveness of our export and import competing industries and attract international investment.

Australian minerals companies operate in a global industry where prices are highly transparent and there is intense competition – both from other commodity exporters and from domestic suppliers in customer countries. There is already substantial competition from emerging mining regions with high grade deposits and very low operating costs.

Australia's 30 per cent company tax rate is too high for a capital hungry country. While many other countries have substantially reduced their corporate tax rates over the past decade, Australia's rate has remained static for 15 years. In his 2016 analysis of the competitiveness of Australia's tax system, respected tax expert Professor Jack Mintz concluded:

Most industrialised countries have been reducing company income tax rates in the past decade and yet Australia has been stuck in the quicksand watching others pass by.⁴

To underline this fact, the MCA's 2016 minerals industry tax survey found that the minerals industry faced an effective tax rate (company tax plus royalties) of 54.3 per cent in 2014-15. A phased reduction in the company tax rate to at least the OECD average of 25 per cent is essential to drive future investment in Australian mining.

Improving the nation's productivity performance must be a central focus of policy. A survey of MCA members identified required areas of policy focus to improve the industry's productivity performance. Project approvals processes was nominated as the area of greatest concern, followed (with equal frequency) by workplace relations and taxes and royalties.

Delays and uncertainty in project approval processes pose a significant risk to the industry's global competitiveness. A one-stop shop for approvals can greatly reduce overlap and duplication between federal and state processes without lowering the quality of environmental outcomes. Measures are also required to prevent anti-development activists from pursuing vexatious legal challenges to approved projects, as well as misusing tax-deductible donations to disrupt and delay productivity-enhancing infrastructure.

While mining productivity is improving, the Fair Work Act is restricting the ability of companies to change work practices, adapt to changing market conditions and ultimately grow their business. Mining in Australia is a sophisticated and technologically advanced enterprise that demands a highly skilled and adaptable workforce. But unless the imbalances and rigidities of Australia's workplace relations system are addressed, the industry will find it ever more difficult to create and sustain attractive, high-wage jobs. Ultimately, Australia's workplace relations system needs to evolve a wider set of agreement options to enable more productive and flexible enterprises, including individual statutory agreements.

Further, ready access to reliable and affordable energy is crucial to business and households. If Australia ignores the ability of new, super-efficient coal generation to provide affordable, baseload

² The Hon. Malcolm Turnbull MP, Prime Minister of Australia, [Address to the Australian Minerals Industry Parliamentary Dinner, Parliament House](#), Canberra, 12 October 2016.

³ Glenn Stevens AC, then Governor of the Reserve Bank of Australia, [An accounting](#), address to the Anika Foundation Luncheon, Sydney, 10 August 2016.

⁴ Jack Mintz, Philip Bazel, Duanjie Chen, [Growing the Australian economy with a competitive company tax](#), a policy paper commissioned by the Minerals Council of Australia, March 2016.

energy with a sharply lower carbon footprint, then the costs of our energy transition will be higher and the reliability will be lower.

The International Energy Agency projects that by 2040, Australia's coal exports will grow 18 per cent and its share of the world coal trade will increase from 32 to 36 per cent. Opportunities for Australia's uranium industry are equally apparent, but policy reform is needed for Australia to benefit from global growth in nuclear energy generation.

The resurgence of protectionist sentiment means that the national benefits of low taxation, fiscal rectitude and competitive markets are more contested than in previous decades. In the lead-up to Budget 2017-18, the government must make every effort to explain that high living standards and essential government services cannot be sustained by high taxation or by interventions that prefer one energy technology over another or that shield some industries and workers at the expense of others. The government needs to set out a comprehensive productivity reform agenda to show a credible path back to surplus and debt retirement.

The following **15 point policy checklist** provides a credible policy agenda to achieve these goals.

MCA POLICY PRIORITIES

1. Economic contribution and commodity market outlook

- The Australian minerals industry remains a pillar of the Australian economy. It is a key large employer in regional areas, the largest source of export revenue and continues to be a world leader in driving productivity-enhancing innovation in mining technology.
- The world's metal and energy needs are projected to continue growing in the 21st century as highly populated non-OECD nations, particularly in Asia, converge to the economic levels of the OECD nations. Australia is well-placed to supply these growing markets but this opportunity is not guaranteed.
- The worldwide surge in mining investment over the past decade has resulted in a substantial increase in mining capacity with many markets currently having excess capacity. In these increasingly competitive commodity markets Australian mining companies will need to maintain their focus on cost management and productivity, which in turn requires the right policy settings at all levels of government.

2. Streamlining and safeguarding project approvals

- Duplication of federal and state environmental approval processes causes unnecessary complexity and delays in resource projects. Parliament should approve a one-stop shop for environmental approval processes.
- Measures should be put in place to prevent vexatious legal challenges to approved projects by anti-development activists without reducing environmental protection.
- Some environmental organisations are misusing tax-deductible donations to disrupt and delay productivity-enhancing investment. The moderate and bipartisan recommendations of the House of Representatives Standing Committee on the Environment should be implemented immediately to ensure that tax concessions are being used for their intended policy purpose.

3. Competitive taxation

- Mining faces a heavy tax burden compared to competitors in other nations. The MCA's *Minerals industry tax survey 2016* found that the minerals industry faces an effective tax rate (company tax plus royalties) of 54.3 per cent.
- Australia's 30 per cent company tax rate is too high for a capital hungry country. A phased reduction in the company tax rate to at least the OECD average of 25 per cent is essential to drive future investment in Australian mining.
- Stable tax arrangements for off-road fuel use and research and development are vital to maintaining industry competitiveness and economic activity, particularly in regional Australia.
- Moves to address tax avoidance should be carefully targeted to minimise compliance costs and not impact legitimate transactions. Unilateral measures implemented outside the OECD Base Erosion and Profit Shifting (BEPS) framework, such as the Diverted Profits Tax, must be carefully targeted to avoid double taxation and high compliance costs.

4. GST reform

- The current system of horizontal fiscal equalisation that Australia uses to distribute the GST funding pool is inadvertently rewarding states that give low priority to policies that promote economic development. GST distribution arrangements at the national level should support investment in the most productive parts of the economy.

- The government should reform the GST distribution methods used by the Commonwealth Grants Commission to provide incentives for states to develop their natural resources as part of a broader review of state fiscal relations.

5. Modernising workplace relations

- The recentralisation and overregulation of workplace relations is impeding productivity and innovation in the Australian minerals industry.
- The MCA supports the Productivity Commission's recommendations for:
 - More balanced union right-of entry rules to stop frequent and unnecessary disruptions
 - Restricting permitted matters in agreements to direct employer-employee relationship
 - Stopping abuse of adverse action provisions that are interfering with reasonable management decisions
 - Facilitating greenfields agreements, including by allowing the employer to request 'last offer' arbitration after three months, and allowing the nominal expiry date of an enterprise agreement to match the life of the project.
- Ultimately, Australia's workplace relations system needs to evolve a wider set of agreement options to enable more productive and flexible enterprises, including individual statutory agreements.

6. Affordable and reliable energy

- Policies that promote affordable and reliable energy are critical to the productivity and competitiveness of Australian businesses. Mining is a significant energy user, accounting for 9 per cent of national energy consumption and 11 per cent of electricity use.
- Energy policy should be technology-neutral, with all low emissions options treated equally. High efficiency, low emissions (HELE) coal technologies can provide reliable, affordable energy with up to 50 per cent savings in emissions and should be part of Australia's energy mix. The ban on nuclear power in Australia should be lifted.
- Australia's CO₂ emissions reduction target for 2030 (26 to 28 per cent on 2005 levels) is credible and appropriate, but it imposes a greater economic burden than the targets of other developed nations. To limit the cost of meeting this target, access to international abatement should be permitted.

7. Free trade and open markets

- A liberal foreign investment regime, with consistent application of rules and thresholds, is vital to investor confidence and the future growth of the minerals industry. The government should reassure investors that Australia is still open for business by minimising the burden of new reporting requirements for foreign owners of agricultural land and water entitlements.
- The MCA supports continued pursuit of trade liberalisation opportunities including early ratification of the Trans-Pacific Partnership (or a modified version without the United States) and the conclusion of a high-quality free trade agreements with India and Indonesia as well as participant nations of the Regional Comprehensive Economic Partnership (RCEP).
- The government should refocus on deregulation, not just 'better' or 'best practice' regulation. Australia's coastal shipping should be deregulated to allow more efficient transport of freight.

8. Opportunities for Australian coal and uranium

- Australia has regained its ranking as the world's largest coal exporter, thanks to the high quality of Australian coal, strong demand from East Asia and ongoing cost reductions and productivity improvements in domestic operations. The International Energy Agency projects

that by 2040, Australia's coal exports will grow 18 per cent and its share of the world coal trade will increase from 32 to 36 per cent.

- The Australian Government should continue to work with other nations to ensure that international development banks and country export agencies do not discriminate against low emissions coal-fired generation. The government should also continue to explore options with the Chinese Government to achieve greater certainty regarding China's coal quality regulations.
- Australia holds almost one-third of the world's low cost uranium but produces just 10 per cent of global production. Policy reform is needed for Australia to benefit from global growth in nuclear energy generation.

9. Mining innovation

- Innovation underpins Australia's comparative advantage in minerals and energy by supporting operations that are more competitive, safe and responsible.
- The Australian minerals industry is a global leader in mining automation. The industry is applying the latest information and communications technology to integrate remote and autonomous equipment into mining operations and logistics networks.
- The mining industry spends nearly \$3 billion annually on research and development (R&D) and is an exemplar of collaboration with research bodies. The R&D tax incentive is an effective, economy-wide, market-driven measure that should be maintained.

10. Exploration

- Attracting investment in exploration is critical to sustaining a future pipeline of mining projects and exports. Mineral exploration expenditure in 2015-16 decreased for the fifth year in a row and was down 10 per cent to \$1.4 billion.
- The Australian Government should maintain immediate deductibility of exploration expenditure in the tax system. The industry commends the government for its commitment to an expansion of pre-competitive geoscientific research in the 2015-16 Budget.

11. Land use coexistence, water, rehabilitation and air quality

- Land use coexistence can be improved. The 2013 Multiple Land Use Framework developed by the COAG Standing Council on Energy and Resources should guide policymakers to balance landholder interests with state obligations to develop its resources to benefit society.
- Water planning and access arrangements should integrate the needs and characteristics of all water users. Onerous and unnecessary regulations, including the EPBC Act 'water trigger' should be removed. Any new water reporting requirements should be fully rationalised.
- Mine rehabilitation is comprehensively regulated by state and territory governments and plans must be approved before mining can commence. Rehabilitation bonds provided by mining companies safeguard governments in the unlikely event rehabilitation obligations are not met.
- National ambient air quality standards should be used as intended for urban airsheds. Guidance should be developed to allow adaption to regional areas and industrial sources.

12. Skills and training

- Australia's resources sector depends on a highly skilled, highly paid workforce that covers a range of scientific fields and professional occupations. Technological innovation – including increased automation – requires workers continually to update their training and skills.
- The minerals industry supports sensible higher education reform that combines fee deregulation with strong safeguards to protect the viability of minerals-related disciplines.

Safeguards should include stronger accountability mechanisms to ensure increased university fee revenue is devoted to teaching and student services.

- Labour mobility is essential to existing operations and new projects in the minerals industry. Strategies such as fly-in, fly-out (FIFO) and drive-in, drive-out (DIDO) arrangements, together with an effective skilled migration program, help sustain mining activity in regional areas.

13. Health and safety

- The minerals industry supports a nationally consistent, risk-based preventative occupational health and safety (OHS) regulatory system, supported by industry-specific regulation to deliver benefits based on greater certainty, consistency and efficiency.
- The minerals sector supports timely industry access to federally held health and safety data to better inform operational health and safety improvement initiatives.

14. Indigenous partnerships

- The Australian minerals industry is the largest private sector employer of Indigenous Australians, the biggest customer of Indigenous-owned businesses and a significant investor in Indigenous economic development and partnerships.
- The management of Indigenous land-related payments and benefits can be improved through the adoption of the Indigenous Community Development Corporation (ICDC) model.
- Legislative stability of the Native Title Act is required to enhance stakeholder confidence, though steps can be taken to improve the administration and efficiency of regulatory regimes.

15. Northern Australia and infrastructure

- The mining industry is a large contributor to the economy of northern Australia and can provide the foundation for future economic development in the region.
- Investment in infrastructure under the northern Australia strategy should recognise mining's importance to the future development of northern Australia. The Northern Australia Infrastructure Facility should be integrated with existing federal and state approvals processes. The investment mandate should neither favour nor exclude particular industries.
- Governments have a responsibility to foster open, transparent and competitive infrastructure markets, while also being alert to how differing industry characteristics can give rise to specific regulatory challenges. Regulatory arrangements must be appropriate to ensure efficient provision of infrastructure services by the private sector.

1. ECONOMIC CONTRIBUTION AND COMMODITY MARKET OUTLOOK

- The Australian mining industry remains a pillar of the Australian economy. It is a key large employer in regional areas, the largest source of export revenue and continues to be a world leader in driving productivity-enhancing innovation in mining technology.
- The world's resources and energy needs are projected to continue growing in the 21st century as highly populated non-OECD nations, particularly in Asia, converge to the economic levels of the OECD nations. Australia is well-placed to supply these growing markets but this opportunity is not guaranteed.
- The worldwide surge in mining investment over the past decade has resulted in a substantial increase in mining capacity with many markets currently having excess capacity. In these increasingly competitive commodity markets Australian mining companies will need to maintain their focus on cost management and productivity, which in turn requires the right policy settings at all levels of government.

Mining industry contribution to the Australian economy

The Australian mining industry remains a pillar of the Australian economy. According to the Australian Bureau of Statistics, mining industry gross value added has increased at an annual average rate of 6.5 per cent over the past decade and the industry now accounts for approximately 9 per cent of the Australian economy.⁵ Despite a cyclical downturn in commodity prices in 2015-16, Australia's resources industry remains the nation's largest source of export revenue and accounted for 64 per cent of Australia's merchandise trade and 50 per cent of total exports.⁶

The resources sector is also a large employer in Australia with a workforce of approximately 230,000 – many of whom are employed in regional areas.⁷ The resources sector workforce has benefitted from the substantial investments made over the past decade. The expanded capital stock has underpinned average weekly earnings of resource sector workers increasing 66 per cent over the past decade to \$2,706. This makes average weekly earning in the resources sector 77 per cent higher than the average for other industries.

