



# MINERALS COUNCIL OF AUSTRALIA

## SUBMISSION TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS INQUIRY INTO IMPEDIMENTS TO BUSINESS INVESTMENT

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## EXECUTIVE SUMMARY

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The Minerals Council of Australia (MCA) welcomes the opportunity to make a submission to the House of Representatives Standing Committee on Economics inquiry into impediments to business investment.

The Australian resources sector makes a significant contribution to growth, incomes and employment in regional Australia. Resources companies employ approximately 220,000 people in high-wage, high-skilled jobs, predominantly in remote and regional Australia. Average earnings in the resources sector are around \$140,000 a year, more than 60 per cent higher than the average for all industries.

The Australian resources sector can pay high wages because it is – as the Productivity Commission has noted – a global leader in technological innovation and one of the most productive industries in the world. Research by Treasury confirms that more productive businesses pay markedly higher average real wages and have more capital per worker. Treasury also found that average real wages are higher in exporting businesses and in businesses with foreign shareholders.

The Australian resources sector uses sophisticated production techniques and highly skilled labour to transform natural endowments into valuable exports. The resources sector generates more export revenue for Australia than all other industries combined. According to the Australian Bureau of Statistics, resources exports (including minerals, metals and petroleum) reached a record high of \$207 billion in calendar 2017, accounting for 53 per cent of total exports.

Iron ore and coal remain Australia's two most valuable exports, contributing \$63 billion and \$57 billion respectively in 2017. In the same year, gold – Australia's fourth largest export industry – generated \$18 billion in revenue, while base metals contributed a further \$25 billion in export earnings.

The Australian mining industry helps to fund essential government services and public infrastructure by contributing strongly to government revenues. According to Deloitte Access Economics, Australian minerals companies paid \$203 billion in company tax and royalties in the 12 years to 2016-17.

The world's resources and energy needs are projected to continue growing in the 21st century as highly populated emerging economies, particularly in Asia, converge to the level of development of advanced nations. Australia is well-placed to supply these growing markets but this opportunity is not guaranteed.

Foreign direct investment is vital to the resources sector, facilitating transfers of technology, skills and capabilities, as well as access to global supply chains and export markets. The Australian Government should continue to encourage free trade and international investment, including by joining the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11).

A comprehensive productivity agenda is also critical to the Australian minerals industry. Australian producers compete in fiercely contested international markets and cannot pass on higher domestic costs to customers. This competitive pressure drives innovation, which enables miners to extract and process ores at lower cost and to extract deposits that are deeper or more remote. Policy settings can only be regarded as good for productivity if they encourage firms to invest in capital and allow them to manage the use of that capital efficiently.

Stable and internationally competitive tax settings are essential for stimulating business investment, especially in capital-intensive industries like mining. The Turnbull Government's Enterprise Tax Plan – which will ensure that by 2026-27 the corporate tax rate for all Australian corporations will be 25 per cent – should be passed by the Australian Parliament as a matter of urgency. The government should also maintain existing arrangements for fuel tax credits, the research and development tax incentive, and the immediate deductibility of exploration expenditure.

Streamlining project approvals and modernising workplace relations are key structural reform priorities. The Productivity Commission concluded in 2013 that overlap and duplication between federal and state processes can be greatly reduced without lowering the quality of environmental

outcomes. The commission estimated in August 2017 that adopting its 2013 proposals to improve major project assessment processes would reduce project delays and save the economy approximately \$240 million.

Existing workplace relations laws lock in poor practices that discourage investment and hinder productivity and innovation. Without reform, productivity and competitiveness will suffer from the retention of archaic work practices and declining labour productivity, resulting in lower wages and fewer jobs. The Productivity Commission estimated that implementing its 2015 recommendations for workplace relations reform would add \$850 million a year to the Australian economy.

More broadly, the mining industry supports the principle of 'minimum effective regulation', whereby regulation can both meet its policy objectives and do so at least cost. New regulations should only be introduced if they are necessary, efficient and proportionate, and the existing stock of regulation should be minimised.

It is imperative that policies to encourage business investment do not distort markets or favour particular industries. The MCA recognises the importance and desirability of government support for pre-competitive activities that yield public goods, such as geological surveys and low-emissions technology demonstration projects. Yet the MCA has long maintained that commercial operations should be run by the private sector and without government assistance. The Productivity Commission has confirmed in successive reports that Australian mining receives 'negligible' assistance from government.

In particular, the MCA advocates the following principles for government intervention:

- The primacy of the market should be the first policy choice; there should be a general presumption that open, transparent and competitive markets will deliver efficient outcomes
- Market failure alone is insufficient to justify government intervention; there must be *prima facie* evidence that additional regulation can efficiently and effectively remedy market failure
- Where regulation is warranted, the presumption should be in favour of light-handed regulation
- More intrusive regulation should only be used where non-regulatory options and light-handed approaches have demonstrably failed
- Interventions aimed at shielding particular industries from competition, or creating jobs through subsidies or regulation, inevitably transfer costs to other industries and workers – to the detriment of consumers and the nation.

The following policy checklist is aimed at attracting additional investment in the Australian mining industry and sustaining national prosperity.

## **Recommendations**

The MCA submits that the Australian Government can encourage greater business investment by:

### *Promoting free trade and international investment*

- Supporting Australia joining the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11), which will open new markets for Australia's mining and energy industries, as well as manufacturing and agriculture
- Attracting international investment by streamlining and liberalising foreign investment screening processes
- Improving analysis of inward and outward trade and investment flows and strengthening public support for trade and free trade agreements.

### *Making taxes and royalties internationally competitive*

- Reducing Australia's internationally uncompetitive corporate tax rate

- Maintaining the Fuel Tax Credit scheme and the immediate deductibility of exploration expenditure
- Preserving the research and development (R&D) tax incentive in its current form and not restricting eligibility on the basis of industry, firm size, R&D intensity or any other arbitrary criterion.

#### *Streamlining environmental regulation*

- Streamlining state and federal approval processes while maintaining environmental protection
- Preventing unmeritorious legal challenges to approved projects
- Removing the duplicative water trigger for coal seam gas and large coal developments
- Removing uranium mining, milling, decommissioning and rehabilitation from the nuclear trigger in the *Environmental Protection and Biodiversity Conservation Act 1999* (EPBC Act)
- Improving the efficiency of environmental assessment and approvals processes by:
  - Setting information requirements to manage clearly defined risks, rather than to insure against every conceivable risk
  - Increased use of alternative assessment mechanisms, including particular manner provisions and approval on referral information
  - Coordinating environmental offset requirements between federal and state governments, so that they reinforce rather than duplicate each other.

#### *Modernising workplace relations*

- Confining permitted content in enterprise agreements to direct employment matters
- Refocusing adverse action provisions to discourage unreasonable claims
- Rebalancing union right-of-entry provisions to prevent unwarranted disruptions to operations
- Reforming greenfields agreements to encourage investment in new projects
- Allowing high-income earners to enter into individual agreements.

#### *Recommitting to a comprehensive deregulation agenda*

- Implementing a permanent program of regulatory reduction and improvement by:
  - Considering non-regulation options for achieving policy objectives
  - Ensuring any new regulations are efficient, in that they:
    - Proceed from an established case for regulatory action
    - Enshrine the best (or least worst) of available options
    - Set unambiguous objectives that do not overlap
    - Manage risks proportionately rather than prescriptively
  - Minimising the existing stock of regulation.
- Liberalising coastal shipping by:
  - Introducing a single permit system allowing unrestricted trade for both domestic and foreign vessels
  - Ensuring that Australian and foreign-registered vessels are subject to the same conditions of access and operation by removing the ability of domestic ships to contest voyages proposed by foreign ships.

*Ensuring energy is affordable, reliable and low emissions*

- Ensuring that energy and climate change policies:
  - Are nationally coordinated and recognise the energy and resources-intensive nature of the Australian economy
  - Allow least-cost CO<sub>2</sub> emissions abatement, including through access to international offsets
  - Embody a technology-neutral approach that does not discriminate against nuclear power, high-efficiency, low-emission coal generation, or carbon capture and storage
  - Reduce energy costs in Australia by securing an energy supply that is reliable, low cost, dispatchable, available 24/7, and consistent with Australia's emissions reduction targets.
- Applying climate change measures appropriately to all sectors, rather than expecting the electricity sector to contribute a disproportionate reduction in its CO<sub>2</sub> emissions.
- Proceeding with the National Energy Guarantee (NEG) with a commitment from all states to support it. In its design, the NEG must deliver sufficient levels of lowest cost dispatchable energy supplies available 24/7 with the objective of lowering prices and meeting Australia's emissions reduction targets.
- Ensuring that the National Energy Guarantee and related policy mechanisms provide:
  - Technology neutrality for all low emissions energy sources - including renewables, gas, nuclear, advanced coal technologies (such as HELE) and CCS
  - Clean Energy Finance Corporation funding to address any gaps in the financing provided by conventional markets. This should be made available to all low emissions energy sources
  - A solution to the policy risk that is stopping investment in new least cost 24/7 dispatchable energy supply consistent with Australia's climate change policy. This may be achieved through commercial and policy mechanisms which are already used by state governments to finance new renewable energy, – such as Contracts for Difference or reverse tenders.
- Continuing with the Emissions Reduction Fund and the Safeguards Mechanism. The Emissions Reduction Fund has delivered significant abatement at less than \$12 per tonne.
- Allowing access to international offsets to facilitate a least-cost approach to abatement, a lower cost of meeting Australia's Paris commitments and the delivery of associated environmental benefits (such as reducing deforestation).

## 1. CONTRIBUTION OF MINING AND COMMODITY MARKET OUTLOOK

- Mining is a leading industry in the Australian economy and a world leader in technological innovation. The Australian resources sector generates more export revenue than all other industries combined (\$207 billion in calendar 2017) and pays the highest wages (average earnings of around \$140,000 a year). The sector employs approximately 220,000 people in high-wage, high-skilled jobs, predominantly in remote and regional Australia.
- The world's resources and energy needs are projected to continue growing in the 21st century as highly populated emerging economies, particularly in Asia, converge to the level of development of advanced nations. Australia is well-placed to supply these growing markets but this opportunity is not guaranteed.
- Exploration expenditure in Australia has rebounded in 2016-17 but remains below recent high levels. Greater greenfield exploration is required in order to identify the mines of tomorrow. The government should consider increasing funding to Geoscience Australia to expedite the geological mapping of new prospective mineral regions.