Despite claims to contrary, the success of the mining industry has come with negligible support in the form of government budgetary support. The Productivity Commission confirmed this position in its latest *Trade and Assistance Review*, which showed that Australian mining industry receives 'negligible' industry assistance.⁸

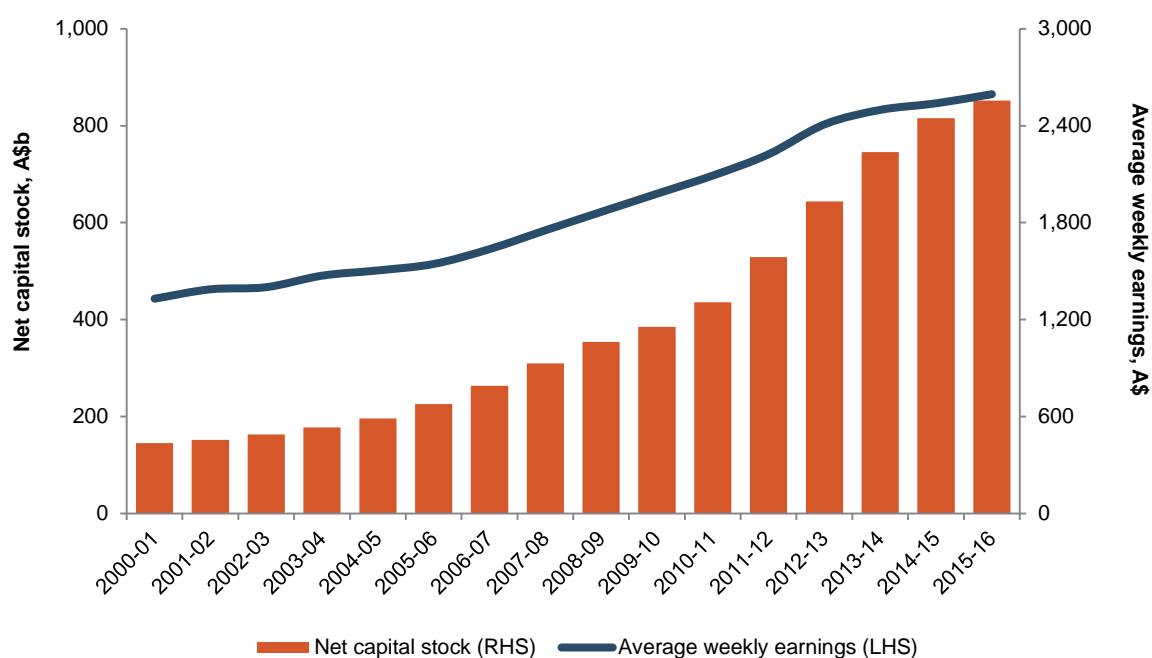
⁵ Australian Bureau of Statistics Cat No. 5204, [Australian System of National Accounts](#).

⁶ Department of Industry, Innovation and Science, [Resources and Energy Quarterly – December 2016](#).

⁷ Australian Bureau of Statistics Cat No. 6291.0.55.003, [Labour Force, Australia, Detailed, Quarterly, November 2016](#).

⁸ Productivity Commission, [Trade and Assistance Review 2014-15](#), released 25 July 2016.

Chart 1: Australian mining industry – net capital stock and average weekly earnings



Source: Australian Bureau of Statistics Cat No. 5204 *Australian System of National Accounts*, Cat No. 6302 *Average Weekly Earnings, Australia*

Mining industry performance in 2015-16

The market and global economic conditions that underpinned the rapid growth of the mining industry in the first decade of the 21st century have changed. The high commodity prices and access to finance that underpinned the first two stages of the mining boom have now subsided and Australia’s mining companies now face a more challenging operating environment. In the second half of 2016, mineral and energy commodity prices rebounded after a long period of decline and almost all commodity prices finished 2016 higher than they started. Nevertheless, the low prices that prevailed throughout the first half of the year resulted in the average price for a number of commodities being lower in 2016 than 2015.

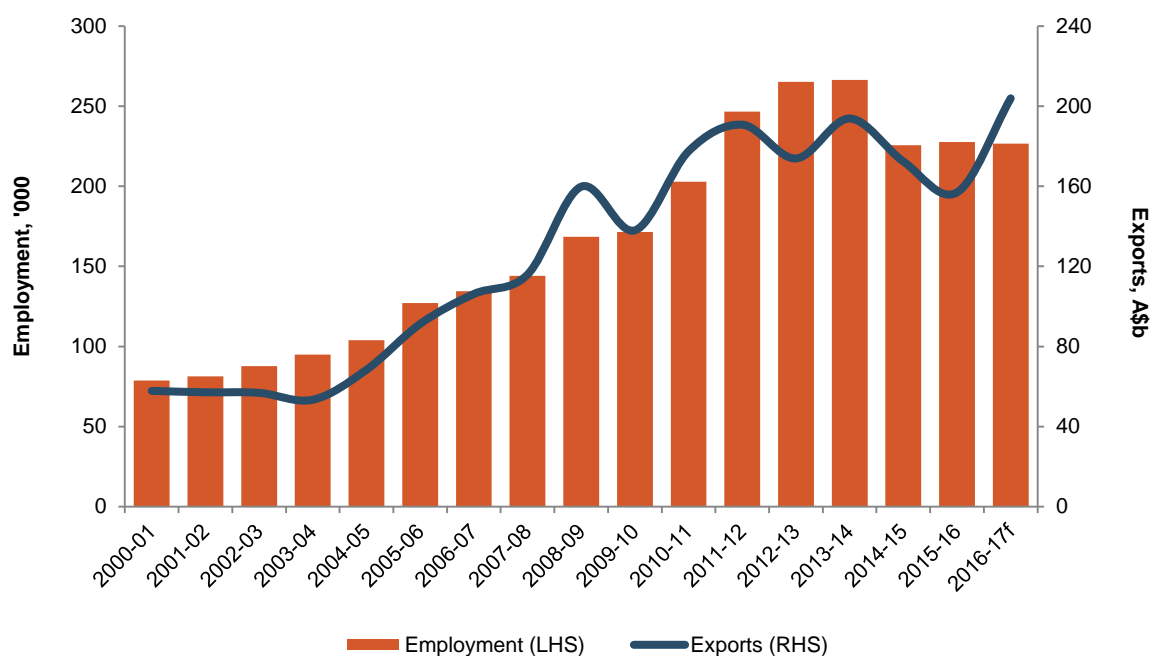
Table 1: Mineral and energy commodity prices summary, 2016

Commodity	Unit	Dec-15	Dec-16	% Change	2015 Average	2016 Average	% Change
Aluminium	US\$/t	1,497	1737	16%	1,665	1,593	-4%
Coal - metallurgical	US\$/t	89	200	125%	102	115	12%
Coal - thermal	US\$/t	56	107	92%	62	69	11%
Copper	US\$/t	4,639	5,451	18%	5,510	4,796	-13%
Gold	US\$/oz	1,106	1,251	13%	1,160	1,257	8%
Iron ore	US\$/t	40	72	82%	55	56	1%
Lead	US\$/t	1,707	2,181	28%	1,788	1,835	3%
LNG - Japan	US\$/Mmbtu	10.2	8.5	-16%	11.0	7.5	-32%
Nickel	US\$/t	8,708	11,129	28%	11,863	9,470	-20%
Oil - Brent	US\$/barrel	38	46	23%	52	43	-18%
Uranium	US\$/lb	35	19	-47%	37	27	-27%
Zinc	US\$/t	1,528	2,566	68%	1,932	2,038	5%
IMF Metals Price Index	Index 2005=100	105	136	29%	126	117	-7%
IMF Fuel Price Index	Index 2005=100	73	89	23%	98	80	-18%

Sources: International Monetary Fund, World Gold Council, National Australia Bank

Reflecting the downturn in commodity prices, the value of Australia's mineral and energy commodity exports decreased 9.1 per cent in 2015-16 and totalled \$157 billion.⁹ The recent cyclical rebound in commodity prices is expected to result in higher exports for Australia. The Department of Industry, Innovation and Science forecasts the value of resources exports will increase 30 per cent to a record high of \$204 billion in 2016-17.

Chart 2: Australia's resources sector – exports and employment



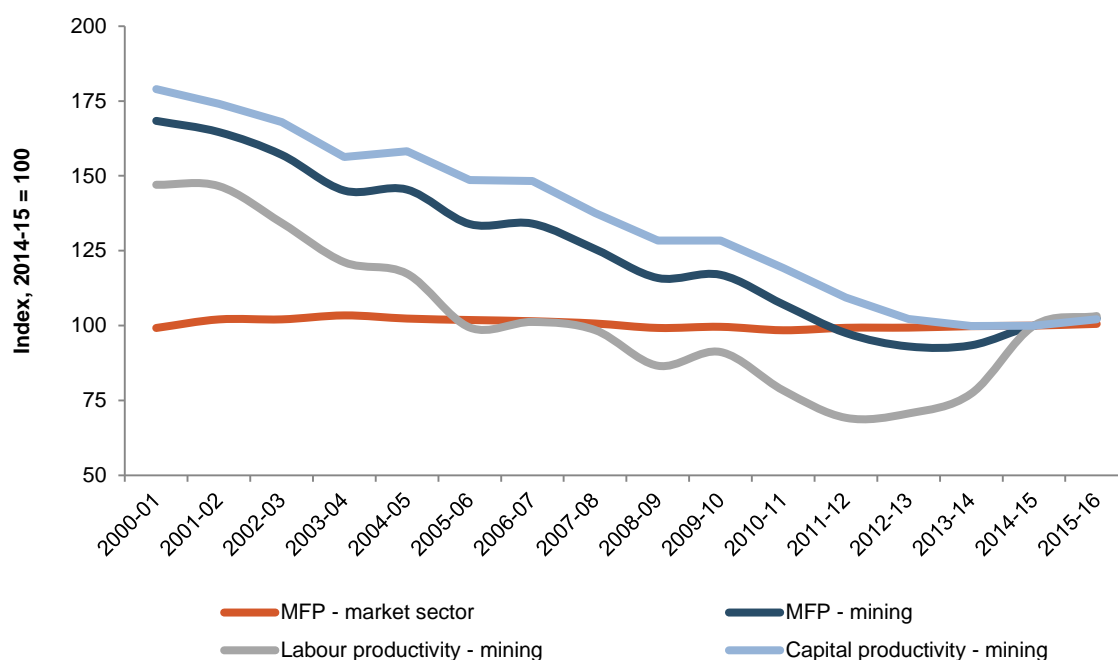
Source: Australian Bureau of Statistics, Cat No. 6291 *Labour Force, Australia, Detailed, Quarterly*; Department of Industry, Innovation and Science, *Resources and Energy Statistics*; and *Resources and Energy Quarterly – December 2016*.

⁹ Department of Industry, Innovation and Science, [Resources and Energy Quarterly – December 2016](#).

The downturn in commodity prices over the past three years prompted a renewed focus on cost management and productivity in the mining industry. This focus has enabled Australia's mining industry to endure through a two year period where commodity prices have fallen more than during the global financial crisis. In 2015-16 mineral exploration expenditure in Australia decreased 10 per cent to \$1.4 billion and mining investment (including oil and gas) declined 30 per cent to \$53.3 billion.¹⁰ Average employment in the mining industry increased slightly in 2015-16 and was 1 per cent higher at around 228,000.¹¹ Mining industry multifactor productivity also increased 2.4 per cent in 2015-16 as the industry continued the transition from the investment phase of the mining boom to the production phase.

Because mining in Australia is capital-intensive, the industry's capital productivity has a large bearing on its multifactor productivity (i.e. the growth of output above the growth of labour and capital combined). Between 2006-07 and 2015-16, the resources industry (including oil and gas) undertook an unprecedented investment in new mines, equipment and infrastructure, with a corresponding net capital stock of \$841 billion in June 2016.¹² Measured productivity in mining declined during this period owing to the lag between investment and production, rapid workforce expansion with constrained labour markets, and increased mining of lower grade ores that are more costly to extract. However, as the mining boom moved from the investment phase to the production phase, multifactor productivity growth turned positive, recording 7.0 per cent growth in 2014-15 and 2.4 per cent in 2015-16.¹³

Chart 3: Productivity measures for Australia's resources sector



Source: Australian Bureau of Statistics, Cat No. 5260 *Estimates of Industry Multifactor Productivity*

Outlook for commodity markets and the Australian mining industry

World annual consumption of most mineral and energy commodities has increased substantially in the 21st century as a result of highly populated non-OECD countries urbanising and implementing market-based reforms to increase growth in their economy. This trend is likely to continue for some time to come as the income levels, urbanisation rates and resource consumption per capita of these

¹⁰ Australian Bureau of Statistics, Cat No. 8412 [Mineral and Petroleum Exploration](#); Cat No. 5625 [Private New Capital Expenditure and Expected Expenditure](#).

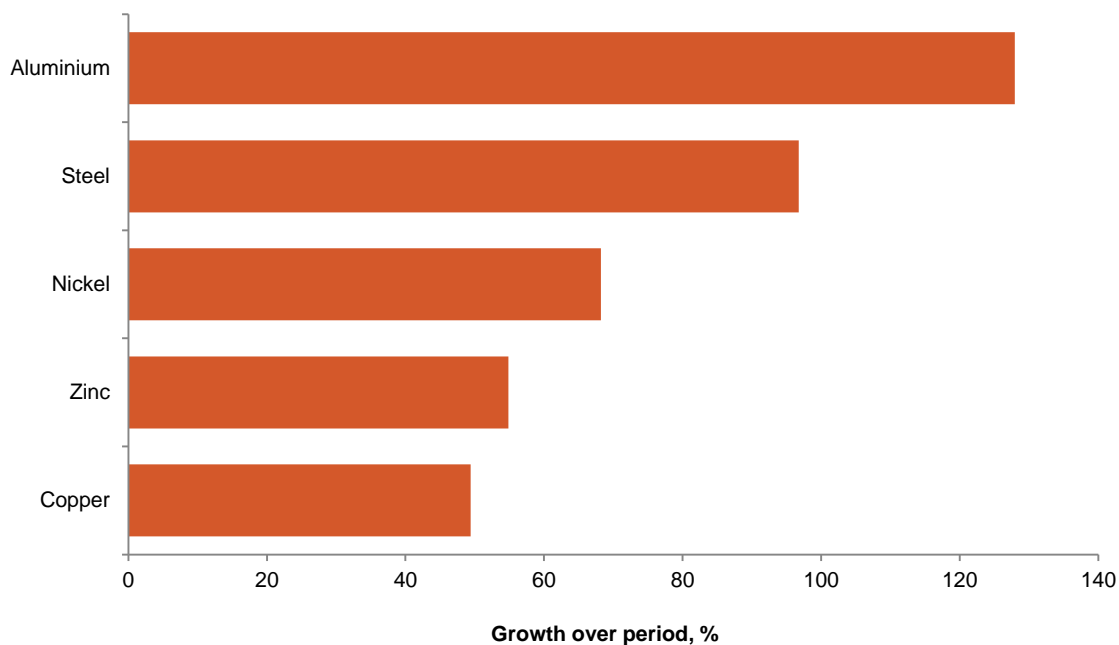
¹¹ Australian Bureau of Statistics, Cat No. 6291 [Labour Force, Australia, Detailed, Quarterly](#).

¹² Australian Bureau of Statistics, Cat No. 5204 [Australian System of National Accounts, 2015-16](#).

¹³ See Productivity Commission, [PC Productivity Update 2016](#), Canberra, released on 26 April 2016, p. 7

emerging economies still remain well below the levels of OECD countries and have considerable potential to grow further. The world's metal and energy needs are projected to continue growing in the 21st century as these economies converge to the economic levels of the OECD nations.¹⁴ What remains uncertain are the rates of growth in emerging economies which will underpin the growth in resources consumption and their future sources of supply.

Chart 4: World metals consumption growth, 2000 to 2015



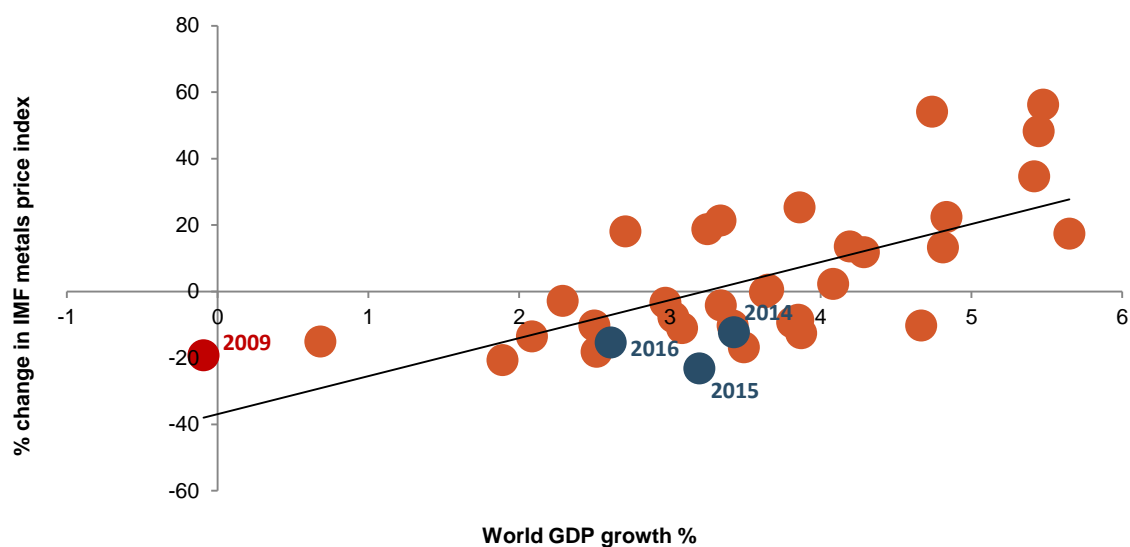
Sources: Department of Industry, Innovation and Science, World Steel Association

The rate of global economic growth is the key factor that affects commodity markets – both the amount of a resource consumed and its price. Commodity price super cycles, such as the one experienced in the first decade of the 21st century (also referred to as the high price phase of the mining boom), are primarily demand driven.¹⁵ They occur when the growth in demand for a resource outpaces the ability of suppliers to expand production. Such growth is typically reflected in high world GDP growth rates. Consequently, commodity price growth tends to have a very strong, positive correlation with world GDP growth rates (see chart 5).

¹⁴ Department of Industry, Innovation and Science, [Resources and Energy Quarterly – March 2016](#)

¹⁵ Thomas Klitgard and Harry Wheeler, [What Tracks Commodity Prices?](#), research note published on Federal Reserve Bank of New York website, 21 March 2016.

Chart 5: Relationship between world GDP growth and metal prices, 1980 to 2016



Source: International Monetary Fund, MCA calculations

While the rebound in commodity prices in the second half of 2016 gives some basis for optimism for the short term outlook for commodity prices, the minerals sector remains cautious on price trends. The latest upswing in the commodity price cycle has been driven more by supply side responses, such as production cuts and mine closures, in response to the lower commodity prices that prevailed from 2014 to early 2016. Such supply-led price recoveries are more likely to support cyclical, short term price gains than sustained higher prices over the medium term. That said, opinions on commodity prices vary and some respected analysts believe that the opportunity will be sustained over the medium term. Katrina King, director of research and strategy at QIC, Australia's second-largest wholesale funds manager recently said:

No view on commodities can be complete without first considering what has happened and what will happen in China. To shore up its growth targets for the year, the Chinese government has continued its fiscal and credit stimulus which has boosted construction and hence steel demand. The other major contributor to commodity prices has been the domestic cuts to production of iron ore and coal in China – this is largely on environmental grounds and also reflects the need to rationalise capacity and remove debt overhang. As a result, we believe these shutdowns are permanent. Thus there is a structural, rather than simply cyclical, increase in demand for Australian commodities.¹⁶

World consumption of a broad range of metal and energy commodities is projected to increase in the medium and long term, albeit at rates likely to be below the rapid pace of the first 15 years of the 21st century.¹⁷ Owing to its large resource endowments and close proximity to the main economic growth areas, Australia has the opportunity to be a key supplier of mineral and energy commodities to the large, emerging economies in Asia. However, this opportunity is far from guaranteed. There is already substantial competition from other emerging mining regions with high grade deposits for both investment and trade deals.

Australia has not been the only country to enjoy the benefits of the investment phase of the mining boom and countries across South America, Asia and Africa have also attracted substantial investment to initiate or increase production of iron ore, base and precious metals as well as energy commodities such as coal. Many of these new mines have very low operating costs that make them highly competitive with Australian miners. For example, Brazilian iron ore producer Vale will soon start production at its newest iron ore mine known as S11D. With a production capacity of around

¹⁶ [The Australian Financial Review](#), 4 January, 2017.

¹⁷ Department of Industry, Innovation and Science, [Resources and Energy Quarterly – March 2016](#).

90 million tonnes per year and estimated cash operating cost of US\$8 per tonne it will be one of the largest and lowest cost iron ore mines in the world.¹⁸

This highlights the risks posed by foolhardy proposals for tax increases on the sector, especially the \$3 billion per annum new tax advanced by WA Nationals leader, Brendon Grylls, to apply to selected WA iron ore producers. Although a state tax, it would inevitably lead to imitation by other states and possibly even at the federal level. But the Grylls tax also has implications for the national economy. Work by Deloitte Access Economics has shown that such a tax would reduce national employment by 7,200 and GDP by \$2.9 billion. It would severely damage Australia's reputation as an investment destination, with iron ore producers in Brazil facing an effective tax rate one third of that confronting WA producers.

In increasingly competitive markets Australian mining companies will need to maintain their focus on cost management and productivity. The Australian mining industry will continue to need the right mix of policy settings from all levels of government to support it achieve these goals and meet the growing competition from emerging low-cost mining regions.

¹⁸ Stephen Bartholomeusz, [The Australian](#), 20 December, 2016.

2. STREAMLINING AND SAFEGUARDING PROJECT APPROVALS

- Duplication of federal and state environmental approval processes causes unnecessary complexity and delays in resource projects. Parliament should approve a one-stop shop for environmental approval processes.
- Measures should be put in place to prevent vexatious legal challenges to approved projects by anti-development activists, without reducing environmental protection.
- Some environmental organisations are misusing tax-deductible donations to disrupt and delay productivity-enhancing investment. The moderate and bipartisan recommendations of the House of Representatives Standing Committee on the Environment should be implemented immediately to ensure that tax concessions are being used for their intended policy purpose.

Streamlined environmental approvals with high standards

Delays and uncertainty in project approval processes pose a significant risk to the industry's global competitiveness. In a survey of MCA members, 90 per cent of respondents ranked reforming approval processes as 'very important' or 'important' to improving productivity.

A 2012 report by Port Jackson Partners found that Australian thermal coal projects experienced an average project delay of 3.1 years, compared with an average of 1.8 years in other jurisdictions.¹⁹ The delay costs for projects can be substantial. A one year delay can reduce the net present value (NPV) of a major mining project by up to 13 per cent and cost up to \$1 million every day.²⁰

Unnecessarily complex and duplicative processes contribute to lengthy approval timeframes and delays. The Productivity Commission has concluded that overlap and duplication between federal and state processes can be greatly reduced without lowering the quality of environmental outcomes.²¹

State processes should be fully accredited under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) to create a single assessment and approval process. Monitoring and reporting arrangements will ensure that the federal government retains oversight and high environmental standards continue to be met.²²

The benefits of the streamlined project approvals are significant. Analysis by the then Department of the Environment concluded streamlining federal and state environmental approval processes would save Australian businesses \$426 million annually.²³ BAEconomics found reducing project delays by one year would add \$160 billion to national output by 2025 and create an additional 69,000 jobs.²⁴

The need to streamline environmental approvals has been recognised by numerous reviews over many years. The parliament should approve the necessary changes to the EPBC Act and allow the one-stop shop reforms to proceed.

Vexatious legal challenges and unlawful anti-development activism

Judicial review processes are important to safeguard the rights and interests of affected individuals and to ensure development assessment and approval processes remain robust. The mining industry supports the rule of law and the right of affected individuals to have their say.

¹⁹ Port Jackson Partners, [Opportunity at risk: regaining our competitive edge in minerals resources](#), report commissioned by the Minerals Council of Australia, MCA, 16 September 2012, p. 27.

²⁰ MCA member calculations, based on a project value of between \$3 billion and \$4 billion.

²¹ Productivity Commission, [Major Project Development Assessment Processes: Research Report](#), Canberra, released on 10 December 2013, pp. 2 and 13.

²² See Allan Hawke, [The Australian Environment Act: Final report of the Independent Review of the Environment Protection and Biodiversity Conservation Act 1999](#), October 2009, p. 66f; and the Productivity Commission, op. cit., p.15.

²³ Department of the Environment, [Regulatory cost savings under the one-stop shop for environmental approvals](#), Australian Government, Canberra, September 2014, p. 1.

²⁴ BAEconomics, [The economic gains from streamlining the process of resource project approval](#), report commissioned by the Minerals Council of Australia, Canberra, July 2014, p. 1f.

Increasingly, however, industry opponents – often removed from the local community – are deliberately misusing the appeals process to halt or delay projects. Some groups have openly admitted this. Appeals through the Federal Court do not need to be successful in order to delay a project. Most cases are not. The Productivity Commission found that the time between approval and legal judgement for coal projects ranged from 7 months to more than 24 months.²⁵ Such challenges provide little environmental benefit, yet cost the project proponent in terms of delay and expenses.

There are weaknesses in the EPBC Act that allow the minister's approval to be challenged on a technicality which has no bearing on the substance of the decision. This problem can be addressed without reducing environmental protection. A process whereby only challenges which have merit proceed to legal judgement would also reduce unnecessary delays.

Further, there is compelling evidence that some registered environmental organisations are misusing tax-deductible donations to disrupt and delay productivity-enhancing infrastructure, including through vexatious litigation funded by undisclosed foreign donations, partisan political campaigns, and illegal and unsafe activities.

The Australian newspaper revealed that a number of wealthy US foundations are covertly funding the Sunrise Project – an Australian registered environmental organisation and charity – to disrupt and delay Adani's Carmichael coal project. Moreover, the Sunrise Project is coordinating anti-coal campaigning by a number of environmental organisations and has tried to hide its funding sources from the Australian parliament.²⁶ The Executive Director of the Sunrise Project verified this report.²⁷

The MCA has provided evidence that some registered environmental organisations and charities – such as Greenpeace Australia Pacific, Lock the Gate Alliance and 350.org Limited – have promoted or undertaken illegal activities to prevent or impede coal, gas and uranium projects. These activities have included: trespass, wilful damage, unregulated high-risk activity, failing to comply with directions of an authorised officer, illegally climbing or attaching to a maritime vessel, illegally boarding a maritime vessel, intentionally destroying Commonwealth property, obstructing police and picketing.²⁸

The House of Representatives Standing Committee on the Environment has made nine recommendations to improve the administration and transparency of the register of environmental organisations. Seven recommendations were supported by all committee members, including:

- Abolish the register of environmental organisations and transfer responsibility for endorsing environmental organisations as deductible gift recipients wholly to the Australian Tax Office
- Require any environmental organisation seeking endorsement as a deductible gift recipient from the ATO to register as an environmental charity through the Australian Charities and Not-for-profits Commission
- Require environmental organisations with deductible gift recipient status to submit an annual self-assessment to the ATO supporting their continuing eligibility for endorsement.

These reforms would ensure that tax concessions granted to registered environmental organisations are being used for their intended policy purpose of protecting the environment. They would also ensure that all environmental deductible gift recipients, and not just those who are also registered charities, are expressly prohibited from obstructing investment projects by illegal or unsafe means.

²⁵ Productivity Commission, [Major Project Development Assessment Processes: final research report](#), Canberra, released on 10 November 2013, p. 258.

²⁶ Dennis Shanahan, 'Foreign funding for Adani lawsuits', *The Australian*, 22 October 2016.

²⁷ John Hepburn, Executive Director of the Sunrise Project, [Podesta Adani Wikileaks: Clinton Presidency will hold mirror to Turnbull's climate inaction](#), media statement, 22 October 2016.

²⁸ See the Minerals Council of Australia, [Submission to House of Representatives Standing Committee on the Environment Inquiry into the Register of Environmental Organisations](#), MCA, 29 May 2015, pp. 14-24; [Pre-Budget submission 2016-17](#), MCA, 12 February 2016, p. 42f; Tim Connell *et al.*, 'Newcastle harbour coal blockade: live updates, photos, video', *Newcastle Herald*, 8 May 2016; Australian Associated Press, [Police charge 66 at Newcastle protests](#), *The Australian*, 9 May 2016.

3. COMPETITIVE TAXATION

- Mining faces a heavy tax burden compared to competitors in other nations. The MCA's *Minerals industry tax survey 2016* found that the minerals industry faces an effective tax rate (company tax plus royalties) of 54.3 per cent. A phased reduction in the company tax rate to at least the OECD average of 25 per cent is essential to drive future investment in Australian mining.
- Stable tax arrangements for off-road fuel use and research and development are vital to maintaining industry competitiveness and economic activity, particularly in regional Australia.
- Moves to address tax avoidance should be carefully targeted to minimise compliance costs and not impact legitimate transactions. Unilateral measures implemented outside the OECD Base Erosion and Profit Shifting (BEPS) framework, such as the Diverted Profits Tax, must be carefully targeted to avoid double taxation and high compliance costs.