### Mining industry's contribution to the Australian economy

The Australian resources sector makes a significant contribution to growth, incomes and employment in regional Australia. Average earnings in the resources sector are around \$140,000 a year, more than 60 per cent higher than the average for all industries.<sup>1</sup>

The mining industry has continued to be a large employer in the production phase of the boom. Resources companies employ approximately 220,000 people in high-wage, high-skilled jobs, predominantly in remote and regional Australia.<sup>2</sup> When the broader contribution of the mining equipment, technology and services (METS) sector is considered, this workforce exceeds 1.1 million people and accounts for 10 per cent of jobs in Australia.<sup>3</sup>

The Australian resources sector pays high wages because it is highly innovative and productive. A November 2017 working paper by Treasury concluded that:

An examination of wage growth by business characteristics using the Business Longitudinal Analysis Data Environment (BLADE) suggests that higher-productivity businesses pay higher real wages and employees at these businesses have also experienced higher real wage growth. Larger businesses (measured by turnover) tend to be more productive, pay higher real wages and have higher real wage growth. Capital per worker appears to be a key in differences in labour productivity and hence real wages between businesses, with more productive businesses having higher capital per worker.<sup>4</sup>

The Productivity Commission has noted that whereas the potential productivity of most Australian industries is determined by technological progress in other countries, Australia's resources sector is a global leader and one of the most productive industries in the world.<sup>5</sup> And in its study report on transitioning regional economies, the Productivity Commission affirmed that:

Overall, Australia has benefited substantially (and will continue to benefit) from the resources boom. It has led to higher average incomes for individuals, larger profits, and increased revenues for the Australian, State and Territory governments.<sup>6</sup>

<sup>1</sup> Australian Bureau of Statistics, [Average Weekly Earnings, Australia, Nov 2017](#), ABS cat. no. 6302.0, released on 22 February 2018.

<sup>2</sup> Australian Bureau of Statistics, [Labour Force, Australia, Detailed, Quarterly, Feb 2018](#), ABS cat. no. 6291.0.55.003, released on 29 March 2018.

<sup>3</sup> Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), 29 March 2017.

<sup>4</sup> Commonwealth Treasury, [Analysis of wage growth](#), working/technical paper, November 2017, released on 8 December 2017, p. 2.

<sup>5</sup> Productivity Commission, [Shifting the Dial: 5 Year Productivity Review: Supporting Paper No. 1: Productivity and Income – The Australian Story](#), Canberra, 3 August 2017, released on 24 October 2017, pp. 24, 26.

<sup>6</sup> Productivity Commission, [Transitioning Regional Economics: Study Report](#), 15 December 2017, p. 3.

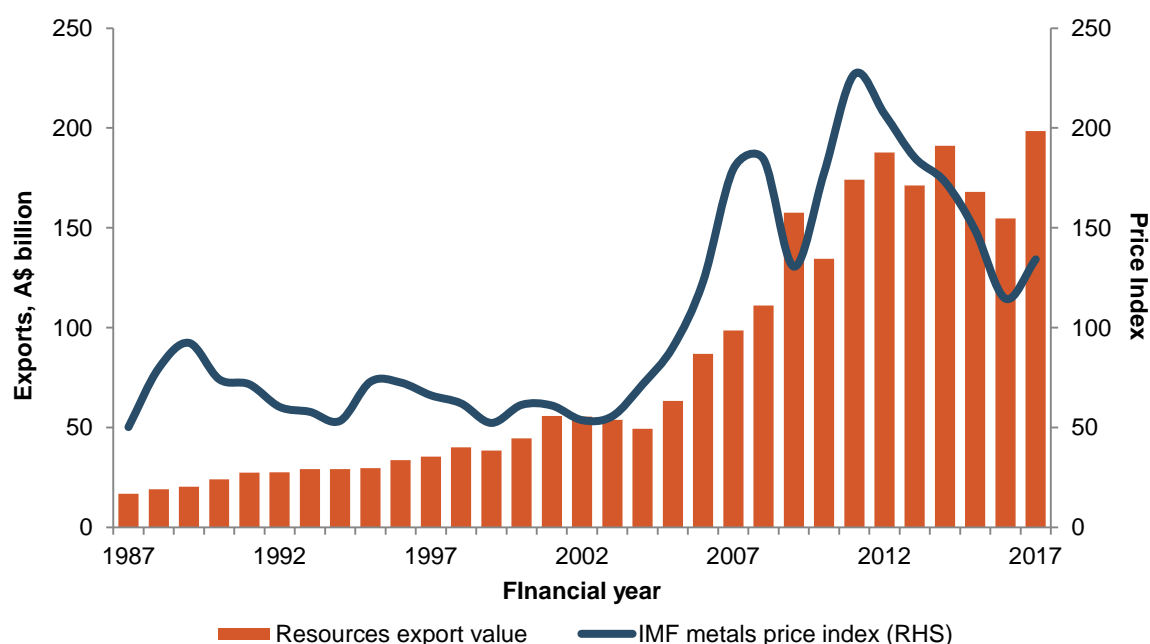
According to the Australian Bureau of Statistics, mining accounted for 6 per cent of GDP in 2016-17, making it the fourth largest contributor to the Australian economy. When the broader METS supply chain is included, this share of the Australian economy increases to more than 15 per cent.<sup>7</sup>

While the benefits of mining and METS activities are distributed across Australia, there are a number of regions where the sector makes a particularly significant economic contribution:

- The Pilbara region (WA), with a total economic contribution of \$37.8 billion (88 per cent of total regional economic activity) and 93,800 jobs (direct and indirect)
- The Bowen-Surat region (Queensland), with a total economic contribution of \$18.6 billion (63 per cent of total regional economic activity) and 99,700 jobs (direct and indirect)
- The Hunter region (NSW), with a total economic contribution of \$15.2 billion (34 per cent of total regional economic activity) and 93,600 jobs (direct and indirect).

The Australian resources sector uses sophisticated production techniques and highly skilled labour to transform natural endowments into valuable exports. In 2016-17, resources exports reached a record high of \$198 billion and accounted for 54 per cent of Australia's total export revenues. As shown in Chart 1, commodity prices rebounded in 2016-17 but remained well below the highest levels of the price phase of the mining boom. The surge in Australia's resources export revenue was instead driven mainly by higher production of key mineral and energy commodities.

**Chart 1: Australia's resources exports**



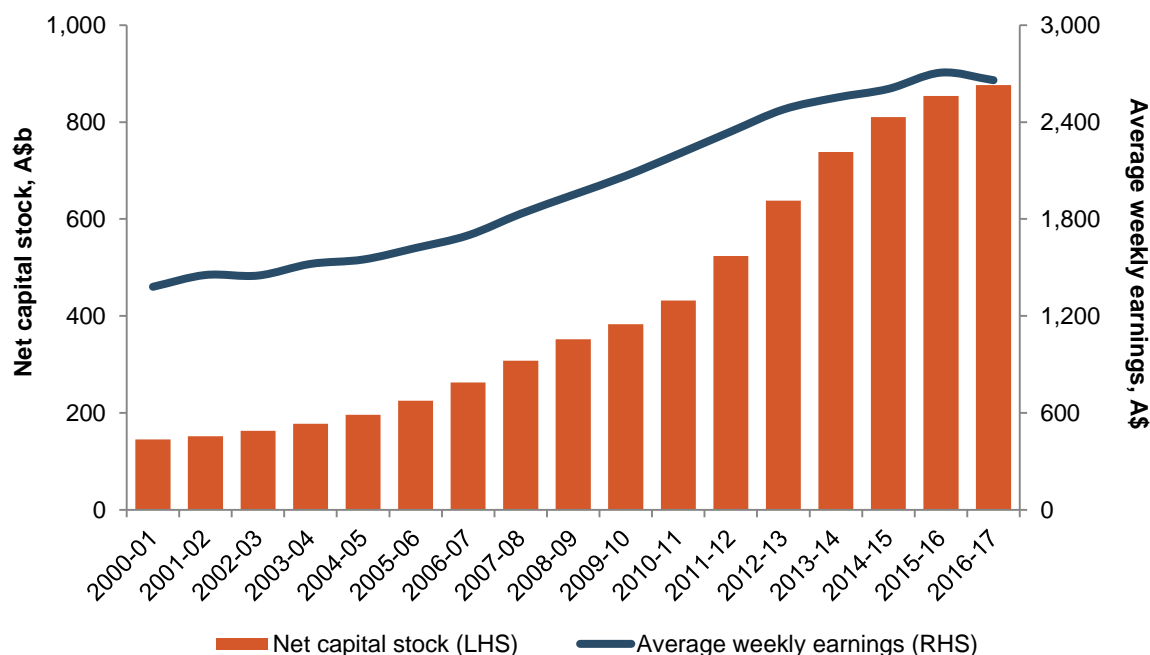
Sources: Australian Bureau of Statistics, Cat No. 5368 [International Trade in Goods and Services](#) Table 3; International Monetary Fund

The mining industry workforce has benefitted from the substantial investments made over the past decade that have expanded the industry's capital stock. The net capital stock of the mining industry has increased by 502 per cent since 2000-01 and totalled \$876 billion in 2016-17. Over the same time period industry average weekly earnings increased 93 per cent to \$2,659 – the highest of any industry in Australia and 66 per cent higher than the average for other industries. However, as shown in Chart 2 growth in the mining industry's capital stock has slowed in recent years and, subsequently, average weekly earnings declined in 2016-17. Government policies must address the range of factors that are holding back further investment in mining in order to support growth in employment and higher wages (sections 2 to 6).

<sup>7</sup> Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), 29 March 2017.



**Chart 2: Mining industry capital stock and average weekly earnings**



Source: Australian Bureau of Statistics, [Australian System of National Accounts](#), ABS cat. no. 5204; [Average Weekly Earnings, Australia](#), ABS cat. no. 6302.

Compared to the peak of the commodity price cycle in 2011-12, Australia is now producing significantly higher volumes of its key mineral exports. The transition to the production stage of the mining boom comes after a period of significant investment in the mining industry in which over \$400 billion of mining, energy and infrastructure projects were developed in Australia. This investment has led to production increases over the last five years of 73 per cent for iron ore, 20 per cent for coal, 16 per cent for bauxite and 13 per cent for gold. Investment has also occurred in mines that are producing the materials used in modern technologies such as electronics, renewable energy systems and electric vehicles. As a result, Australia is already the world's largest lithium producer and one of the only countries in the world to produce rare earth elements.

### Box 1: 2016-17 a record year for gold exports

After several challenging years stemming from lower prices, the Australian gold sector recovered in 2016-17 to post its highest value of gold exports in a year (\$19.8 billion, up 11 per cent from 2015-16). While a rebound in the Australian dollar price of gold contributed, this success was the outcome of several years of investment in new mines, expansions at existing mines and productivity initiatives that drove higher production.

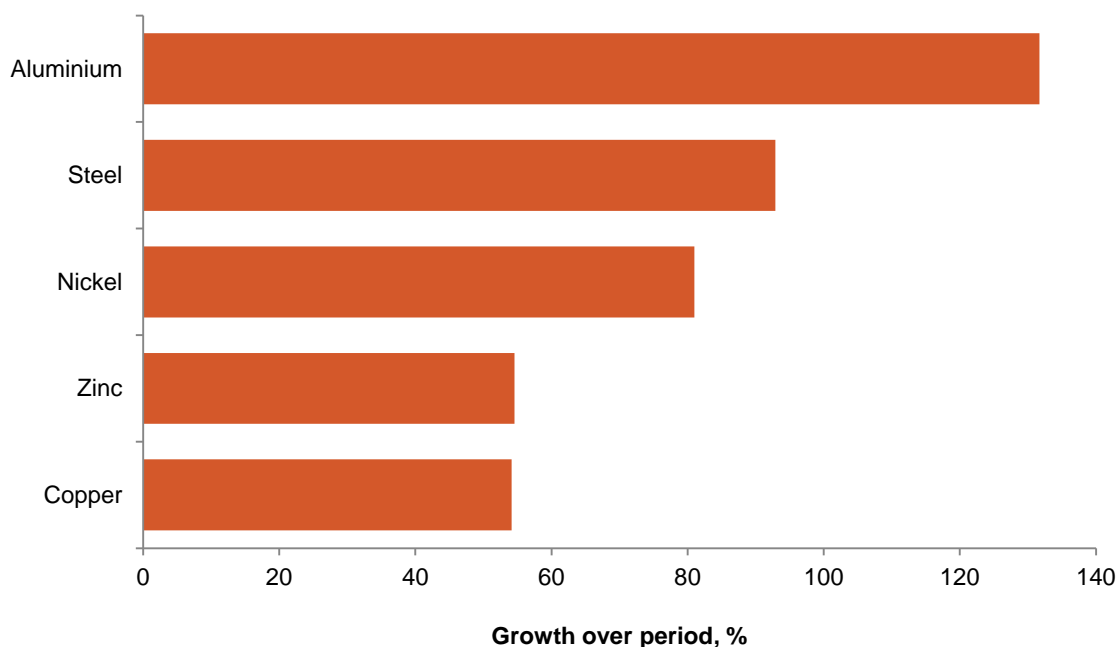
There is considerable potential for further expansion in the Australian gold industry that may boost exports further. Several new mines are currently under construction or at advanced stages of planning and increased exploration expenditure in 2016-17 indicates continued confidence in the industry. Policy stability, particularly on royalties, is essential to ensuring this potential turns into investment. Although Australian dollar gold prices are currently high, new projects continue to face commercial pressure from high construction and operating costs due to their remote locations. Like many mining projects, gold projects in Australia are competing with lower cost projects to attract investment dollars. Australia's long held advantage in policy stability cannot be taken for granted particularly as political stability in emerging lower cost mining regions improves.

### Outlook for commodity markets and the Australian mining industry

World annual consumption of most mineral and energy commodities has increased substantially in the 21<sup>st</sup> century as a result of highly populated non-OECD countries urbanising and implementing

market-based reforms to increase growth in their economy. As shown in Chart 3, this has led to substantial increases in key industrial metals such as steel, copper and aluminium. This trend is likely to continue for some time to come as the income levels, urbanisation rates and resource consumption per capita of these emerging economies still remain well below the levels of OECD countries and have considerable potential to grow further.

**Chart 3: World metals consumption growth, 2000-2016**



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

China's One Belt One Road initiative is one program that will support this economic growth and stimulate further demand for mineral resources in the future. BHP estimates that just 400 of the core projects involved in the One Belt One Road initiative will require nearly US\$1.3 trillion of investment in infrastructure.<sup>8</sup>

While demand for resources has grown, and is expected to continue growing in the long-term, so has supply of all key mineral and energy resources. The price of most commodities peaked in or before 2012 and experienced a prolonged downwards trend thereafter due to increased competition in commodity markets associated with new sources of supply coming online. The Australian mining industry has not been immune from this increased competition and several mining operations have closed or curtailed production in response to lower prices. These production cuts have been part of the global supply response that is now supporting a moderate rebound in commodity prices.

Higher prices cannot be grounds for complacency – Australian mining companies continue to face strong competition from new emerging mining regions in Africa and South America to both supply their outputs and attract funding from capital markets. Government policies must continue to support Australian companies in their efforts to increase productivity and cut costs as this global competition rises.

### Exploration activity

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

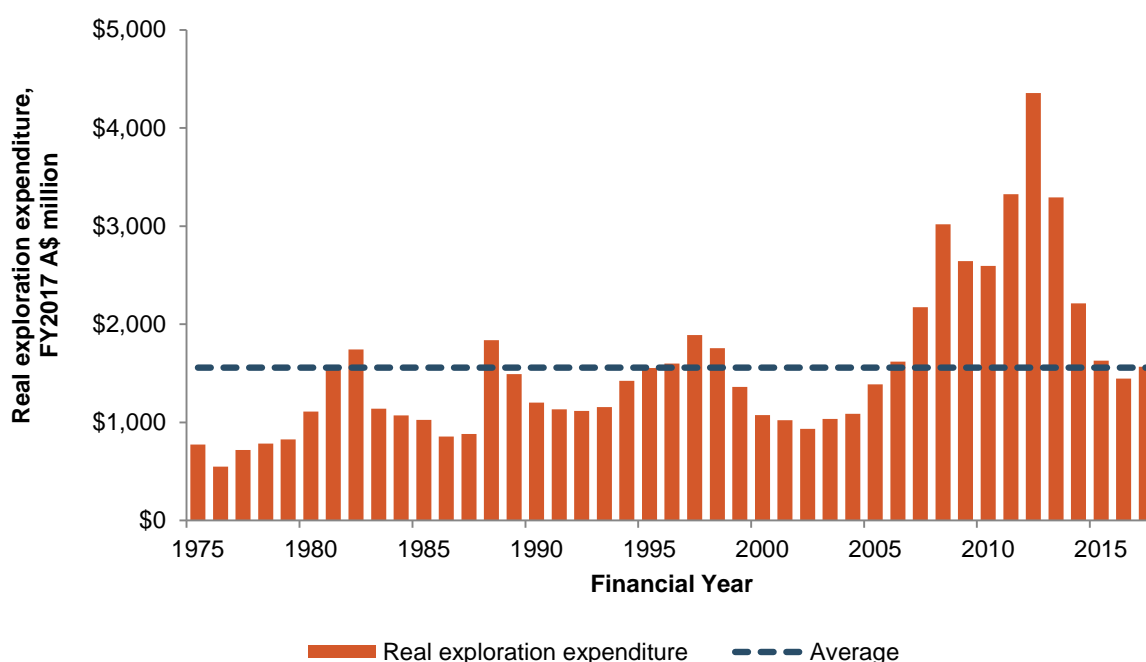
<sup>8</sup> BHP, [China's belt and road initiative, episode two: a vision encased in steel](#)

expenditure in Australia rebounded in 2016-17 after a four year decline and increased 10 per cent to \$1.6 billion.

In its report *Top 10 business risks facing mining and metals 2017-18*, EY identified resources replacement (via exploration) as one of the key risks to the future of the mining industry. According to the report 'exploration was the first cost to be cut as prices declined but hasn't been the first to be reinstated. It is, however, essential for future sector growth'. The report also offers this key thought: 'resource depletion is a concern – we've stopped spending on exploration. This is the equivalent to technology companies not spending on innovation'.<sup>9</sup>

As shown in Chart 4, real mineral exploration expenditure in Australia has decreased significantly from the peaks of the price phase of the mining boom. While it still remains at its long-term historical average level this is mainly due to exploration at existing mines (known as brownfield exploration) rather than exploration to identify resources at new sites (greenfield exploration) that could become the next generation of tier one assets in Australia.

**Chart 4: Real mineral exploration expenditure**



Source: Australian Bureau of Statistics, [Cat No. 8412 Mineral and Petroleum Exploration](#), MCA calculations

Governments at all levels have a role to play increasing exploration effort in Australia. The pre-competitive information (studies aimed at defining the geology of a basin or region) produced by Geoscience Australia and state geological surveys is a valuable public good which should receive greater government funding. The 2016-17 budget provided \$100 million over four years to Geoscience Australia to support modelling of mineral, petroleum and groundwater resources in targeted areas across northern Australia and South Australia.<sup>10</sup> This measure should not only be extended but provided with additional funding in order to expedite the mapping of prospective regions and stimulate greater investment in greenfield exploration in Australia.

<sup>9</sup> EY, [Top 10 business risks facing mining and metals 2017-18](#), p. 8, viewed 10 May 2018.

<sup>10</sup> Federal Budget 2016-17, [Part 2 Expense Measures – Industry, Innovation and Science](#), viewed 10 May 2018.

## 2. PROMOTING FREE TRADE AND INTERNATIONAL INVESTMENT

- Australia is a trading nation that has long benefited from free flows of goods and capital. One in five Australian jobs is tied to international trade and exporting businesses tend to employ more people, pay higher wages and be more likely to survive than firms that focus on domestic markets only. The Australian resources sector generates more export revenue than all other industries combined and pays the highest wages (section 1).
- Australia is usually a net importer of capital. Capital flows into Australia fill the gap between domestic savings and investment, alleviating the need for additional debt. Foreign direct investment is vital to the resources sector, facilitating transfers of technology, skills and capabilities, as well as access to global supply chains and export markets.
- The MCA submits that the Australian Government should encourage free trade and international investment by:
  - Supporting Australia joining the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11), which will open new markets for Australia's mining and energy industries, as well as manufacturing and agriculture
  - Attracting international investment by streamlining and liberalising foreign investment screening processes
  - Improving analysis of inward and outward trade and investment flows and strengthening public support for trade and free trade agreements.