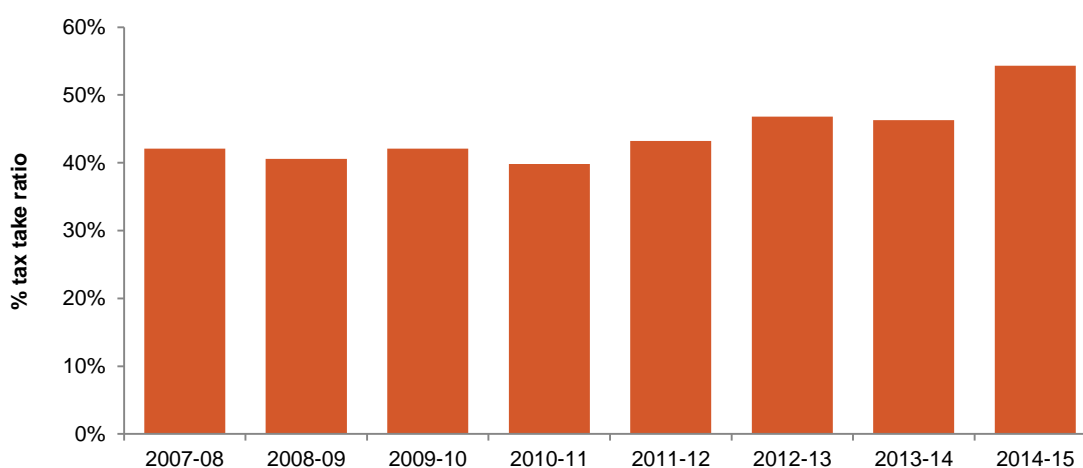
More competitive company tax and royalties will improve growth prospects

A competitive tax system is critical for investment in capital-intensive industries such as mining. Mining projects involve high-risk exploration outlays, large upfront capital commitments, long-life assets, sophisticated technologies and long lead times to profitability. Competition from other resource-rich economies to capture future opportunities in resource development is intense.

Australia's 30 per cent company tax rate is too high for a capital hungry country. While many other countries have substantially reduced their corporate tax rates over the last decade, Australia's rate has remained static for 15 years. Australia's 30 per cent company tax rate is now significantly higher than the OECD average (25 per cent) and is the sixth highest among the 34 OECD countries.²⁹

The combination of state and territory royalties with federal company tax means Australia is a relatively high tax jurisdiction for mining. The *Minerals industry tax survey 2016* by Deloitte Access Economics found that the minerals industry faced an effective tax rate (company tax plus royalties) of 54.3 per cent in 2014-15. This is the highest tax ratio recorded since the survey began and the first time it has exceeded 50 per cent.³⁰

Chart 6: Total tax take ratio on mining



Source: Deloitte Access Economics

²⁹ KPMG, [Corporate Tax Rates Table](#), viewed on 9 December 2016.

³⁰ Deloitte Access Economics, [Minerals industry tax survey 2016](#), report prepared for the Minerals Council of Australia, MCA, 7 December 2016.

A 2016 study by Dr Duanjie Chen and Dr Jack Mintz at the University of Calgary found Australia had the second-highest tax burden on iron ore of nine countries examined, after South Africa.³¹ A 2013 study by Goldman Sachs found that the tax take from Australian mining companies is within the top 25 per cent of global mining jurisdictions. Countries with lower tax burdens included Brazil, Indonesia, Canada, Peru and the United States.³²

A reduction in the corporate tax rate is the priority business tax reform to improve productivity, growth prospects and living standards. The government's 'Enterprise Tax Plan' to progressively reduce the corporate tax rate towards the OECD average will position Australia with a more globally competitive corporate tax rate and help recover ground Australia has lost since the last rate reduction in 2001.

Stable arrangements for fuel tax credits and research and development are vital

Fuel tax credits (FTCs) are critical to the competitiveness of industries operating in remote and regional Australia. Inaccurate claims that FTCs constitute a 'subsidy' ignore that fact that FTCs are grounded in the fundamental principle of tax policy that business inputs should not be taxed – the same principle that underpins the GST.

Australia's largest export earning industries – including mining, agriculture and tourism – rely on diesel fuel to operate heavy machinery off-road and generate off grid-electricity with diesel generators. Diesel fuel consumption accounts for up to one quarter of operating costs at some mines. Any reduction to FTCs would have a disproportionate impact on regional Australia and would constitute a new tax on regional industries.

The mining industry spends nearly \$3 billion on research and development (R&D) annually - nearly \$1 in \$6 of all business R&D spending in Australia.³³ The R&D tax incentive is an effective, economy-wide, market-driven measure that should be maintained.

Unfortunately, the R&D tax incentive has been characterised by persistent uncertainty owing to frequent changes by successive governments. The recent *Review of the R&D Tax Incentive* recommendation to introduce an arbitrary 'intensity threshold' would remove any form of support for a large number of businesses investing in R&D in Australia. The R&D tax incentive should not be distorted by restricting eligibility on the basis of industry, R&D investment levels or any other arbitrary criterion. It is critical that Australian businesses now be afforded a stable policy framework to encourage future innovation.

Integrity of Australia's tax system and minerals taxation

The MCA supports Australia remaining in step with international consensus on base erosion and profit shifting (BEPS) reform and well-designed legislation that clearly targets abusive tax behaviour. International consistency ensures that the cost burden of additional compliance requirements is mitigated to the greatest extent possible and effectively targets any identified 'tax mischief.'

Anti-avoidance measures must be carefully designed to avoid unintended consequences. The diverted profits tax (DPT), a unilateral action that departs from the international tax framework and OECD BEPS recommendations, requires improvement to better target abusive tax arrangements and taxpayers that do not co-operate with the ATO and to reduce compliance costs.

Consistent with the industry's commitment to meaningful and globally consistent tax transparency, the Australian minerals industry supports the Extractive Industries Transparency Initiative (EITI). The MCA is supporting the government's efforts to progress to full implementation of the EITI through active participation on the Multi-Stakeholder Group.

³¹ Duanjie Chen and Jack Mintz, [2016 update: Effective tax rates on Australian mining and an evaluation of proposed increases in taxation of iron ore](#), policy paper commissioned by the Minerals Council of Australia, MCA, 5 September 2016.

³² Goldman Sachs, *Resource Nationalism Poses Big Threat to Miners*, equity research paper, January 2013.

³³ Australian Bureau of Statistics, [Research and Experimental Development, Businesses, Australia, 2013-14](#), ABS cat. no. 8104.0, released on 9 April 2015.

4. GST REFORM

- The current system of horizontal fiscal equalisation that Australia uses to distribute the GST funding pool is arguably rewarding states that oppose or give low priority to resources development and punishing states that seek to promote investment and expansion of the resources sector.
- The government should reform the GST distribution methods used by the Commonwealth Grants Commission to provide incentives for states to develop their natural resources as part of a broader review of state fiscal relations.

GST distribution reform is required

In Australia, the federal government has the right to collect income tax, company tax and the goods and services tax (GST), which are large sources of revenue. However, the states are responsible for administering healthcare, education and justice which are large spenders of public funds. The main sources of state revenue – payroll tax, stamp duty, land tax and mining royalties – are insufficient to meet the demand for services. The resulting ‘vertical fiscal imbalance’ is managed through a system of horizontal fiscal equalisation (HFE) to distribute the revenue collected by the GST.

It is becoming increasingly clear that the GST distribution system is hampering the productivity and growth potential of Australia via inefficient resource allocation. For example, Western Australia is a state that has assigned a high priority to economic development and experienced an average growth rate of 5 per cent over the past decade.³⁴ That states take different approaches is an empirical fact. Every year, the Fraser Institute, a Canadian think tank, publishes a respected, independent global survey of the policy settings of mining provinces. In its latest rankings, Western Australia ranks at 8th on the Policy Perception Index and Victoria 43rd.³⁵ Yet Western Australia receives a disproportionately low amount of GST funding compared to other states.

The problem is that, under existing approaches, the Commonwealth Grants Commission (CGC) assumes that all states seek to develop their mining resources with equal vigour. This is despite the fact that in its 2015 review, the Commission recognised that ‘there may be differences in state efforts [to develop their mining sectors]’.³⁶ The result is that states which take a passive or negative approach to resources development can be rewarded for doing so. An example is Victoria, which has long banned exploration and mining of uranium, which recently banned onshore gas exploration and is phasing out coal generation. This is not an academic point. In the past 13 years, Western Australia has **foregone** \$35.8 billion in GST revenues because of the CGC’s mining revenue assessments. Over the same period Victoria has **gained** \$21.4 billion. The bottom line is that a re-examination of the policy incentives embedded in CGC criteria to address unintended consequences is both worthwhile and overdue.

The GST distribution system should reward good policy not bad policy. Funding allocation at the national level should support investment in the most productive parts of the economy, as well as provide incentives for state governments to operate more efficiently. The government should reform the GST distribution methods used by the Commonwealth Grants Commission to provide incentives for states to develop their natural resources as part of a broader review of state fiscal relations.

³⁴ Australian Bureau of Statistics, Cat No. 5206 [Australian National Accounts: National Income, Expenditure and Product, Sep 2016](#), released on 7 December 2016.

³⁵ Fraser Institute, [Annual Survey of Mining Companies: 2015](#).

³⁶ Commonwealth Grants Commission, [Report on GST Revenue Sharing Relativities 2015 Review – Volume 2 – Assessment of State Fiscal Capacities](#), p. 115.

5. MODERNISING WORKPLACE RELATIONS

- The recentralisation and overregulation of workplace relations is impeding productivity and innovation in the Australian minerals industry.
- The MCA supports the Productivity Commission's recommendations for:
 - More balanced union right-of entry rules to stop frequent and unnecessary disruptions
 - Restricting permitted matters in agreements to direct employer-employee relationship
 - Stopping abuse of adverse action provisions that are interfering with reasonable management decisions
 - Facilitating greenfields agreements, including by allowing the employer to request 'last offer' arbitration after three months, and allowing the nominal expiry date of an enterprise agreement to match the life of the project.
- Ultimately, Australia's workplace relations system needs to involve a wider set of agreement options to enable more productive and flexible enterprises, including individual statutory agreements.

High wage jobs are not created by regulation

While mining productivity is improving, the Fair Work Act is restricting the ability of companies to change work practices, adapt to changing market conditions and ultimately grow their business. A survey of MCA members considered the workplace relations framework to be second only to project approvals processes (and equal to taxation and royalties) as a reform priority.

The Fair Work Act imposes too many cumbersome workplace laws and regulations on the grounds that without them workers will be exploited. This premise is at odds with the reality of successful, modern businesses which are based on shared productivity objectives with employee reward linked to performance. The resources sector employs approximately 230,000 people in high-value, high-wage, high-skilled jobs, mostly in remote and regional Australia. Average weekly earnings (full-time adult) in the resources sector are \$2,706 per week, 77 per cent higher than the average for other industries.³⁷

Debate on Australia's workplace relations focuses overwhelmingly on safety net issues like the minimum wage and penalty rates. More time and energy is devoted to the regulation of low wage jobs than to helping Australian businesses create and sustain attractive, high-wage jobs. This is not an argument to diminish protections for low income workers. But it does caution against a system that tries to regulate too much – especially where minimum conditions are not relevant.

The case for workplace relations reform

The Fair Work Act reversed 16 years of labour market reform by granting both a default and disproportionate role to trade unions. The Act presumes that a union will be a bargaining representative so long as it has one or more members employed at the workplace. There is no requirement for an employee to nominate the union; rather, the union is automatically designated as the bargaining agent unless individual members state otherwise in writing.³⁸

The default position of trade unions is exacerbated by imbalanced right-of-entry laws. A union can apply for an entry permit to hold discussions even if it is not party to an award or agreement, and even if it has no members on site. The workplace need only contain workers who are eligible to become members under the union's rules. BHP Billiton's Worsley alumina refinery had more than 550

³⁷ Australian Bureau of Statistics, [Labour Force, Australia, Detailed, Quarterly, Aug 2016](#), ABS cat. no. 6291.0.55.003, released on 22 September 2016; [Average Weekly Earnings, Australia, May 2016](#), ABS cat. no. 6302.0, released on 18 August 2016.

³⁸ See Professor Ron McCallum, ['Unpacking the Fair Work Act'](#), *At Work: Workplace Relations and Safety May/June 2011 Newsletter*, HWL Ebsworth Lawyers, 30 May 2011; and Paul Ludeke, [The 'Reform' Misnomer Under the Fair Work Regime](#), HR Nichols Society XXXII Conference, April 2011.

right-of-entry visits between 2011 and 2013.³⁹ Another MCA member was subject to 257 visits between January 2015 and June 2016.

The MCA supports the Productivity Commission's proposal that the Fair Work Commission should be better able to deal with disputes about frequency of entry and be required to take into account the cumulative impact on the employer, the likely benefit to employees of further entries and the union's reasons for the frequency of visits.⁴⁰ Further, the government should legislate for the sensible arrangements that operated previously, whereby a union has a legitimate claim for access if:

- The union is party to an enterprise agreement that covers the site or is attempting to reach one
- The union can demonstrate that it has members on that site
- Those members have requested the union's presence.

The Fair Work Act outlawed individual statutory agreements, replacing them with common law contracts underpinned by modern awards with mandatory flexibility clauses. The mining industry's experience is that individual flexibility arrangements have proven to be very difficult to negotiate for anything other than relatively minor matters. There is no justification for an outright ban on statutory individual agreements in the presence of safeguards like a strong no-disadvantage test and an income threshold for such agreements or other safety net mechanisms.

The Fair Work Act unduly expanded the scope of 'permitted content' in agreements well beyond issues relating to the employment relationship. This has led to the inclusion of unreasonable clauses that carry the threat of protected industrial action. Examples of claims in the mining industry include:

- Obliging managers to consult with unions on changes to regular rosters or ordinary hours
- Providing union training leave as well as onsite facilities for union delegates
- Requiring employers to encourage union membership.

The MCA agrees with the Productivity Commission that the Fair Work Act should be amended to:

- Remove issues pertaining to the relationship between an employer and employee organisations from the list of permitted matters in enterprise agreements
- Specify that an enterprise agreement may only contain terms about permitted matters.⁴¹

Adverse action is action that is unlawful if it is taken for particular reasons. The Fair Work Act allows for multiple reasons for taking action to be considered as material, and the onus is on the employer to prove that adverse action has not occurred. The MCA supports the Productivity Commission recommendation that the government should:

- Formally align discovery processes with those of the Federal Court
- More clearly define the meaning and application of workplace rights
- Allow awarding of costs against an applicant who unsuccessfully pursues a dismissal claim against the advice of the Fair Work Commission.⁴²

A redesigned greenfields agreement framework is needed to avoid investors being held to ransom on new mining projects. The MCA supports the Productivity Commission's recommendation to allow the employer to request 'last offer' arbitration after three months, and allowing the nominal expiry date of an enterprise agreement to match the life of the project.⁴³

³⁹ Dean Dalla Valle, '[Right to enter must not cut productivity](#)', *The Australian*, 28 November 2014.