### Importance of free trade to Australia

Australia's openness to trade and investment drives job creation across Australia. One in five Australian jobs are trade-related and exporting firms generally employ more people and pay higher wages than firms that focus on domestic markets.<sup>11</sup>

A February 2017 research paper by the Department of Industry, Innovation and Science concluded that companies that export have, on average, 23.8 per cent higher levels of employment compared to non-exporting companies. These employees earned on average 11.5 per cent more than employees from non-exporting companies. And when these companies exported every year, their wages grew a further 3.1 percentage points to 7.4 per cent.<sup>12</sup>

Similarly, a November 2017 working paper by Treasury found that average real wages are higher in exporting businesses (which tend to be more productive) and in businesses with foreign shareholders (which tend to be larger).<sup>13</sup>

Owing to their access to both domestic and international markets, exporters tend to have more certain and secure levels of demand. The Department of Industry, Innovation and Science found that exporters were about 8 per cent more likely to survive from one year to the next compared to non-exporters with similar firm characteristics.<sup>14</sup>

Further, households benefit directly from trade liberalisation. Removing tariffs reduces prices of consumer items, improving the standard of living of residents, especially low and middle-income earners. A study by the Centre for International Economics has shown that trade liberalisation policies adopted by Australian governments from 1986 to 2016 have boosted real GDP by 5.4 per

<sup>11</sup> Commonwealth of Australia, [2017 Foreign Policy White Paper](#), p. 14.

<sup>12</sup> Razib Tuhin and Jan A. Swanepoel, Department of Industry, Innovation and Science, [Export behaviour and business performance: Evidence from Australian microdata](#), Research Paper 7/2016, 9 February 2017, pp. 8, 17.

<sup>13</sup> Commonwealth Treasury, [Analysis of wage growth](#), working/technical paper, November 2017, released on 8 December 2017, p. 58f.

<sup>14</sup> Razib Tuhin and Jan A. Swanepoel, op. cit., p. 18.

cent and increased the average family household's real income by \$8,448 a year, compared to what they would have been in 2016 without trade liberalisation.<sup>15</sup>

As noted in section 1, minerals and energy commodities are Australia's largest source of export earnings – twice the value of services exports and four times the value of farm and other rural goods exports in 2017. Iron ore, coal and gold are Australia's first, second and fourth most valuable exports (respectively). Australia's 2015 free trade agreement with China has delivered demonstrable economic gains (Box 2) and the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11) is expected to deliver similar benefits (Box 3).

### **Box 2: Benefits of China-Australia Free Trade Agreement**

Since Australia signed the China-Australia Free Trade Agreement (ChAFTA) eliminated tariffs on aluminium (previously 3 and 7 per cent ad valorem), coking coal (3 per cent), thermal coal (6 per cent), zinc (3 per cent), nickel (3 per cent) and precious stones (3 and 8 per cent), Australia's merchandise exports to China have grown from \$75.7 billion in 2015 to \$100 billion in 2017.<sup>16</sup> ChAFTA also confirmed zero tariffs on major resources exports such as iron ore, gold, crude petroleum oils and liquefied natural gas.

Services exports to China have also grown from \$10 billion in 2014-15 to \$14.7 billion in 2016-17.<sup>17</sup>

However, notwithstanding the strong growth in trade that has accompanied ChAFTA, some groups have expressed concern about the impact of 'movement of persons' provisions in trade agreements. The concern is that commitments under trade agreements to waive labour market testing requirements under Australia's temporary skilled migration program will lead to an influx of migrant workers at the expense of employment opportunities for Australian residents.

However, the evidence shows that this concern is misplaced. The number of Chinese workers who have been granted 457 visas (which has since been replaced with the Temporary Skills Shortage Visa) has fallen in the two years since ChAFTA came into effect. In the first year of ChAFTA alone (2016) the number of 457 visas granted to Chinese nationals fell 15 per cent from 3,281 to 2,775 in 2016 – a decline of 15 per cent. This was larger than the overall decline in 457 visa grants in the same year. The number of 457 visas granted to all foreign workers fell from 48,459 in 2015 to 46,797 in 2016 – a decline of 3.4 per cent.<sup>18</sup>

The statistics also show no increase in 457 visa grants to workers from Japan and Korea since FTAs with those countries came into effect.

### **Importance of international investment to Australia**

Australia is usually a net importer of capital, requiring 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 past 40 years.<sup>19</sup> Without international investment, Australia would otherwise need to take on additional debt or forgo inflows of finance and technology.<sup>20</sup> At the end of 2016, there was around \$3.2 trillion in foreign investment in Australia, nearly twice Australia's total GDP.<sup>21</sup> Further, foreign-owned companies employ more than 700,000 Australians.<sup>22</sup>

<sup>15</sup> Centre for International Economics, [Australian Trade Liberalisation: Analysis of the Economic Impacts](#), 31 October 2017, p.11.

<sup>16</sup> Australian Bureau of Statistics, [International Trade in Goods and Services](#), ABS cat. no. 5368.0, released on 5 April 2018.

<sup>17</sup> Australian Bureau of Statistics, [International Trade in Goods and Services](#), ABS cat. no. 5368.0 and 53680.0.55.033, released on 5 December 2017.

<sup>18</sup> All 457 visa statistics in this fact sheet are from the Department of Home Affairs, [Subclass 457 quarterly report](#), 31 December 2017, and [historical Subclass 457 quarterly pivot tables](#), both viewed 9 May 2018.

<sup>19</sup> Adam McKissack and Jessica Xu, [Foreign investment into Australia](#), Treasury Working Paper, January 2016. released on 18 February 2016.

<sup>20</sup> Department of Foreign Affairs and Trade, [The benefits of foreign investment](#), 3 June 2016.

<sup>21</sup> Department of Foreign Affairs and Trade, [Foreign Investment Statistics: Statistics on who invests in Australia](#), July 2017

<sup>22</sup> Commonwealth of Australia, [2017 Foreign Policy White Paper](#), p. 14.

### Box 3: Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11)

The TPP-11 is the latest in now a dozen bilateral and regional free trade agreements negotiated by Australia since 1983. It will both build on previous trade agreements and pave the way for future deals in the Asia-Pacific, where essential markets for Australia are located.

Several modelling studies estimate the economic benefits which the Trans-Pacific Partnership will deliver for Australia and other participating countries. The most detailed modelling has been carried out by Professor Peter Petri of Brandeis University and Michael Plummer of Johns Hopkins University. Their October 2017 study finds that by 2030 the TPP-11 will:

- Boost real national income by US\$12 billion (A\$15.4 billion) or 0.5 per cent
- Grow real GDP by US\$14 billion (A\$18 billion) or 0.5 per cent
- Increase exports by US\$23 billion (A\$29.6 billion) or 4 per cent (in real terms).<sup>23</sup>

Averaging the results of ten other modelling studies suggests that the TPP-11 will increase Australia's real GDP by 0.54 per cent by 2030, consistent with Petri and Plummer's analysis.

The TPP-11 will open new markets for Australian manufacturing, agriculture, mining and energy resources and services exports to both mature export markets (such as Japan and Canada) as well as some of the fastest-growing emerging markets in the Asia-Pacific (such as Vietnam and Peru). Market access gains for mining and energy resources commodities and mining services include:

- Peru: Iron ore, copper, nickel – elimination of tariffs
- Vietnam: Butane, propane and liquid natural gas – elimination of tariffs; refined petroleum – 20 per cent tariffs eliminated
- Mexico, Malaysia, Brunei, Vietnam and Chile: Mining services – national treatment commitments will improve market access for mining services
- All participating countries: Mining and oilfield services will benefit from energy sector and state-owned enterprise reform commitments.

Australia's existing mining exports are currently dominated by the North Asian markets of China, Japan and Korea. The TPP-11 includes key South-East Asian economies, which are sources of potential future growth for resources exports as these economies continue to industrialise and urbanise.

There is significant potential to expand Australia's trade relationship with the ASEAN economies, including those already covered by the TPP-11 (Brunei, Malaysia, Singapore and Vietnam) and those which have expressed interest in joining the TPP in the future (Indonesia, the Philippines and Thailand). As ASEAN's economies continue to grow and develop, and Australian firms have the opportunity to establish themselves as reliable, competitive and proximate suppliers of the minerals and energy commodities that will be needed to further their development.

International investment has long provided the finance and technology that help make Australia a world-leading exporter of minerals. The value of foreign direct investment in Australia's resources sector increased eight-fold between 2001 and 2016, from \$36.8 billion to \$310.6 billion.<sup>24</sup> Over the same period, the number of Australians employed in the resources sector grew from around 80,000 to 217,000.<sup>25</sup>

Many Australian mining companies are also major global businesses in their own right and pursue outbound investment opportunities around the world, generating additional benefits for their

<sup>23</sup> Peter A. Petri, M.G. Plummer, S. Urata and F. Zhai, 'Going it Alone in the Asia-Pacific: Regional Trade Agreements Without the United States', Peterson Institute for International Economics, Working Paper 17-10, 2017 (including [full data tables](#)).

<sup>24</sup> Department of Foreign Affairs and Trade, [How Trade Benefits Australia](#), viewed 23 April 2018, p. 3.

<sup>25</sup> Australian Bureau of Statistics, [Labour Force, Australia, Detailed, Quarterly, Feb 2018](#), ABS cat. no. 6291.0.55.003, released on 29 March 2018.



shareholders and employees, as well as contributing to development and growth in the countries in which they invest.