⁴⁰ Productivity Commission, [Workplace Relations Framework: Inquiry Report, Volume 2](#), Canberra, 21 December 2015, p. 910.

⁴¹ *ibid.*, p. 683.

⁴² *ibid.*, pp. 622ff.

⁴³ *ibid.*, pp. 691, 719.

6. AFFORDABLE AND RELIABLE ENERGY

- Policies that promote affordable and reliable energy are critical to the productivity and competitiveness of Australian businesses. Mining is a significant energy user, accounting for 9 per cent of national energy consumption and 11 per cent of electricity use.
- Energy policy should be technology-neutral, with all low emissions options treated equally. High efficiency, low emissions (HELE) coal technologies can provide reliable, affordable energy with up to 50 per cent savings in emissions and should be part of Australia's energy mix. The ban on nuclear power in Australia should be lifted.
- Australia's CO₂ emissions reduction target for 2030 (26 to 28 per cent on 2005 levels) is credible and appropriate, but it imposes an greater economic burden greater than the targets of other developed nations. To limit the cost of meeting this target, access to international abatement should be permitted.

Energy policy must accommodate both security and climate goals but not distort markets

Energy security is vital to the productivity and competitiveness of the Australian economy and the Australian mining industry. Ready access to reliable and affordable energy is crucial to heavy industrial users such as mining operations, refineries and smelters. Mining accounts for 9 per cent of national energy consumption and 11 per cent of electricity use. Cheap energy also underpins the high standard of living of households. In Australia, coal remains the primary source of dependable, low-cost electricity, accounting for 63 per cent of generation in 2014-15.⁴⁴

However, various policy interventions have eroded Australians' access to reliable, cost-effective energy. These interventions have resulted in household electricity prices increasing by around 110 per cent in the last decade. Some of this price increase is due to higher investment in network infrastructure to ensure reliable supply to customers in peak periods. But the carbon tax and other market-distorting policies – such as subsidised investment in intermittent renewable energy – also inflated prices.⁴⁵

Under the modified Renewable Energy Target (RET), the estimated cost of building new wind turbines and solar installations is around \$22 billion in direct costs to 2030, met by around \$24 billion in subsidies.⁴⁶ In aggregate, the subsidies paid to producers of renewable electricity amounted to almost \$3 billion in 2015-16.⁴⁷ When subsidies and feed-in tariffs are all included, the extra cost to consumers is 6 to 9 per cent of their total power bill.⁴⁸ For large businesses, the cost of all government schemes can be as much as 20 per cent of their total power bill.⁴⁹ The operating subsidies granted to renewables are not transparent but ultimately have to be paid by consumers. Australia's competitors do not face the same policy-induced distortions in their energy markets.

Data from the International Energy Agency show that high efficiency, low emissions (HELE) coal technology (specifically, supercritical plants that have a net efficiency of 38 to 42 per cent) is cheaper than solar, wind, bioenergy and hydro in the United States, the European Union, China and India.⁵⁰

⁴⁴ Department of Industry, Innovation and Science, [2016 Australian energy statistics update](#), released on 14 October 2016, Canberra; [Energy in Australia 2015](#), released on 5 February 2016, Canberra.

⁴⁵ Australian Government, [Energy White Paper](#), 8 April 2015, p 9.

⁴⁶ Estimate by Principal Economics provided to the MCA. Estimates of the capital costs under the original RET target suggested a cross-subsidy from users to producers of about \$22 billion to 2030 (see Australian Government, [Renewable Energy Target Scheme: Report of the Expert Panel](#), 15 August 2014). Modifications to the scheme in 2015 altered some legislated definitions of generation, but largely kept the share of large scale renewable generation required the same.

⁴⁷ BAEconomics, [Primer on renewable energy subsidies in Australia](#), report to the Minerals Council of Australia, forthcoming, p. 2.

⁴⁸ Australian Energy Markets Commission, cited in Principal Economics, [Electricity Production Subsidies in Australia](#), policy paper commissioned by the Minerals Council of Australia, MCA, August 2015, 15f.

⁴⁹ ROAM/Synergies, cited in Principal Economics, op. cit., p. 15f.

⁵⁰ International Energy Agency, [World Energy Outlook 2016](#), Paris, released on 16 November 2016, Paris, p. 451.

Further, nations with a high share of intermittent renewables in their electricity system must have access to baseload power to guarantee reliability of supply. Mauritius is the only country in the world that generates more than 15 per cent of its electricity from solar and wind without a cross-border grid connection to a stable baseload network.⁵¹

Thermal coal and nuclear power are reliable sources of baseload power. Substantial progress is being made reducing the carbon footprint of coal-fired power generation. HELE coal technologies allow power generators to operate at higher temperatures and greater pressure, reducing emissions generated per watt of electricity by up to 40 per cent.⁵² According to a discussion paper released by the former Gillard Government, new coal technologies can increase the efficiency of Australian plants to over 45 per cent and lower their CO₂ emissions by up to 50 per cent.⁵³ New technologies under testing promise to reduce these emissions even further.⁵⁴ HELE coal-fired power stations integrated with carbon capture and storage (CCS) can reduce CO₂ emissions by approximately 90 per cent.⁵⁵

More than 1,000 HELE units are already operating worldwide, including in Japan, Germany, China and India. These plants account for 632 gigawatts of coal-fired generation capacity – 10 times Australia's installed capacity across all fuel types.⁵⁶ The International Energy Agency projects that approximately 730 GW of new HELE coal-fired power plants will be built over the next 25 years, accounting for more than half of Asia's coal generators.⁵⁷ HELE technologies should be considered as part of Australia's domestic energy policy.

Nuclear power has the advantage of being able to generate baseload electricity with very low CO₂ emissions over its lifecycle. There is much potential in modern small modular reactors, which could offer long-term stable electricity supply to underpin household and industrial use in mining and other remote towns. The ban on nuclear power in Australia is hampering an open debate about future energy and climate change management and stands at odds with Australia's export uranium mining industry.

Australia's emission target is credible and appropriate but not without economic costs

Australia faces a more intensive emissions reduction effort because it has different characteristics than other developed economies and plays a different role in the global economy. Australia has a growing population with a low geographic density and provides food, energy and resource security for dozens of nations around the world.

Australia's emissions reduction target to 2030 (26 to 28 per cent on 2005 levels) is an ambitious goal that will impose strains on the Australian economy, especially export and import-competing industries. The target will also involve Australia bearing more than a comparable share of the economic burden.⁵⁸ To limit the cost of meeting this target, access to international abatement should be permitted.

Direct Action, and specifically the Safeguard Mechanism, is now being implemented as part the suite of government climate change policy instruments. The scheme should be allowed to operate with minimal changes to allow for investor certainty.

⁵¹ MCA analysis based on World Bank, [World Development Indicators](#), viewed on 6 December 2016.

⁵² ACA Low Emissions Technologies assessment based on publicly available information on world power plant efficiency levels, July 2015.

⁵³ See the Department of Resources, Energy and Tourism, [A Cleaner Future For Power Stations](#), Interdepartmental Task Group Discussion Paper, 1 November 2010, p. 5.

⁵⁴ International Energy Agency, [Technology Roadmap High-Efficiency, Low-Emissions Coal-Fired Power Generation](#), Paris, originally published in 2012, updated March 2013, p. 19; Shoichi Itoh, [A New Era of Coal: The 'Black Diamond' Revisited](#), National Bureau of Asian Research, working paper commissioned for the 2014 Pacific Energy Forum, Seattle, 23-24 April 2014, p. 7.

⁵⁵ International Energy Agency, op. cit., p. 19.

⁵⁶ See Platts, [World Electric Power Plants Database](#), last viewed 12 September 2016; and the Department of Industry, Innovation and Science, [Energy in Australia 2015](#), released on 5 February 2016, Canberra, p. 37.

⁵⁷ International Energy Agency, [World Energy Outlook 2016](#), Paris, released on 16 November 2016, Paris, p. 213

⁵⁸ See Australian Government, [Australia's 2030 Climate Change Target](#), 11 August 2015, p. 2.

7. FREE TRADE AND OPEN MARKETS

- A liberal foreign investment regime, with consistent application of rules and thresholds, is vital to investor confidence and the future growth of the minerals industry. The government should reassure investors that Australia is still open for business by minimising the burden of new reporting requirements for foreign owners of agricultural land and water entitlements.
- The MCA supports continued pursuit of trade liberalisation opportunities including a modified version of the Trans-Pacific Partnership (without the United States) and the conclusion of high-quality free trade agreements with India and Indonesia as well as participant nations of the Regional Comprehensive Economic Partnership (RCEP). The government should refocus on deregulation, not just 'better' or 'best practice' regulation. Australia's coastal shipping should be deregulated to allow more efficient transport of freight.

Free flows of investment and trade boost exports, innovation and employment

Australia requires international investment to fill the gap between domestic saving and investment. This capital shortfall has been on average about 4 per cent of GDP over the last decade.⁵⁹ Without international investment, Australia would otherwise need to take on additional debt or forgo inflows of finance and technology.⁶⁰ International investment has long provided the finance and technology that help make Australia a world-leading exporter of minerals. The stock of foreign direct investment in the nation's mining sector is \$295 billion.⁶¹ And contrary to popular belief, the value of international investment in minerals is overwhelmingly retained in Australia. 77 per cent of the revenue earned by the nation's major iron ore producers stays in Australia as payments to suppliers or as taxes and royalties to governments.⁶²

The MCA welcomes a liberal and orderly international investment regime, with consistent application of rules and thresholds, in order to instil public and investor confidence. However, the registers of foreign ownership of agricultural land and water entitlements will discourage additional international investment and impose onerous regulatory burdens on resident firms.

It should be borne in mind that flows of investment and changes of ownership (above certain thresholds) are already subject to considerations by the Foreign Investment Review Board (FIRB). According to FIRB data, between 2005-06 and 2014-15 the total international investment assessed and approved was \$1.5 trillion. Mining comprised approximately one-third of this total (\$488 billion).⁶³ Treasury work has shown that if inward international investment were suddenly to dry up, the economic costs would be significant and widespread.⁶⁴

Free trade agreements open new markets, enhance the competitiveness of Australian minerals exports and remove barriers to investment. The free trade agreements now in place with Japan, South Korea and China are delivering substantial benefits. The MCA encourages the government to ensure that the gains from these agreements are not circumvented by non-tariff barriers.

With government, the MCA and coal producers are seeking to resolve issues with China's coal quality regulations which apply upon importation. A key priority is to secure the agreement of Chinese authorities to accept testing of Australian coals conducted at Australian ports. Such a solution will increase efficiency and reduce costs and uncertainty.

⁵⁹ Adam McKissack and Jessica Xu, [Foreign investment into Australia](#), Treasury Working Paper, January 2016.

⁶⁰ Department of Foreign Affairs and Trade, [The benefits of foreign investment](#), 3 June 2016.

⁶¹ Australian Bureau of Statistics, [International Investment Position, Australia: Supplementary Statistics](#), ABS cat. no. 5352.0, released on 11 May 2015.

⁶² Port Jackson Partners, [Iron ore: the bigger picture](#), policy paper commissioned by the Minerals Council of Australia, July 2015, p. 22.

⁶³ Foreign Investment Review Board, [Annual Reports](#).

⁶⁴ Jyothi Gali and Bruce Taplin, [The macroeconomic effects of lower capital inflow](#), Economic Roundup Issue 3, 2012.

The MCA supports continued trade and investment liberalisation, including ratification of the Trans-Pacific Partnership (TPP) agreement among 12 countries. The TPP will abolish tariffs on iron ore, copper and nickel and facilitate the expansion of exports of Australian mining equipment, technology and services (METS) – including in new free trade agreement markets of Canada, Mexico and Peru. The TPP will also stimulate the injection of capital and technology into the Australian minerals industry by raising the foreign investment screening threshold from \$252 million to \$1,094 million (except in relation to uranium and nuclear facilities).⁶⁵

A high-quality deal with India will boost opportunities for the minerals industry to supply India's growing demand for resources, including coal and uranium. In 2015, exports of resources accounted for 57 per cent (\$7.6 billion) of Australia's total exports to India (\$13.4 billion), including coal (\$5 billion), gold (\$930 million) and copper ores and concentrates (\$682 million).⁶⁶ Australia should continue to pursue a bilateral trade agreement with Indonesia and the United Kingdom.

Australia should work with its 15 East Asian partners to intensify the Regional Comprehensive Economic Partnership (RCEP) negotiations. This negotiation includes the 10 ASEAN economies plus China, Japan, India, New Zealand, Korea as well as Australia. That's a market of 3.5 billion people with a collective GDP of \$US22.5 trillion. Chinese President Xi Jinping has signalled that China will embrace further market opening. Australia and its RCEP partners should take him at his word and seek to expedite the RCEP negotiations.

There needs to be a renewed focus on deregulation, starting with coastal shipping

The minerals industry is subject to more regulatory requirements than most other industries in Australia. Regulatory requirements cover all stages of industry activity, from grant of tenure, exploration, extraction, processing, transport and mine closure through to relinquishment of tenure. The industry therefore has a vital interest in a sound regulatory approach that considers non-regulation options for achieving policy objectives; ensures new regulations are efficient and focused on outcomes; and minimises the existing stock of regulation.

The regulation of coastal shipping under the Coastal Trading Act is a striking example of burdensome and ineffective regulation. While Australian-flagged ships enjoy unrestricted access to coastal trade under a five-year general license, foreign-flagged vessels only have access to a 12-month temporary license or, in exceptional circumstances, a 30-day emergency license. In addition, the Act gives Australian ships the power to contest voyages proposed by foreign ships.⁶⁷

The Productivity Commission argues strongly that while the Coastal Trading Act cannot sustainably protect jobs from international competition, it does increase costs for the users of coastal shipping and the broader Australian community.⁶⁸ Some opponents of coastal shipping reform assert that it would induce the loss of around 1,000 jobs in the Australian shipping industry. But these opponents ignore the hundreds of thousands of jobs in other industries – including minerals extraction and processing, petroleum, cement, steel, aluminium and agriculture – that rely on the efficient transportation of freight by sea.

The MCA agrees with the Productivity Commission, the Australian Competition and Consumer Commission, the Competition Policy Review Panel and the Commission of Audit that cabotage licensing is unjustified industry assistance.⁶⁹ A controlled deregulation of coastal shipping is estimated to yield a net benefit of \$786.2 million to the Australian economy and an annual deregulatory saving to business of \$27.9 million.

⁶⁵ Joint Standing Committee on Treaties, [Report 165: Trans-Pacific Partnership Agreement](#), 30 November 2016, pp. 14, 18-21.

⁶⁶ Department of Foreign Affairs and Trade, [Country and commodity pivot table 2006 to 2015](#), last updated November 2016 using ABS cat. 5368.0 (September 2016 data).

⁶⁷ Commonwealth of Australia, [Explanatory Memorandum to the Shipping Legislation Amendment Bill](#), pp. 52, 90f.

⁶⁸ Productivity Commission, [Regulation of Australian Agriculture, Draft Report](#), released on 21 July 2016, p. 333.

⁶⁹ Productivity Commission, [Final Report on Tasmanian Shipping and Freight](#), released on 24 June 2014, Canberra, p. 152f; Competition Policy Review Panel, [Final Report](#), 31 March 2015, p. 210; Australian Competition and Consumer Commission, [Submission to the Government's Options Paper: Approaches to regulating coastal shipping in Australia](#), May 2014; Commission of Audit, [Towards Responsible Government, Phase 2 Report](#), March 2014, p. 29.

8. OPPORTUNITIES FOR AUSTRALIAN COAL AND URANIUM

- Australia has regained its ranking as the world's largest coal exporter, thanks to strong demand from East Asia, ongoing cost reductions and productivity improvements in domestic operations, and the high quality of Australian coal. The International Energy Agency projects that by 2040, Australia's coal exports will grow 18 per cent and its share of the world coal trade will increase from 32 to 36 per cent.
- The Australian Government should continue to work with other nations to ensure that international development banks and country export agencies do not discriminate against low emissions coal-fired generation. The government should also continue to explore options with the Chinese Government to achieve greater certainty regarding China's coal quality regulations.
- Australia holds almost one-third of the world's low cost uranium, but produces just 10 per cent of global production. Policy reform is needed for Australia to benefit from global growth in nuclear energy generation.

Coal market outlook

The provision of low cost energy from coal has been instrumental in lifting hundreds of millions of people in Asia out of poverty in recent decades. Coal has been the primary energy source that has underpinned the rapid economic expansion of China, India and Southeast Asia in the 21st century and continues to support the economies of developed countries such as Japan, South Korea and Taiwan.

The International Energy Agency forecasts that consumption of coal in Asia will continue to grow in the long term and that Australia will have an important role to play in supporting these markets. It projects that Australia's coal exports will grow 18 per cent by 2040. As a result Australia's share of international trade will also grow from 32 to 36 per cent.⁷⁰ Australia's high quality coal and its proximity to East Asia place it in a sound position to assist the significant urbanisation and industrial development occurring in the region. This includes coal used for energy, steel and cement production.

While the opportunities for Australia are significant this is not guaranteed. The coal industry was under significant strain in the lead up to the recent price recovery but it has implemented productivity improvements and reduced costs. A stronger industry has emerged that is better able to handle price volatility into the future. Coal producers have welcomed the current higher prices but have prudently positioned themselves for any cyclical price changes in the future.

The Australian government should continue to ensure that sound policies are in place to promote open markets, attract investment and support Australia's coal miners face rising international competition from emerging mineral regions.

Australia's high-quality coking coal is ideally suited to steel production, while the high energy content and low impurities of our thermal coal make it the optimal fuel for the new generation of high-efficiency, low-emissions (HELE) power stations under construction in Asia.

The Australian Government must continue to work with the governments of technology exporters to ensure international development banks and country export agencies do not discriminate against coal-fired generation which may perversely deter the uptake of new supercritical and ultra-supercritical technologies that can substantially decrease carbon emissions. The government should also consider the benefits of these technologies in its own energy policies and adopt a technology-neutral approach to simultaneously reducing Australia's carbon emissions while ensuring energy security.

⁷⁰ International Energy Agency, [World Energy Outlook 2016](#), Paris, released on 16 November 2016, pp. 218 and 236.

The Chinese Government's introduction of new coal quality standards on 1 January 2015 continues to have a significant negative impact on Australian coal exports. China is the only nation that imposes testing for trace elements (e.g. fluorine) at the receiving port. The requirements also impose compliance costs of up to \$80 million annually as China is the only importer that does not allow the tests to be run in the country of origin. Australian coal producers consider this the most significant coal trade policy issue they face internationally. The Australian Government should continue to explore options with the Chinese Government to reform these testing procedures.

The potential for Australian uranium

Growth in the global nuclear energy sector is being driven by non-OECD countries in Asia and Eastern Europe seeking secure, reliable and affordable energy which is low in emissions. Nuclear energy is a proven technology with substantial scope for innovation and development. As a low emissions form of baseload power it appeals to highly populated countries aiming to diversify their energy sources.

The International Energy Agency expects substantial growth in nuclear power generation in all three of its forward-looking scenarios. In its base case scenario, nuclear power generation is forecast to increase 2.3 per cent per year from 2014 to 2040. Nuclear power has an even more important role in its climate constrained 450 scenario. In order to achieve internationally agreed carbon emission limits the IEA projects that nuclear power generation must grow by 3.4 per cent per year to 2040 which will result in its share of global power output rising from 11 per cent in 2014 to 18 per cent.⁷¹

Australia has a large endowment of uranium with prospective deposits located across the country. Modelling commissioned by the MCA suggests that employment in Australia's uranium industry could expand from around 3,000 direct and indirect jobs in 2014-15 to 22,600 by 2040, with the industry's economic contribution to Australia increasing from \$600 million per year to as much as \$9.5 billion per year.⁷²

The recent South Australian Nuclear Fuel Cycle Royal Commission validated the significance of the nuclear industry in global electricity generation and found that 'nuclear will continue to be a low-carbon option for the foreseeable future'. Amongst 12 recommendations, it supported the 'simplification of state and federal mining approval requirements for radioactive ores, to deliver a single assessment and approvals processes.'⁷³

The regulatory framework for uranium mining in Australia can be made more efficient without any diminution of environmental scrutiny or non-proliferation safeguards. The MCA's reform priorities are:

- Removing uranium mining, milling, decommissioning and rehabilitation from the definition of nuclear action in the EPBC Act
- Finalising one-stop shop assessment and approval of bilateral agreements with efficient environmental management by states and territories
- Standardising uranium mining legislation and regulation across the country, including rules governing the transportation and exportation of uranium
- Removing federally legislated bans on nuclear industries in the EPBC Act and *Australian Radiation Protection and Nuclear Safety Act 1998*, which delegitimise uranium in the public eye and undermine foreign investor confidence in uranium mining in Australia.

⁷¹ International Energy Agency, [World Energy Outlook 2016](#), Paris, released 16 November 2016, pp. 552-553.

⁷² Sinclair Davidson and Ashton De Silva, [Realising Australia's uranium potential](#), policy paper commissioned by the Minerals Council of Australia, September 2015, p. 5f.

⁷³ Nuclear Fuel Cycle Royal Commission, Government of South Australia, [Nuclear Fuel Cycle Royal Commission Report](#), 2016, pp. 3 and 169.

9. MINING INNOVATION

- Innovation underpins Australia’s comparative advantage in minerals and energy by supporting operations that are more competitive, safer and responsible.
- The Australian minerals industry is a global leader in mining automation. The industry is applying the latest information and communications technology to integrate remote and autonomous equipment into mining operations and logistics networks.
- The mining industry spends nearly \$3 billion annually on research and development and is an exemplar of collaboration with research bodies. The R&D tax incentive is an effective, economy-wide, market-driven measure that should be maintained.

Innovation refers to a change in the method of supplying goods or services, whether through new products, new processes for producing existing products, new forms or work organisation or the opening up of new markets or sources of supply. Innovation is not an end in itself, but a means of gaining a competitive advantage or adapting to changing market conditions.⁷⁴

Innovation underpins Australia’s comparative advantage in minerals

The Prime Minister, the Hon. Malcolm Turnbull MP, has pointed out that the mining industry ‘is now and always has been the most innovative and the one that takes the greatest risks in Australia’s whole corporate sector.’⁷⁵ Innovation enables the mining industry to extract and process ores more efficiently and to extract deposits that are deeper or more remote. Innovation also improves safety and environmental outcomes. The mining industry spends nearly \$3 billion on R&D annually, or nearly \$1 in \$6 of all business R&D spending in Australia.⁷⁶

The Department of Industry, Innovation and Science notes that a high degree of technological innovation makes mining the most productive industry in Australia:

[Australia’s] GDP per hour worked is above the OECD+ average, but well behind the OECD+ top five country average. Only the Australian mining sector appears to have productivity levels above the OECD average and amongst leading businesses worldwide. This is consistent with a high R&D intensity and revealed technological advantage in that sector.⁷⁷

A research report by BAEconomics highlights that mining is a sophisticated industry that involves ‘adding significant value to otherwise unusable rocks’ as well as improving the productivity of extensive rail, road and port networks.⁷⁸ Australia’s mining industry is increasingly focused on integrating new technology and ideas into its operations. Information and communications technology (ICT) is important in all stages of mining – especially exploration, three-dimensional seismic surveys and automation – and mining investment in ICT is expected to multiply rapidly.⁷⁹

Remote and autonomous equipment

The Australian minerals industry is expanding the development and application of equipment that is remotely operated and autonomous of direct human control. For example, Rio Tinto now uses automated equipment across several of its Pilbara mines, including autonomous drills, ‘smart’ explosive loaders, driverless haul trucks and remote rock breakers. Once operational,

⁷⁴ Joseph Schumpeter, *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process, Volume 1*, Martino Publishers, 1939, pp. 84, 91, 94f.

⁷⁵ The Hon. Malcolm Turnbull MP, Prime Minister of Australia, [Address to the Australian Minerals Industry Parliamentary Dinner, Parliament House](#), Canberra, 12 October 2016.

⁷⁶ Australian Bureau of Statistics, [Research and Experimental Development, Businesses, Australia, 2013-14](#), ABS cat. no. 8104.0, released on 4 September 2015.

⁷⁷ Department of Industry, Innovation and Science, [Australian Innovation System Report, 2016](#), 30 November 2016, p. 24.

⁷⁸ Anna L. Matysek and Brian S. Fisher. [Productivity and Innovation in the Mining Industry](#), BAEconomics Research Report 2016.1, 8 April 2016, p. 3f.

⁷⁹ *ibid.*, pp. iv, 12f, 41.

Rio Tinto's AutoHaul will deliver the world's first fully autonomous heavy haul, long distance railway system, while the remote draft survey platform for ship loading is in early deployment at four Pilbara berths. Rio Tinto's operations centre enables workers to operate all of the company's Pilbara mines, ports and rail systems from a single location in Perth.⁸⁰ According to BAEconomics, the Mine of the Future™ project 'will enable a holistic view of all operations from mine to port and provide near real-time information as a basis for improved decision-making.'⁸¹

Similarly, BHP Billiton has deployed autonomous trucks and blast hole drills in its Western Australia iron ore operations and launched its first integrated remote operations centre in Perth in 2013. The company has also deployed unmanned aerial vehicles at its Queensland coal mines and is implementing an integrated remote operations centre in Brisbane.⁸²

Automation extends the life of mining assets, increases productive efficiency and improves safety. Automation reduces wear and tear and energy consumption, removes the need to cease operations for rest breaks and decreases or eliminates unnecessary movements and the need to redo tasks. Greater use of sensors facilitates the scheduling of maintenance *before* an asset fails. Further, automation moves workers from mine sites to a safer environment.⁸³

Collaboration and the R&D tax incentive play a vital role

The Australian minerals industry contributes hundreds of millions of dollars annually through a range of innovative partnerships with research bodies. These include cooperative research centres (CRCMining and CRC Ore), the Australian coal industry's research program (ACARP), the COAL21 Fund for low emissions coal technologies and AMIRA International – which leverages mining research and development. ACARP, for example, has conducted 754 projects with universities, CRCs and the CSIRO to improve health, safety and environmental outcomes.⁸⁴

These collaborations have generated world-leading research and innovation such as:

- **SmartCap** – a wireless system of sensors built into a baseball cap that measures operator drowsiness and displays it on a monitor in the cab.⁸⁵
- **Groundprobe** – radar technology that monitors the stability of open cut mine slopes and walls and forewarns mine workers of instability through an alarm system.⁸⁶
- **Callide Oxyfuel Project** – successful capture of CO₂ from a coal-fired power plant. Callide is the world's largest demonstration of oxyfuel technology to date.⁸⁷

As noted in section 3, the R&D tax incentive is an effective innovation measure that should be maintained. Firstly, the incentive does not involve governments second-guessing consumer preferences or new techniques of production or distribution.

Secondly, the R&D tax incentive is vital to securing additional R&D investment as other countries look to capture a higher share of global R&D expenditure.⁸⁸

Thirdly, the spill overs from the R&D tax incentive are clear and significant. MCA member companies have confirmed the role played by the R&D tax incentive in supporting critical innovations that have benefited other industries, such as SmartCap (cited above).

⁸⁰ Anna L. Matysek and Brian S. Fisher. [Productivity and Innovation in the Mining Industry](#), BAEconomics Research Report 2016.1, 8 April 2016, pp. 25-32.

⁸¹ *ibid.*, p. 34.

⁸² See Andrew Mackenzie, Chief Executive Officer, BHP Billiton, [Driving value and returns \(slides\)](#), 10 May 2016, and Mike Henry, President Operations, Minerals Australia, BHP Billiton, [Address to the IMARC Gala Dinner](#), 9 November 2016.

⁸³ Anna L. Matysek and Brian S. Fisher. *op. cit.*, p. 40f.

⁸⁴ Figure supplied to the MCA by ACARP.

⁸⁵ SmartCap, [Saving lives is our priority](#), viewed on 18 January 2017.

⁸⁶ Groundprobe, [Our company: history](#), viewed on 18 January 2017.

⁸⁷ CS Energy, [Callide Oxyfuel Project](#), viewed on 18 January 2017.

⁸⁸ Sandra Boswell, Partner, PwC, [R&D tax break too important to target for cuts](#), *The Australian Financial Review*, 3 November 2015; OECD Directorate for Science, Technology and Industry, [Maximising the benefits of R&D tax incentives for innovation](#), October 2013.

10. EXPLORATION

- Attracting investment in exploration is critical to sustaining a future pipeline of mining projects and exports. Mineral exploration expenditure in 2015-16 decreased for the fifth year in a row and was down 10 per cent to \$1.4 billion.
- The Australian Government should maintain immediate deductibility of exploration expenditure in the tax system. The industry commends the government for its commitment to an expansion of pre-competitive geoscientific research in the 2015-16 Budget.