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, paid as payments to suppliers or as taxes and royalties to governments.<sup>26</sup>

#### **Box 4: Australia-US Free Trade Agreement – driving international investment and jobs**

Since the Australia-US Free Trade Agreement entered into force, US investment in Australia has almost tripled from \$334 billion in 2005 to \$8890 billion at the end of 2017, including \$189 billion in direct investment.<sup>27</sup> US majority owned companies in Australia employed over 335,000 people in Australia in 2016, with an average wage of over \$115,000 – nearly double the average Australian yearly wage.<sup>28</sup>

Nearly 18 per cent of US foreign direct investment in Australia is in the resources sector, worth more than US\$32 billion in 2016 alone. This is the largest US investment in extractive industries in any nation outside of the United States and the largest category of US investment in Australia.<sup>29</sup> The projects that US investors are supporting include the Chevron<sup>30</sup> (billion - Gorgon and Wheatstone), ExxonMobil<sup>31</sup> (Bass Strait and Gorgon) and ConocoPhillips (Darwin and Gladstone) LNG projects, which together are worth more than \$110 billion.<sup>32</sup>

The case for encouraging international investment into Australia would be enhanced by better data on the contribution of foreign-owned businesses and the role of Australian-owned overseas affiliates in generating investment returns, export earnings, and investment inflows and outflows by industry. Australian trade and investment data is much less detailed and current than official US data. For example, the most recent comprehensive Australian Bureau of Statistics survey on foreign-owned businesses dates back to 2000-01.<sup>33</sup>

The OECD has noted that Australia needs more complete data on trade and investment by foreign-owned and multinational enterprises.<sup>34</sup> The government should provide additional funding for the collection of such data, which will improve policy analysis and public understanding of the benefits of the international investment regime.

<sup>26</sup> Port Jackson Partners, [Iron ore: the bigger picture](#), policy paper commissioned by the Minerals Council of Australia, MCA, 7 July 2015, p. 22.

<sup>27</sup> Australian Bureau of Statistics, *International Investment Position, Australia: Supplementary Statistics, 2017*, ABS cat. 5352.0, released on 9 May 2018.

<sup>28</sup> Indispensable Economic Partners, *The US-Australia Investment Relationship*, the United States Study Centre at the University of Sydney, p. 6

<sup>29</sup> United States Bureau of Economic Analysis, [Australia – International Trade and Investment Country Facts](#), viewed 9 May 2018.

<sup>30</sup> Chevron, [Economic contribution report for year ended 31 December 2016](#).

<sup>31</sup> Indispensable Economic Partners, *The US-Australia Investment Relationship*, the United States Study Centre at the University of Sydney, p.19

<sup>32</sup> ConocoPhillips Australia, [About us](#), viewed 10 May 2018

<sup>33</sup> Australian Bureau of Statistics, [Economic Activity of Foreign Owned Businesses in Australia 2000-01](#), ABS cat. no.5494.0, released on 9 January 2004.

<sup>34</sup> Organisation for Economic Co-operation and Development [International trade, foreign direct investment and global value chains. Australia: Trade and Investment Statistical Note](#), 2017, p. 8.

### 3. MAKING TAXES AND ROYALTIES INTERNATIONALLY COMPETITIVE

- Stable and internationally competitive tax settings are essential for stimulating business investment, especially in capital-intensive industries like mining.
- The 2017 minerals industry tax survey by Deloitte Access Economics found that the Australian minerals industry faced a high effective tax rate of 51 per cent in 2015-16. The industry paid more than \$200 billion in company tax and royalties in the 12 years to 2016-17, while receiving what the Productivity Commission describes as ‘negligible’ assistance from government.
- The Turnbull Government’s Enterprise Tax Plan – which will ensure that by 2026-27 the corporate tax rate for all Australian corporations will be 25 per cent – should be passed by the Australian Parliament as a matter of urgency. The Government should also maintain existing arrangements for fuel tax credits, the research and development tax incentive, and the immediate deductibility of exploration expenditure.

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.

#### Mining makes a large tax contribution

The combination of state and territory royalties with federal company tax means Australia is a relatively high tax jurisdiction for mining. The Australian minerals industry paid \$203 billion in company tax and royalties in the 12 years to 2016-17.<sup>35</sup> The Australian minerals industry has an effective tax rate of 51 per cent. Deloitte and state budget papers show royalty payments to the states are almost triple what they were a decade ago, increasing from \$4 billion in 2007-08 to over \$11 billion in 2016-17.<sup>36</sup>

At the same time, the Productivity Commission has confirmed in successive reports that Australian mining receives ‘negligible’ assistance from government. The commission found that the effective rate of combined assistance for the mining industry (i.e., the ratio of assistance to output) is just 0.2 per cent. While the Productivity Commission attributed \$522 million in budgetary assistance to mining in 2016-17, most of this amount (\$402 million) consisted of offsets claimed under the R&D tax incentive – a measure applicable to all industries.<sup>37</sup>

#### Corporate tax reform will encourage investment and improve growth prospects

Australia’s 30 per cent company tax rate is simply too high for a small open economy that is a net importer of capital. The MCA commissioned a policy paper on the implications of tax reform in the United States for Australia’s investment attractiveness. *Australia’s investment challenge in wake of 2018 US tax reform*, by the University of Calgary’s Dr Jack Mintz and Mr Philip Bazel, argued that:

- By 2020 Australia is set to have the second highest company tax rate in the Organisation of Economic Co-operation and Development (OECD)
- Australia’s marginal effective tax rate is now 28.4 per cent, almost ten percentage points higher than in the United States, and also higher than the averages for the OECD, the Group of Seven and the Group of Twenty economies

<sup>35</sup> Deloitte Access Economics, [Estimates of royalties and company tax accrued in 2016-17](#), report prepared for the Minerals Council of Australia, MCA, 11 April 2018.

<sup>36</sup> Deloitte Access Economics, [Minerals industry tax survey 2017](#), report prepared for the Minerals Council of Australia, MCA, 8 December 2017.

<sup>37</sup> Productivity Commission, [Trade and Assistance Review 2016-17](#), released on 26 April 2018, pp. 34, 102f.



- Tax reform by the United States has an enormous effect on international business decisions and the tax policies of competitor countries
- Lower company taxes raise the standard of living of residents, both through higher wages and lower prices for consumer goods.<sup>38</sup>

Australian businesses need a lower corporate tax rate to increase investment, jobs and wages. The Government's Enterprise Tax Plan legislation to reduce the corporate tax rate for all companies will move Australia's corporate tax rate back towards the current OECD average of 24 per cent.<sup>39</sup> The last corporate rate reduction to 30 per cent in 2001, with bipartisan support, moved Australia closer to the then OECD average (31 per cent).

### **Stable fuel tax arrangements are vital to mining's competitiveness**

Fuel tax credits are critical to a diverse range of regional industries reliant on diesel, including mining, agriculture and tourism. Fuel tax credits ensure that fuel excise, as an effective road user charge, is not applied to off-road use of diesel and other fuels. Fuel tax credits also recognise the standard tax policy principle that business inputs should not be taxed. Diesel fuel is a critical input for mining and other regional industries that use heavy machinery and diesel generators to generate electricity in remote areas off the electricity grid.

Any reduction to fuel tax credits would have a significant, negative and disproportionate impact on regional Australia. It would be an arbitrary new tax on regional industries that could not be justified on policy grounds (Box 5).

#### **Box 5: Fuel Tax Credits are vital to the competitiveness and growth of regional Australia**

Stable tax arrangements for business inputs such as fuel are vital to industry competitiveness and investor confidence. Long distances and remoteness of operations mean that existing arrangements for FTCs are particularly important for mining.

A number of farming and mining operations, fishing and tourism operators have no access to on-grid electricity, with a large share of these populations in regional Australia. For many remote communities and businesses, diesel is the only option for reliable power generation.

Mining operations in regional Australia are heavily reliant on diesel fuel as an input – where miners build and operate their own roads and operate off the electricity grid in remote regions. Diesel fuel is among the top three expenses for many open cut mines and consumption accounts for up to one-quarter of operating costs at some mines.

FTCs offset the excise imposed on fuel used by businesses. FTCs are based on the same tax principle underpinning the goods and services tax, which is to avoid taxes on business inputs. The claim that FTCs represent a 'subsidy' to industry is wrong and has been categorically refuted by the Australian Treasury, leading economists and the Productivity Commission.<sup>40</sup>

Any move to abolish the FTC scheme would harm regional Australian communities reliant on diesel. It would be grossly inequitable and set back economic development in regional Australia.

### **Australia needs competitive and stable exploration and R&D tax arrangements**

Exploration is critical to secure a future pipeline of mining investment. Government policy should support Australia's attractiveness as an exploration destination.

<sup>38</sup> Jack Mintz and Philip Bazel, [Australia's investment challenge in wake of 2018 US tax reform](#), policy paper commissioned by the MCA, Canberra, 26 March 2018.

<sup>39</sup> KPMG, [Corporate Tax Rates Table](#), viewed 13 December 2017.

<sup>40</sup> Commonwealth Treasury, [Australia's Submission to the G20 Energy Experts Group](#), viewed 20 April 2018; Deloitte Access Economics and Deloitte Tax, [Tax insights Re: think – Implications of the Tax Discussion Paper](#), 1 April 2015, p. 7, viewed 27 April 2018; Productivity Commission, [Trade and Assistance Review 2015-16](#), p. 1, viewed 27 April 2018.

Immediate deductibility for exploration expenditure is a long-standing and critical feature of the income tax system to encourage mineral exploration in recognition of the spill-over benefits to the economy.

The Australian Government's commitment to retaining an exploration incentive for junior explorers undertaking greenfields exploration through a new Junior Minerals Exploration Incentive will ensure that junior explorers without taxable income can claim exploration deductions. The Junior Minerals Exploration Incentive will assist small Australian exploration companies secure capital to invest in greenfields exploration.

The mining industry spent \$1.9 billion on research and development (R&D) in 2015-16.<sup>41</sup> The R&D tax incentive is an effective, economy-wide, market-driven measure that encourages investment in innovation. It should be maintained in its current form and not distorted by restricting eligibility on the basis of industry, firm size, R&D intensity or any other arbitrary criterion.

The 2016 review of the R&D Tax Incentive's recommendation to introduce an arbitrary 'intensity threshold' would remove support for a large number of businesses investing in R&D in Australia. This recommendation should be rejected. The R&D tax incentive has been subject to frequent changes by successive governments over recent years and businesses and job growth would benefit from stability.

### **Integrity of Australia's tax system and minerals taxation**

MCA members are committed to enhancing transparency of their activities and relationships with governments and host communities as part of the industry's commitment to contribute positively to long term social and economic development.

The MCA supports meaningful and globally consistent tax transparency that minimises compliance burdens. The mining industry has a demonstrated commitment to this principle. A number of mining companies operating globally are subject to multiple tax transparency regimes. In Australia, these include the Voluntary Tax Transparency Code and the implementation of the Extractive Industry Transparency Initiative (EITI), both of which the MCA supports.