Exploration activity is fundamental to the future success of the Australian mining industry. Exploration is the process by which geological information is collected and analysed to identify mineral deposits as well as determining the economic feasibility of their extraction. Exploration is analogous to market research; it is fundamentally exploring for future business opportunities. Mineral exploration expenditure in Australia was \$1.4 billion in 2015-16, which was 10 per cent lower than the previous year and 64 per cent lower than the peak year of 2011-12.

The pre-competitive information produced by Geoscience Australia (that is, pre-exploration studies aimed at defining the geology of a basin or region) has strong 'public good' attributes. This is because these data, once created, may be obtained by any user without diminishing their availability to other users; and any restriction on access either creates unacceptable efficiency or welfare losses, or is not practical.⁸⁹

The long-term challenge for the industry is that the discovery of new deposits has not kept pace with the rate of ore depletion at existing mines. Some 80 per cent of Australia's current mineral production is derived from mines discovered more than 30 years ago. In the corresponding period, Australia's exploration performance – as measured by the discovery of world-class, economically significant mineral deposits – has declined.⁹⁰

In 2010, the Australian Academy of Science convened a Theo Murphy High Flyers Think Tank for minerals exploration stakeholders to address the challenge of discovering new mineral resources for Australia. This culminated in the formation of the UNCOVER initiative. The ultimate goal of the UNCOVER initiative is to achieve a step-change in knowledge and methodologies in Earth sciences relevant to mineral exploration 'beneath the cover'.

The collaboration is unprecedented. It includes Geoscience Australia, the CSIRO, industry representatives, cooperative research centres, universities, state geological surveys, and geophysical survey and software development companies. The UNCOVER Executive and Geoscience Committees recognise that long-term, sustainable funding for geoscience research and technology development, together with government data generation related to priorities identified by UNCOVER, are essential.⁹¹ While industry collaboration is central to the UNCOVER project, ongoing support from both federal and state governments is also vital.

The 2016-17 budget provided \$100.5 million over four years to Geoscience Australia to support geographical modelling of mineral, petroleum and groundwater resources in targeted areas across northern Australia and South Australia.⁹² The program will allow Australia to identify new greenfield exploration sites for future development which is a key element of the strategies being developed by UNCOVER. The government should consider further investments in pre-competitive exploration activity in the 2017-18 budget to further fund the initiatives being developed by UNCOVER.

⁸⁹ Australian Government, *Strategic Review of Geoscience Australia*, May 2011, pp. ix-x.

⁹⁰ UNCOVER, *Background and future funding requirements*, December 2015, p. 1.

⁹¹ UNCOVER, *Background and future funding requirements*, December 2015, p. 2.

⁹² Budget 2016-17, Part 2 Expense Measures – Industry, Innovation and Science http://www.budget.gov.au/2016-17/content/bp2/html/bp2_expense-17.htm

11. LAND USE COEXISTENCE, WATER, REHABILITATION AND AIR QUALITY

- Land use coexistence can be improved. The 2013 Multiple Land Use Framework developed by the COAG Standing Council on Energy and Resources should guide policymakers to balance landholder interests with state obligations to develop its resources to benefit society.
- Water planning and access arrangements should integrate the needs and characteristics of all water users. Onerous and unnecessary regulations, including the EPBC Act ‘water trigger’ should be removed. Any new water reporting requirements should be fully rationalised.
- Mine rehabilitation is comprehensively regulated by state and territory governments and plans must be approved before mining can commence. Rehabilitation bonds provided by mining companies safeguard governments in the unlikely event rehabilitation obligations are not met.
- National ambient air quality standards should be used as intended for urban airsheds. Guidance should be developed to allow adaption to regional areas and industrial sources.

Land use coexistence

Australia’s mining footprint constitutes less than 0.02 per cent of Australia’s land mass.⁹³ Access to land is subject to a range of stable state-based legal and policy frameworks developed over many decades. These frameworks are operating effectively. For example, in Queensland and New South Wales there are more than 2,700 coal and mineral exploration licences and licence applications which are linked to thousands more successfully negotiated land access agreements (several are normally required for a given lease).⁹⁴ In addition to the range of regulatory safeguards, state governments, farming and industry groups are continuing to work together to develop agreed protocols/codes for land access, and example of which is the ‘land access arrangements for mineral resources’ in New South Wales.⁹⁵

There is no case for federal intervention or an absolute veto right for landholders. The Productivity Commission’s 2016 draft report on the regulation of agriculture found that ‘regulation and policies aimed at preserving agricultural land per se can prevent land being put to its highest value use.’ It further found that ‘a right of veto by agricultural landholders over resource development would arbitrarily transfer property rights from the community as a whole to individual landholders.’⁹⁶

Land use coexistence can be improved through greater use of strategic land use assessment and planning approaches. The 2013 Multiple Land Use Framework, developed under the COAG Standing Council on Energy and Resources, provides a national framework of guiding principles to promote the best use of Australia’s land resources under existing state and territory regimes.⁹⁷ This will ensure the right balance between landholders’ interests and the state’s obligation to realise the economic potential of its resource endowment for the benefit of the broader community.

Water access

In 2014-15, the minerals industry accounted for around 4 per cent of net water consumption. The industry is one of Australia’s highest value users, realising \$146 million to \$153 million of industry gross value added per gigalitre.⁹⁸

⁹³ Australian Bureau of Agricultural and Resource Economics and Sciences, [2010-11 summary statistics](#), *National scale land use version 5*, Department of Agriculture and Water Resources, Canberra, 2016.

⁹⁴ Department of Natural Resources and Mines, [Queensland Mining and Tenure Series](#), QSpatial, Queensland Government viewed 6 January 2016 and Department of Industry – Resources and Energy, [Title status reports – Titles and Applications](#), New South Wales Government, updated 1 December 2016.

⁹⁵ New South Wales Government, [Land access arrangements for mineral resources](#), *Department of Trade and Investment*

⁹⁶ Productivity Commission, [Regulation of Australian agriculture - draft report](#), released on 21 July 2016, p. 32.

⁹⁷ Council of Australian Governments, Standing Council on Energy and Resources, [Multiple Land Use Framework](#), SCER, endorsed 13 December 2013.

⁹⁸ Australian Bureau of Statistics, [Water Account, Australia, 2014-15](#), ABS catalogue no. 4610.0, released 25 November 2016.

Water availability and supply security are critical business risks and may constrain industry growth.⁹⁹ The minerals industry supports the reform principles of the 2004 National Water Initiative (NWI). NWI Clause 34 which recognises sector-specific challenges remains important for transition to the ‘fit for purpose’ water access and pricing arrangements needed to provide long term certainty for industry.¹⁰⁰

Regulatory creep is a key issue for industry. The EPBC Act ‘water trigger’, which requires a special Commonwealth approval for coal projects, is redundant and should be removed. The Productivity Commission found the water trigger ‘imposes an extra layer of regulation on affected proponents’ where ‘it is not obvious that existing laws are deficient or the particular amendment adopted by the Australian Government is the best approach to deal with any identified gap in the regulatory framework’.¹⁰¹

Multiple (and increasing) water reporting obligations pose unnecessary costs on mining businesses. New reporting initiatives, including the recently implemented register of foreign owned water, should be streamlined with existing state and federal reporting obligations. The Australian minerals industry has developed a leading practice water accounting framework which has been adopted by industry globally. The framework should be considered in the development of new reporting requirements.

Mine rehabilitation

Mine rehabilitation is comprehensively regulated at the state and territory level. Mine closure planning and rehabilitation are essential parts of existing state-based regulatory approvals.¹⁰² As a condition of approval, companies are required to progressively rehabilitate mined land where practical.

State and territory governments require companies to provide some form of financial surety (bond) before mining can begin. These funds are generally intended to cover the full cost of rehabilitating mine sites. Companies are required to lodge a cash bond, unconditional bank guarantees or non-refundable contributions to pooled funds. This does not abrogate a company’s obligation to rehabilitate land but safeguards government in the unlikely event those obligations cannot met.

Companies need to demonstrate to regulators that rehabilitation objectives have been met before the bond is returned and previously mined land can be divested or otherwise handed back to government. Mining companies are achieving sustainable post mining land uses including crop production, nature conservation and grazing.¹⁰³

Air quality

Misapplication of the National Environment Protection Measure (standards) for Ambient Air Quality (AAQ NEPM) to regional areas and industrial sources without context may result in large additional costs for mining operations without commensurate health benefits.

The AAQ NEPM standards were designed to monitor ambient air quality in urban areas. It would be inappropriate to apply the standards to regional environments, which have different characteristics, and individual point sources including mining operations. Guidance for adapting the standards to regional areas and industrial sources should be developed.

The National Pollutant Inventory is a critical tool to inform government policy and air quality management. Accordingly, emission estimation methods should be updated in line with latest scientific evidence to continually improve the accuracy of reporting.

⁹⁹ ACIL Tasman, [Water Reform and Industry](#), Department of Industry, Tourism and Resources, April 2007, p. xiv.

¹⁰⁰ Council of Australian Governments, [Intergovernmental Agreement on the National Water Initiative](#), COAG, 2004

¹⁰¹ Productivity Commission, [Major Project Development Assessment Processes: Research Report](#), Canberra, released on 10 December 2013, p. 149.

¹⁰² *Environment Planning and Assessment Act 1979 (NSW), Mining Act 1971 (SA), Mining Act 1978 (WA) Environment Protection Act 1994 (Qld), Mining Management Act (NT), Mineral Resources (Sustainable Development) Act 1990 (Vic), Minerals Resources Development Act 1995*. Companies are required to rehabilitate when land becomes available.

¹⁰³ Minerals Council of Australia, [Mine rehabilitation in the Australian minerals industry](#), MCA, Canberra, 2016.

12. SKILLS AND TRAINING

- Australia's resources sector depends on a highly skilled, highly paid workforce that covers a range of scientific fields and professional occupations. Technological innovation – including increased automation – requires workers continually to update their training and skills.
- The minerals industry supports sensible higher education reform that combines fee deregulation with strong safeguards to protect the viability of minerals-related disciplines. Safeguards should include stronger accountability mechanisms to ensure increased university fee revenue is devoted to teaching and student services.
- Labour mobility is essential to existing operations and new projects in the minerals industry. Strategies such as fly-in, fly-out (FIFO) and drive-in, drive-out (DIDO) arrangements, together with an effective skilled migration program, help sustain mining activity in regional areas.

Highly skilled, highly paid jobs in regional and remote Australia

Mining in Australia is a sophisticated and technologically advanced enterprise that demands a highly skilled and adaptable workforce. The Australian resources sector employs about 230,000 people in high-value, high-wage, high-skilled jobs, mostly in remote and regional Australia. Average weekly earnings (full-time adult) in the resources sector are \$2,706 per week, 77 per cent higher than the average for other industries.¹⁰⁴

Australia's resources workforce covers a range of scientific fields and professional occupations. The resources sector is the largest total employer of:

- Mining engineers (12,500)
- Geologists and geophysicists (12,000)
- Industrial and mechanical engineers (13,330)
- Metallurgists and physicists (2,700).¹⁰⁵

Mining is also the third-biggest employer of environmental scientists, employing more than 13,600 directly and indirectly.¹⁰⁶

Technological innovation will continue to change the nature of work in mining and therefore skills requirements. In some parts of the industry, increasing automation of mining and logistics is moving workers from mine sites to remote operational centres (section 9). Not only does this innovation move workers from mine sites to safer environments, it also requires them to enhance their skills. As BAEconomics explains:

While robots used in other industrial processes generally remain stationary and perform tasks on products or components conveyed to them, mining and logistics robots must move around, often in complex environments. Automated technologies are therefore only made possible by increased computing power; new algorithms for signal processing, perception and control; and new sensing technology for monitoring landscape geometry, including GPS, radar and laser systems. The requirements to develop and operate these technologies are correspondingly complex and rely on high-level interdisciplinary skills.¹⁰⁷

¹⁰⁴ Australian Bureau of Statistics, [Labour Force, Australia, Detailed, Quarterly, Aug 2016](#), ABS cat. no. 6291.0.55.003, released on 22 September 2016; [Average Weekly Earnings, Australia, May 2016](#), ABS cat. no. 6302.0, released on 18 August 2016.

¹⁰⁵ Department of Employment, [Job Outlook 2014](#); MCA calculations. NB these figures are estimates of the total number of workers directly and indirectly employed by the resources sector.

¹⁰⁶ *ibid.*

¹⁰⁷ Anna L. Matysek and Brian S. Fisher. [Productivity and Innovation in the Mining Industry](#), BAEconomics Research Report 2016.1, 8 April 2016, p. 31.

BAEconomics argues that workers who support automated processes benefit from upskilling and higher quality jobs, and points out that the alternative – retaining old labour practices – would reduce labour productivity and ultimately put jobs at risk.¹⁰⁸

Leveraging investment in higher education and training

The Australian minerals industry spends more on training per employee than most industry sectors (5.5 per cent of payroll).¹⁰⁹ The industry is also a strong user of the vocational education and training system. In 2015, 48 per cent of mining employers used accredited training (the second largest user) and 65 per cent of mining employers used non-accredited training (the third largest).¹¹⁰

In addition, the minerals industry makes a significant financial contribution to Australia's higher education sector to ensure a high quality supply of Australian graduates. Through the Minerals Tertiary Education Council (MTEC), the MCA supports collaborative initiatives at 17 universities across Australia. MTEC builds capacity in higher education in the disciplines of mining engineering, metallurgy and minerals geoscience and partners with universities and other providers to address the professional skills requirements in the minerals industry.

MCA members have invested more than \$50 million of unencumbered funds over the past decade in these programs, benefiting more than 4,500 graduates. Companies also provide paid vacation work and structured practical experience for undergraduate students, and award professorial chairs to leaders in industry-relevant research. A survey of four MCA members revealed that in 2013-14, \$16.1 million was invested in supporting universities on top of contributions through MTEC.

Further, the minerals industry is concerned about the marked decline in participation in science, mathematics, engineering and technology (STEM) subjects in schools over the past decade. In response, the industry has created a national portal for high quality teaching materials on minerals-related topics.¹¹¹ The MCA, through its *Gender Diversity White Paper* strategy, has also developed numerous initiatives to increase the number of women in the workforce (currently approximately 13 per cent) in order to deliver both skills and diversity benefits.¹¹²

Labour mobility and skilled migration

The remote location of Australian mining operations makes fly-in, fly-out (FIFO) and drive-in, drive-out (DIDO) arrangements a necessary and desirable option for many producers and their employees. The Reserve Bank of Australia found that long-distance commuters 'helped employers meet labour demand requirements given the reluctance of workers to move permanently to remote areas.'¹¹³ This finding was reiterated by the Productivity Commission and the National Centre for Vocational Education Research.¹¹⁴

The evidence does not support claims about the negative impact of mining growth in regional areas. Far from restricting opportunities, the mining industry has boosted incomes, attracted families and reduced unemployment in mining regions.¹¹⁵

The minerals industry employs approximately 1 per cent of its workforce through temporary skilled migration, accounting for only 2.5 per cent of temporary skilled workers. Over 90 per cent of these are professionals, managers and technical trades.¹¹⁶ An effective temporary skilled migration program is vital component of meeting the skills needs of the sector.

¹⁰⁸ *ibid.*, p. 42.

¹⁰⁹ NCVET, [Training and education activity in the minerals sector](#), 20 March 2013.

¹¹⁰ NCVET, [Employers' Use and Views of the Vocational Education and Training \(VET\) System](#), 26 October 2015.

¹¹¹ See [Oresome Resources](#), viewed on 19 January 2016.

¹¹² Minerals Council of Australia, [Gender Diversity White Paper](#), MCA, March 2014.

¹¹³ See Reserve Bank of Australia Bulletin, [Labour Market Turnover and Mobility](#), December Quarter 2012, p. 9.

¹¹⁴ Productivity Commission, [Geographic Labour Mobility](#), April 2014; National Centre for Vocational Education Research, [An exploration of labour mobility in mining and construction: who moves and why](#), 23 June 2014.

¹¹⁵ See KPMG, [Analysis of the Long Distance Commuter Workforce Across Australia](#), report commissioned by the Minerals Council of Australia, March 2013; KPMG, [Analysis of the Changing Resident Demographic Profile of Australia's Mining Communities](#), report commissioned by the Minerals Council of Australia, February 2013.

¹¹⁶ Department of Immigration and Border Protection, [Subclass 457 Quarterly Report 30 September 2016](#).

13. HEALTH AND SAFETY

- The minerals industry supports a nationally consistent, risk-based preventative occupational health and safety (OHS) regulatory system, supported by industry-specific regulation to deliver benefits based on greater certainty, consistency and efficiency
- Timely industry access to federally held health and safety data to better inform operational health and safety improvement initiatives.

An industry committed to health and safety

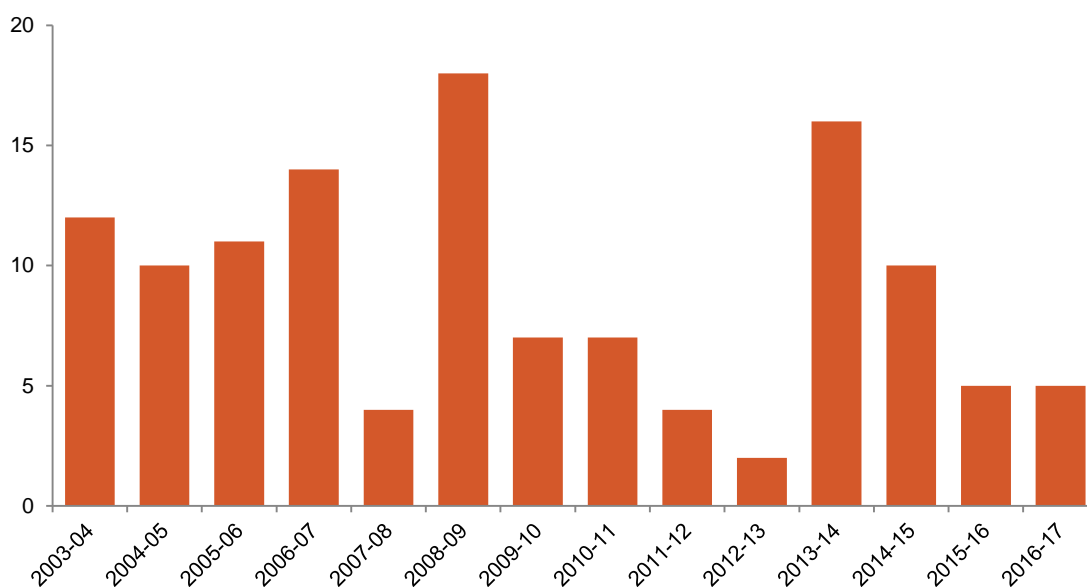
The minerals industry's number one value and commitment is the safety and health of its workforce, where everyone who goes to work in the industry returns home safe and healthy. The industry has set itself the ambitious goal of becoming free of fatalities. MCA member companies maintain that:

- All fatalities, injuries and diseases are preventable
- No task is so important that it cannot be done safely
- All hazards can be identified and their risks managed
- Everyone has a personal responsibility for the safety and health of themselves and their workmates.

There have been five lives lost to date in 2016-17 (see Chart 7). An increase in fatalities in 2013-14 resulted in the industry embarking on initiatives to arrest this rise, including sharing and learning lessons from significant incidents and working with the International Council of Mining and Metals (ICMM) to publish practical guidance on preventing the most serious types of health and safety incidents.¹¹⁷

The MCA's *Blueprint for Mental Health and Wellbeing* is another signature industry initiative.¹¹⁸

Chart 7: Australian minerals industry fatalities



Source: MCA

¹¹⁷ International Council of Mining and Metals, [Health and safety critical control management good practice guide](#), London, 2015.

¹¹⁸ Minerals Council of Australia, [Blueprint for Mental Health and Wellbeing](#), Canberra, September 2015.

Towards a nationally consistent regulatory framework

The minerals industry is firmly committed to the principle that every individual, regardless of where they work, the tasks they undertake or their employment/contract type, should have the same standard of high protection. A nationally consistent, risk-based preventative occupational health and safety (OHS) regulatory system, supported by industry-specific regulation, would deliver benefits through greater certainty, consistency and efficiency. It would also help to ensure that compliance challenges do not detract from the practical tasks of identifying, managing and minimising risk and the continuous improvement of safety and health outcomes by companies.

Succinct and effective supporting codes and guidance material are essential to an efficient legislative framework. Codes and guidance material to support the Mines Regulations are still being finalised. The industry is now confronted with four different types of codes and guidance material all separately authored (Safe Work Australia (SWA) codes, National Mine Safety Framework (NMSF) Core codes, NMSF Non-Core codes and individual state-based codes). The sheer volume of codes and guidance materials, their lack of consistency and the move by some regulators to enshrine archaic prescriptive elements means the industry may be in a worse situation as a result of the current process.

Workers moving within the minerals industry (or across industries) need to be aware of different safety and health regimes with differing definitions and regulatory approaches. Similarly, contractors working across the minerals, construction, engineering and transport sectors are required to have multiple systems in place to meet different regulatory requirements. Industry employees are exposed to different protections, duties and expectations, while employers continue to confront multiple systems which distract effort from day-to-day safety and health management.

Government should prioritise working with the minerals industry to identify key areas of reform required in Australian mining health and safety legislation. These should be complemented by joint industry and regulator approaches to collaboratively identify a process to implement these critical reforms. An improved regulatory framework is also critical to enabling mining companies to adopt world leading risk management techniques, including the management of critical controls.

MCA members have identified serious impediments within Australian mining regulators relating to the accessibility of health and safety data. Accordingly the MCA will continue to work to identify reforms that enable company access to relevant and timely health and safety data – including access to the federally-controlled (and industry funded) National Mine Safety Database which so far has not been delivered effectively.

14. INDIGENOUS PARTNERSHIPS

- The Australian minerals industry is the largest private sector employer of Indigenous Australians and a significant investor in Indigenous economic development and partnerships.
- The management of Indigenous land-related payments and benefits can be improved through the adoption of the Indigenous Community Development Corporation (ICDC).
- Legislative stability of the Native Title Act is required to enhance stakeholder confidence, though steps can be taken to improve the administration and efficiency of regulatory regimes.

The Australian minerals industry acknowledges the special connection that Aboriginal and Torres Strait Islander peoples have to their traditional lands and waters. In recognition of this relationship and as neighbours in large parts of rural and remote Australia, the minerals industry is committed to measures that facilitate agreed beneficial outcomes with traditional owners and indigenous communities.¹¹⁹

The establishment of more than 1,900 land use agreements over the last two decades between Indigenous peoples and the minerals industry (99 per cent with no legal contest of rights) has provided unprecedented economic potential for Indigenous communities.¹²⁰ Barriers to lasting gains remain, however.¹²¹ The mining industry urges the government to act on recommendations that can further expand the opportunities of Indigenous Australians from mining related activity.

Introduce a modern management structure for land related payments

Communities and companies have a range of financial vehicles for the management of benefits flowing from mining activity on Indigenous land. Some work very effectively; others, particularly some forms of charitable trusts, have shortcomings that limit longer term economic development.¹²²

The Indigenous Community Development Corporation (ICDC) entity proposed by the Native Title Working Group is designed specifically to optimise the long-term management of Indigenous community land related payments and benefits.¹²³ Unlike existing trust and corporation options, the ICDC option would allow communities to direct their funds not only to charitable purposes but also accrue funds for investment over longer time frames as well as directly support small business development. An ICDC entity would use a more streamlined structure, lowering administration costs.

The *Northern Australia White Paper* identifies the need to consult over alternatives for managing and investing land related payments. The MCA supports this proposal as an opportunity for the ICDC to be further developed and adopted as an additional vehicle for meeting the economic and social aspirations of Indigenous communities. There should be no further delay in commencing the process outlined in the white paper.

Maintain legislative stability and efficiency to enhance economic opportunity

Much of the land on which the minerals industry operates is subject to legal requirements under the *Native Title Act 1993*, the *Aboriginal Land Rights (Northern Territory) Act 1976* and cultural heritage protection frameworks. The minerals industry supports initiatives that maintain the stability of the legislative regime protecting Indigenous land rights while improving administration and efficiency.

¹¹⁹ See for more details: [MCA communique: Indigenous economic development](#), June 2016

¹²⁰ Toni Bauman and Lydia Glick (eds), *The limits of change: Mabo and native title 20 years on*, Australian Institute of Aboriginal and Torres Strait Islander Studies Research Publications, Canberra, June 2012.

¹²¹ See for example: Australian Government, [Our North, Our Future: White Paper on Developing Northern Australia](#), Canberra, 2015 and Senior Officers Working Group, [COAG Investigation into Indigenous Land Administration and Use: Report to the Council of Australian Governments](#), December 2015.

¹²² Australian Government, [Our North, Our Future: White paper on Developing Northern Australia](#), Canberra, 2015.

¹²³ Treasury, [Taxation of native title and traditional owner benefits and governance working group – Report to government](#), Australian Government, Canberra, 2013.

15. NORTHERN AUSTRALIA AND INFRASTRUCTURE

- The mining industry is a large contributor to the economy of northern Australia and can provide the foundation for future economic development in the region.
- Investment in infrastructure under the northern Australia strategy should recognise mining's importance to the future development of northern Australia. The Northern Australia Infrastructure Facility should be integrated with existing federal and state approvals processes. The investment mandate should neither favour nor exclude particular industries.
- Governments have a responsibility to foster open, transparent and competitive infrastructure markets while also being alert to how differing industry characteristics can give rise to specific regulatory challenges. Regulatory arrangements must be appropriate to ensure efficient provision of infrastructure services by the private sector.

Northern Australia

The mining and energy sector is the largest industry in northern Australia and can provide the foundation for future economic development in the region.¹²⁴ Australia's two largest export earners – iron ore and metallurgical coal – are located overwhelmingly north of the Tropic of Capricorn. The north also hosts mining operations for a range of other commodities including copper, lead, silver, zinc, gold, thermal coal, bauxite, uranium and diamonds.

The *Northern Australia White Paper* identifies mining as an industry with substantial growth prospects due to the significant potential for future resource development.¹²⁵ However, prospectivity alone will not secure future investment. Mining projects must be globally competitive to attract investment and those in the north of Australia invariably face higher capital and operating costs and project risk due to factors such as inadequate physical and social infrastructure, skills shortages and restrictive land access arrangements. The *Northern Australia White Paper* correctly identifies these impediments as focal points for reform and investment.

Infrastructure investment, regulatory reform and capacity building programs all have a role to play to improve the competitiveness of the mining industry in the north and to allow it to take full advantage of the future resource demand, especially in Asia.

Investment in infrastructure under the northern Australia strategy should recognise mining's importance to the development of northern Australia. The government's Northern Australia Infrastructure Facility (NAIF) provision of \$5 billion of concessional finance over five years has the potential to spur new investment. However, it is vital that it be integrated with existing federal and state approval processes and not add to policy complexity.

Infrastructure

The timely provision of export infrastructure and its efficient and effective regulation are critical to the future growth and competitiveness of Australia's minerals industry. The preference stated in the NAIF Investment Mandate for infrastructure projects that 'serve or have the capacity to serve multiple users' raises important principles that must be applied to the regulation of infrastructure particularly in light of the challenges presented by infrastructure provided by the private sector.¹²⁶

¹²⁴ Infrastructure Australia, [Northern Australia Audit - Infrastructure for a Developing North Report](#), Infrastructure Australia, Sydney, 2015, p. 56.

¹²⁵ Australian Government, [Our North, Our Future: White Paper on Developing Northern Australia](#), Australian Government, Canberra, 2015, p. 56.

¹²⁶ Australian Government, [Northern Australia Infrastructure Facility Investment Mandate Direction](#), Australian Government, Canberra, 2016.

Governments have a responsibility to foster open, transparent and competitive infrastructure markets. Regulation should only be used where a market failure is evident and there is evidence that government intervention can effectively and efficiently remedy that failure.

At the same time, governments must be alert to differing industry characteristics that give rise to differing regulatory challenges and economic consequences. In the Australian minerals industry, an example relates to the structural differences that characterise the vertically integrated, privately owned single-user systems in west coast iron ore operations, in contrast to the multi-owner, multi-user rail and port facilities in the east coast coal industry.

Bottleneck challenges associated with the recent mining boom point to greater risk of inefficient outcomes in the case of multi-user, multi-owner infrastructure networks as compared to single-user, single-owner, integrated infrastructure. This experience underlines the need for careful analysis of the role competition policy can and should play in promoting efficient outcomes.

Caution is also required in the case of formerly government-owned, multi-user assets that have been corporatised or privatised. There is evidence to suggest these risks are greatest where inadequate regulatory systems could buttress the market power of infrastructure providers (often former government monopoly providers) within multi-user networks, providing incentives to restrict access and/or raise access prices unreasonably. Before privatising public monopolies involved in infrastructure service provision, governments should consider carefully whether access arrangements or other regulatory provisions take proper account of long-term efficiency objectives relating to Australia's export competitiveness.¹²⁷

¹²⁷ Australian Competition and Consumer Commission, [Reinvigorating Australia's Competition Policy](#), submission to the Competition Policy Review, 25 June 2014.