Consistent with the industry's commitment to transparency, the MCA strongly supports the government's effort to progress to full implementation of the EITI in 2018 through our active participation in the Multi-Stakeholder Group. Considerable work has gone into developing a model that is relevant to the Australian extractives industry and regulatory environment based on the successful Australian pilot that commenced in 2011.

Australia should remain in step with international consensus on Base Erosion and Profit Shifting (BEPS) reforms. As a capital importer, Australia's tax rules need to be carefully designed to ensure legitimate investment is not harmed. Well-designed legislation coordinated with international moves will ensure that an identified 'tax mischief' is targeted, and unintended consequences are mitigated. Poorly targeted measures may impact legitimate transaction and substantially increase tax system compliance costs for no tax integrity outcome.

Successive Australian governments have implemented a series of changes to strengthen corporate tax laws. The ATO has repeatedly stated that Australia has robust corporate tax laws and most companies do the right thing. ATO Commissioner Chris Jordan noted in July 2017 that: 'I am satisfied we have the law, the funding, the capability and strategy to reduce the large market gap over time'.<sup>42</sup> This latest series of measures should now be allowed to operate and be assessed in due course.

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<sup>41</sup> Australian Bureau of Statistics, [Research and Experimental Development, Businesses, Australia, 2015-16](#), ABS cat. no. 8104.0, released on 15 September 2017.

<sup>42</sup> Commissioner Chris Jordan AO, [Address to the National Press Club](#), Canberra, 5 July 2017.

## 4. STREAMLINING ENVIRONMENTAL REGULATION

- Australia's complex and duplicative processes for approving major projects are generating unnecessary delays and uncertainty, and present a significant barrier to attracting international capital and investing in additional productive capacity.
- The Productivity Commission concluded in 2013 that overlap and duplication between federal and state processes can be greatly reduced without lowering the quality of environmental outcomes. The commission estimated that implementing its 2013 recommendations to improve and streamline major project approvals would generate a 10 per cent reduction in delay costs for announced projects and save approximately \$240 million.
- Despite the compelling case for making approvals processes more efficient – made in numerous reviews for government and industry – the progress of reform has been partial and slow. The Australian Parliament should approve the necessary changes to the Environment Protection and Biodiversity Conservation Act to allow environmental approvals to be streamlined. The government should also prevent unmeritorious legal challenges to approved projects and remove duplicative 'triggers' for federal approval of coal and uranium projects.

### Inefficient project approval processes discourage additional mining investment

Australia's complex and duplicative processes for approving major projects are generating unnecessary delays and uncertainty. A one year delay can reduce the net present value of a major mining project by up to 13 per cent and cost up to \$1 million every day.<sup>43</sup> For a capital-intensive and highly competitive industry like mining, costly delays to major projects are a significant barrier to attracting international capital and investing in additional productive capacity.

The Productivity Commission concluded in 2013 that overlap and duplication between federal and state processes can be greatly reduced without lowering the quality of environmental outcomes.<sup>44</sup> The commission recommended that 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. Further, assurance standards would ensure continued federal government oversight and high environmental standards are met.<sup>45</sup>

In 2017, the Productivity Commission estimated that implementing its 2013 recommendations to improve and streamline major project approvals would generate a 10 per cent reduction in delay costs for announced projects and save approximately \$240 million.<sup>46</sup>

Unfortunately, progress towards more efficient approvals processes has been partial and slow. The Gillard Government initially committed to streamlining state and federal project approvals, but soon reversed its position. Under the Abbott Government, states entered a memorandum of understanding to implement assessment and approval bilateral agreements with the Commonwealth. While assessment bilateral agreements were improved, legislative amendments to enable approval bilateral agreements failed to pass the Australian Senate.

The Senate Select Committee on Red Tape found in October 2017 that: 'delays in environmental assessment and approval processes are having adverse economic outcomes' and recommended that 'the Australian, state and territory governments recommit to the one-stop shop initiative'.<sup>47</sup>

<sup>43</sup> MCA member calculations, based on a project value of between \$3 billion and \$4 billion.

<sup>44</sup> Productivity Commission, [Major Project Development Assessment Processes: Research Report](#), Canberra, released on 10 December 2013, pp. 2 and 13.

<sup>45</sup> 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.

<sup>46</sup> Productivity Commission, [Shifting the dial: 5 year productivity review: Table B.3](#), Canberra, 3 August 2017, released on 24 October 2017, p. 237; [Major Project Development Assessment Processes: Research Report](#), Canberra, released on 10 December 2013, pp. 31–38.

<sup>47</sup> Select Committee on Red Tape, [Effect of red tape on environmental assessment and approvals](#), interim report, October

Accordingly, the Australian Parliament should approve the necessary changes to the EPBC Act and allow environmental approvals to be streamlined.

### **Post-approval safeguards**

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. However, industry opponents – who are often not from the local community – are deliberately misusing the appeals process to halt or delay projects.

Appeals through the Federal Court do not need to be successful in order to delay a project, and in fact most cases are not successful. The Productivity Commission found that the time between approval and legal judgement for coal projects ranged from seven months to more than 24 months.<sup>48</sup> Such challenges provide little environmental benefit, yet cost the project proponent time and money.

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.

### **Addressing wholly duplicative 'triggers' for federal approval**

The water trigger for coal seam gas and large coal development should be removed, given that it duplicates existing state processes and relies upon the same expert advice. A recent review found the regulatory costs of the trigger borne by business was estimated at \$46.8 million annually.<sup>49</sup>

The nuclear trigger should also be reformed to remove uranium mining, milling and decommissioning and rehabilitation. There is no scientific case that would justify default treatment of uranium mining related activities as a matter of national environmental significance. Where significant environmental risks are presented, these are addressed through comprehensive state and territory assessment and approval processes.

### **Administrative reforms**

A range of other reforms to the operation of the EPBC Act will improve the efficiency of environmental assessment and approvals processes, including:

- Setting information requirements to manage clearly defined risks, rather than to insure against every conceivable risk
- Increased use of alternative assessment mechanisms, including particular manner provisions and approval on referral information
- Coordinating environmental offset requirements between federal and state governments, so that they reinforce rather than duplicate each other.

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2017, pp. vii and 27.

<sup>48</sup> Productivity Commission, [Major Project Development Assessment Processes: final research report](#), Canberra, released on 10 November 2013, p. 258.

<sup>49</sup> Hunter, S, [Independent review of the water trigger legislation](#), prepared for the Australian Government, tabled in Parliament on 19 June 2017, p. 9.

## Box 6: The long road to streamlined environmental assessments and approvals

**July 1999** – Environment Protection and Biodiversity Conservation Act passed with option for assessment and approval bilateral agreements to minimise duplication and promote a timely, efficient and effective process.

**June 2009** – Infrastructure Australia report finds fragmented approvals process increase the duration and cost of national infrastructure projects. The report recommends streamlining EPBC functions.

**September 2009** – ANU EPBC survey finds regulatory effort was duplicated without improved environmental outcomes and estimates that regulatory delays cost up to \$820 million over ten years.

**October 2009** – Independent Hawke Review of EPBC Act recommends harmonisation and streamlining of environmental assessment processes, including accrediting state systems.

**April 2011** – Cost-benefit analysis of EPBC reforms by Deloitte Access Economics for government finds there was an 8 per cent per annum increase in approval delays from 2000 to 2010.

**June 2011** – Release of Labor government response to 2009 Hawke Review. Efficiency is a ‘top priority’ and the government committed to using assessment and approval bilateral agreements.

**April 2012** – Council of Australian Governments Business Advisory Forum agrees to address duplicative and cumbersome environmental regulation to improve productivity. The forum committed to developing approval bilaterals by December 2012 and finalising them by March 2013.

**April 2012** – Prime Minister Gillard commits to fast-tracking accreditation of state processes to end costly delays resulting from double-handling and duplication.

**September 2012** – Port Jackson Partners report for the MCA finds Australian projects were more prone to delays, escalating costs and investment risk. Australian thermal coal approvals take 3.1 years compared with a global average of 1.8 years with delays increasing at 3 to 4 months a year.

**December 2012** – Prime Minister Gillard reverses on reforms.

**July 2013** – URS analysis for the MCA finds poorly integrated approvals processes, duplication and inefficiency could be addressed while still delivering on environmental outcomes.

**September 2013 – 2015** – Coalition government commits to a One-Stop Shop for environmental approvals using assessment and approval bilateral agreements. States enter into an implementation memorandum of understanding with the Commonwealth, but Senate blocks required amendments.

**December 2013** – Productivity Commission’s report on major project assessments recommends a ‘one project, one assessment, one decision’ framework underpinned by EPBC bilateral agreements, to ensure Australia’s investment profile and maintain high environmental standards.

**August 2014** – BAEconomics study for the MCA finds reducing mining project delays by one year would add \$160 billion to national output by 2025 will create 69,000 jobs across the economy.

**September 2014** – Department of the Environment (as was) finds that Australia’s average time for approving projects is internationally uncompetitive at 37 months, and that the One-Stop Shop would result in regulatory savings to business of \$426 million a year.

**February 2015** – House of Representatives committee inquiry on streamlining regulation and ‘green tape’ finds inefficient environmental regulation and strongly supports a One-Stop Shop.

**August 2017** – Productivity Commission’s five-year productivity review estimates that implementing its 2013 recommendations would generate a 10 per cent reduction in delay costs for announced projects and save approximately \$240 million.

**October 2017** – Senate Select Committee on Red Tape finds that: ‘delays in environmental assessment and approval processes are having adverse economic outcomes’ and recommends that ‘the Australian, state and territory governments recommit to the one-stop shop initiative’.



## 5. MODERNISING WORKPLACE RELATIONS

- The ultimate objective of sound workplace relations policy should be to foster the success of high-productivity enterprises accompanied by high wages and expanding employment opportunities. The ability to modernise workplaces is vital to the competitiveness of the Australian minerals industry, which is increasingly focused on integrating new technology and ideas into its operations.
- The Fair Work Act is diverting firms from their core goal of promoting productive and cooperative enterprises. Separate reviews by the Fair Work Act Review Panel (2011) and the Productivity Commission (2015) have identified a number of areas in which the Act could be improved. In 2017, the commission estimated that implementing its reform proposals would add \$850 million a year to the Australian economy.
- The MCA broadly supports the Productivity Commission's workplace relations reform agenda and recommends the following as immediate priorities:
  - Confining permitted content in enterprise agreements to direct employment matters
  - Refocusing adverse action provisions to discourage unreasonable claims
  - Rebalancing union right-of-entry provisions to prevent unwarranted disruptions to operations
  - Reforming greenfields agreements to encourage investment in new projects
  - Allowing high-income earners to enter into individual agreements.

### Efficient use of capital depends on flexible workplace relations

In the long run, productivity growth is the primary determinant of rising living standards. Productivity refers to increasing the rate of output (goods or services) from a given amount of inputs (labour, capital, land and energy) or maintaining a given rate of output with fewer inputs. Productivity growth is achieved either by improving the efficiency of existing production techniques, or by significantly changing the method of supplying goods or services through innovation.<sup>50</sup>

It follows that an effective productivity agenda is one that focuses on workplaces. While the performance and profitability of enterprises are ultimately the responsibility of managers, their decisions are constrained – and sometimes prescribed – by policies and regulations. Policy settings can only be regarded as good for productivity if they encourage firms to invest in capital and use it efficiently.<sup>51</sup>

The ability to modernise workplaces is vital to the competitiveness of the Australian minerals industry, which 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.<sup>52</sup>

However, the current regulation of workplace relations diverts firms from their core goal of promoting productive and cooperative enterprises. Even though the architects of the Fair Work Act 2009 sought to balance the competing goals of efficiency and fairness, the Act has had adverse consequences for investment and employment. Separate reviews by the Fair Work Act Review Panel (appointed by then Minister Shorten in 2011) and the Productivity Commission (2015) have identified a number of

<sup>50</sup> See Knut Wicksell, *Lectures on Political Economy, Vol. 1: General Theory*, translated from the Swedish by E. Classen, edited by Lionel Robbins, Routledge & Kegan Paul, 1934, p. 2; Joseph Schumpeter, *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process, Volume 1*, Martino Publishers, 1939, pp. 84, 87f.

<sup>51</sup> See Gary Banks, [Productivity Policies: the 'to do' list](#), address to Economic and Social Outlook Conference, Melbourne, 1 November 2012, p. 6f.

<sup>52</sup> Anna L. Matysek and Brian S. Fisher. [Productivity and Innovation in the Mining Industry](#), BAEconomics Research Report 2016.1, 8 April 2016, pp. iv, 12f, 41.

areas in which the Fair Work Act could be improved. Yet despite the modesty of these proposals and their essentially bipartisan character, attempts to implement them have failed to pass through parliament.

### **Immediate priorities for workplace relations reform**

In 2017 the Productivity Commission estimated that implementing its reform proposals would add \$850 million a year to the Australian economy.<sup>53</sup> The MCA broadly supports the Productivity Commission's workplace relations reform agenda and recommends the following as urgent priorities.

#### ***Confining permitted content in enterprise agreements to direct employment matters***

The Fair Work Act has expanded the scope of permitted content in enterprise agreements well beyond the relationship between an employer and employees (Box 7).

### **Box 7: The undue scope of permitted matters in agreements is hindering workplace efficiency**

The *Fair Work Act 2009* expanded the range of permitted content in enterprise agreements from 'matters relating to' the employment relationship to 'matters pertaining to' the employment relationship – including matters pertaining to employers and trade unions.

Consequently, more content must be bargained over, more issues can form the basis of protected industrial action, and more content is then able to be included in enterprise agreements which may then be subject to dispute resolution procedures under those agreements.

In the minerals industry, it is not uncommon to see clauses in enterprise agreements that restrict the fundamental right of an employer to manage its own business, or which have little to do with the employer-employee relationship. For example, these clauses can require employers to:

- Consult with unions on changes to regular rosters or ordinary hours of work
- Restrict retrenchment to a 'last-in, first-out' policy
- Restrict or prohibit the use of contractors or labour hire workers
- Provide employee representatives with the names and commencement dates of new employees
- Provide paid leave for employees to attend to union business.

The MCA supports removing the availability of protected industrial action for matters not directly related to the employment relationship. This would improve workplace efficiency by ensuring that:

- Negotiations are not stifled by claims that constrain an employer's ability to manage the workforce and work flow
- The bargaining process has a clear employment focus and protected industrial action cannot be misused for ulterior purposes.<sup>54</sup>

The MCA recommends:

- Removing the availability of protected industrial action over business decisions and confining the content of enterprise bargaining to direct employment matters by:
  - Amending the phrase 'matters pertaining to' the relationship between an employer and employees in section 172 of the *Fair Work Act 2009* to 'matters directly related to'

<sup>53</sup> Productivity Commission, [Shifting the Dial: 5 Year Productivity Review](#), Report No. 84, Canberra, 3 August 2017, released on 24 October 2017, p. 233.

<sup>54</sup> Minerals Council of Australia, [Australia's workplace relations framework: The case for reform](#), MCA, 8 August 2017, pp.25-28.

- Amending section 194 of the Fair Work Act to include an express prohibition on enterprise agreement terms that unreasonably interfere with legitimate business decisions or restrict an employer's capacity to choose an employment mix suited to its business
- Removing matters pertaining to the relationship between an employer and a trade union from the range of permitted matters in enterprise agreements under section 172 of the Fair Work Act
- Amending section 409 of the Fair Work Act to delete the inclusion of a 'reasonable belief' that a claim in relation to an agreement is about a permitted matter.<sup>55</sup>

### ***Refocusing adverse action provisions to discourage unreasonable claims***

The Fair Work Act prohibits a wide range of conduct known as 'adverse action'. Adverse action provisions were intended to protect freedom of association and prevent discrimination in the workplace. However, they are being used to interfere with ordinary management decision-making, including performance management and organisational restructuring. This problem has emerged owing to the breadth of actions described as adverse, the broad spectrum of protections related to industrial activity, the onus on the employer to prove that adverse action has not occurred and the uncapped nature of potential compensation.

The MCA recommends:

- Making provision for exclusions for legitimate operational and investment decisions
- Reinstating the sole or dominant purpose test to determine whether a contravention has occurred
- Discouraging unmeritorious claims by allowing cost orders to follow the result of the case
- Codifying the High Court's approach in *CFMEU v BHP Coal Pty Ltd (2014) 253 CLR 243* to confirm that just because adverse action is connected with industrial activity, it does not mean that the adverse action occurred because of the industrial activity.<sup>56</sup>

### ***Rebalancing union right-of-entry provisions to prevent unwarranted disruptions***

The rules for exercising workplace right of entry for union officials are rigid and allow for undue interference and disruption. Currently, a permit holder may enter a workplace even if his or her union is not party to an award or enterprise agreement which applies to employees at the premises. The workplace need only contain workers who are eligible to become members under the union's rules.

BHP's former Worsley alumina refinery had more than 550 right-of-entry visits between 2011 and 2013.<sup>57</sup> Another MCA member was subject to 257 visits between January 2015 and June 2016.

The MCA recommends:

- Rebalancing union right-of-entry provisions by anchoring right of entry provisions in the need to allow employees access to their representatives (rather than a right of unions to advance their interests)
- Addressing any continuing operational issues over frequency of entry by:
  - Removing the requirement for there to be 'an unreasonable diversion of the occupier's critical resources' in order for the Fair Work Commission (FWC) to make orders regarding the frequency of entry
  - Requiring the FWC to take account of the cumulative impact on an employer's operations, the likely benefit to employees of further entries and the reason for the frequency of the entries in making orders regarding frequency of entry.<sup>58</sup>

<sup>55</sup> Minerals Council of Australia, [Australia's workplace relations framework: The case for reform](#), MCA, 8 August 2017, pp. 25-28; cf. the Productivity Commission, [Workplace Relations Framework: Inquiry Report, Volume 2](#), Canberra, 21 December 2015, pp. 683, 820.

<sup>56</sup> Minerals Council of Australia, op. cit., p. 28ff; cf. the Productivity Commission, op. cit., p. 622ff.

<sup>57</sup> Dean Dalla Valle, then President of Coal, BHP Billiton, ['Right to enter must not cut productivity'](#), *The Australian*, 28 November 2014.



### ***Reforming greenfields agreements to encourage investment in new projects***

Capital-intensive industries such as mining make large, decades-long investment decisions, which entail complex construction projects and long lead times before cash flows are generated. A degree of certainty about the industrial environment – including employment conditions – over the life of a construction project is vital to providing investors with confidence and making Australia an attractive destination for new capital investment.

Under the current regulatory framework, a greenfields agreement can only be made prior to project commencement, with one or more relevant unions. This effectively gives trade unions a right of veto over negotiations for major projects, and can stop or significantly delay the agreement-making process and lead to higher labour costs at the outset of an agreement.

The MCA recommends that:

- The Fair Work Commission should adopt a simpler test in approving a greenfields agreement, so that the terms of that agreement are at least at the level of similar work performed at another enterprise covered by an enterprise agreement.
- There should be capacity for employers to enter into ‘life of project’ greenfields agreements, or at least agreements with a duration of up to and including five years according to operational needs.<sup>59</sup>

### ***Allowing high-income earners to enter into individual agreements***

Arrangements that limit flexibility in management and work practices hinder productivity growth, employment and the ability to adapt to changing market conditions. The limited options for agreement making which are available under the Fair Work Act restrict an employer’s ability to modernise work practices or to address individual employees’ personal circumstances and requirements.

The architects of the Fair Work Act envisaged that Individual Flexibility Arrangements (IFAs) would provide the dynamism necessary for modern and competitive workplaces. However, the benefits of IFAs have proved to be largely illusory, owing to unions’ opposition to flexibility on key matters such as hours of work, rostering and overtime.

Individual agreements have been used extensively in the mining industry for more than two decades. They have facilitated flexible and productive work practices while also providing attractive salaries and working conditions for the industry’s changing workforce. Indeed, employees on individual arrangements have consistently received higher remuneration than those on collective agreements.

MCA member companies respect the right of a group of employees to be represented by a union in a bargaining context where the employees wish to do so. Equally, a modern workplace relations framework should accommodate a form of individual agreement, backed by a strong safety net, which allows an employee to agree to employment arrangements directly with his or her employer. The safety net can be managed through the National Employment Standards and modern awards.

The MCA recommends that:

- There should be greater capacity for employees who are earning over a particular threshold (such as the existing high income threshold for unfair dismissals) to opt out of an enterprise agreement and enter into individual agreements.<sup>60</sup>

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<sup>58</sup> Minerals Council of Australia, [Australia’s workplace relations framework: The case for reform](#), MCA, 8 August 2017, p. 32f; cf. the Productivity Commission, [Workplace Relations Framework: Inquiry Report, Volume 2](#), Canberra, 21 December 2015, p. 910.

<sup>59</sup> Minerals Council of Australia, [Australia’s workplace relations framework: The case for reform](#), MCA, 8 August 2017, p. 34f; Productivity Commission, [Workplace Relations Framework: Inquiry Report, Volume 2](#), Canberra, 21 December 2015, p. 691.

<sup>60</sup> Minerals Council of Australia, [Australia’s workplace relations framework: The case for reform](#), MCA, 8 August 2017, p. 36f.

## 6. RECOMMITTING TO A COMPREHENSIVE DEREGULATION AGENDA

- Regulatory settings have a profound impact on the Australian mining industry's cost competitiveness, productivity and capacity to adapt to changing market conditions. The industry supports the principle of 'minimum effective regulation', whereby regulation can both meet its policy objectives and do so at least cost.
- The government should refocus on deregulation, not just 'better' or 'best practice' regulation. New regulations should only be introduced if they are necessary, efficient and proportionate, and the existing stock of regulation should be minimised.
- The Productivity Commission has estimated that removing restrictions on coastal shipping would boost the Australian economy by between \$19 million and \$36 million a year. While the MCA broadly supports the remedial measures contained in the Coastal Trading (Revitalising Australian Shipping) Amendment Bill 2017, the government should also:
  - Introduce a single permit system allowing unrestricted trade for both domestic and foreign vessels
  - Ensure that Australian and foreign-registered vessels are subject to the same conditions of access and operation by removing the ability of domestic ships to contest voyages proposed by foreign ships.

### Achieving minimum effective regulation

Regulatory settings have a profound impact on the mining industry's cost competitiveness, productivity and capacity to adapt to changing market conditions. Regulatory requirements cover all stages of industry activity, from grant of tenure, exploration, extraction, processing, transport and mine closure through to relinquishment of tenure. Minimising the regulatory burden on industry is not the same as minimising regulation itself. The Australia's mining industry recognises its obligation to act in a way that assists government in maintaining efficient, stable and risk-based regulatory frameworks.

The essential challenge is to ensure regulation not only is directed at legitimate objectives, but that it takes an appropriate form. The Australian mining industry supports the principle of 'minimum effective regulation', whereby regulation can both meet its policy objectives and do so at least cost.

In its study report on transitioning regional economies, the Productivity Commission argued persuasively that:

Removing unnecessary regulatory barriers is a 'win-win' policy option – these reforms are justifiable in their own right and also open up opportunities for people in regional communities to adapt to change. They should be pursued by all governments as a matter of priority. Failure to do so will unnecessarily increase the pressures faced by regional communities and constrain their prospects ...<sup>61</sup>

The Abbott Government implemented an annual red tape reduction target and biannual repeal days. The Turnbull Government has replaced these measures with the National Business Simplification Initiative, which aims to improve existing regulation and business transactions with government. A recommitment to a comprehensive deregulation agenda would help to bring about a change in the culture of regulation; to move from periodic reviews and incremental reforms to a permanent program of reduction and improvement.

The MCA recommends that the government recommit to a comprehensive deregulation agenda that:

- Considers non-regulation options for achieving policy objectives
- Ensures any new regulations are efficient, in that they:

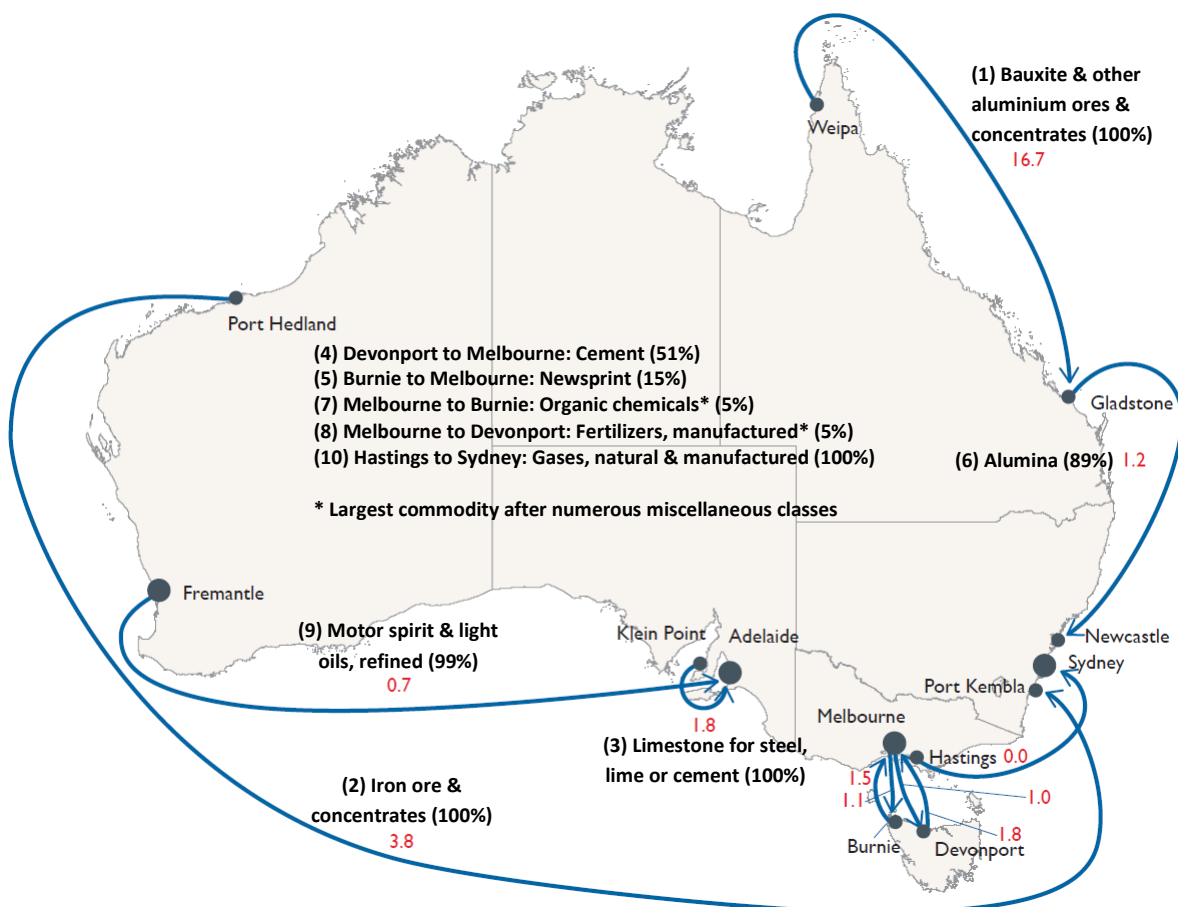
<sup>61</sup> Productivity Commission, [Transitioning Regional Economics: Study Report](#), 15 December 2017, p. 23.

- Proceed from an established case for regulatory action
- Embrace the best (or least worst) of available options
- Include clear objectives that do not overlap
- Manage risks proportionately rather than prescriptively
- Minimises the existing stock of regulation.

### Liberalising coastal shipping

Internationally competitive coastal shipping services matter to businesses, consumers and communities in all Australian states and territories. Coastal ships transport refined petroleum products from Fremantle to Adelaide, newsprint from Burnie to Melbourne and gases from Hastings to Sydney (Figure 1).<sup>62</sup>

**Figure 1: Top ten coastal freight routes, 2014–15 (total freight per route in millions of tonnes, predominant commodity and its share of flow)**



Source: Bureau of Infrastructure, Transport and Regional Economics

However, the current regulatory regime for coastal shipping is burdensome, anti-competitive and failing to achieve its own objective of revitalising the local shipping industry. The Productivity Commission has estimated that removing restrictions on coastal shipping would boost the Australian economy by between \$19 million and \$36 million a year.<sup>63</sup> While the Coastal Trading (Revitalising Australian Shipping) Amendment Bill 2017 proposes a number of improvements to the operation and administration of the Coastal Trading Act, they do not go far enough (Box 8).

<sup>62</sup> Bureau of Infrastructure, Transport and Regional Economics, [Australian sea freight 2014-15](#), April 2017, released on 5 May 2017, p. 30.

<sup>63</sup> Productivity Commission, [Shifting the Dial: 5 Year Productivity Review](#), Report No. 84, Canberra, 3 August 2017, released on 24 October 2017, p. 233.

### Box 8: The Coastal Trading Act tries to protect some jobs at the expense of many others

The Australian mining industry is the largest user of coastal shipping. Bulk commodities account for 80 per cent of Australia's coastal shipping trade by tonnage, with bauxite and other aluminium ores and concentrates comprising 34.2 per cent, and iron ore and concentrates 7.5 per cent.<sup>64</sup>

Tens of thousands of jobs rely on the efficient transportation of freight by sea – including minerals extraction and processing, petroleum, cement, steel and agriculture. Rio Tinto alone employs 6,000 workers in bauxite mines, alumina refineries and aluminium smelters across Australia.<sup>65</sup>

The participation of foreign ships is a longstanding feature of Australia's coastal shipping trade and is essential to the efficient and timely movement of freight. However, the *Coastal Trading (Revitalising Australian Shipping) Act 2012* made retrograde changes to competition rules that have increased domestic transport and administration costs and made it more difficult to source coastal shipping services when they are needed. In particular:

- For some dry bulk commodity producers, the cost of shipping final product around Australia is now about the same as shipping from overseas to Australia
- Bell Bay Aluminium reported a 63 per cent increase in shipping freight rates from Tasmania to Queensland in just the first year of the 2012 regime<sup>66</sup>
- Another company saw freight charges increase by over \$3,000 a day up and down the east coast of Australia.

Under the Coastal Trading Act, Australian-flagged ships enjoy unrestricted access to coastal trade under a five-year general license, while 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.<sup>67</sup>

Since the Coastal Trading Act was introduced, the carrying capacity of the Australian coastal fleet has decreased by 63 per cent. In addition, Australia's coastal fleet is older and more costly to operate by international standards, attracting higher insurance premiums.<sup>68</sup>

The Productivity Commission has argued 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.

In itself, protecting an industry to preserve jobs is not justified. The cabotage restrictions protect some jobs at the expense of growth in other industries ... Protecting an industry from competition not only harms consumers ... but also reduces the incentives of the protected industry to improve its efficiency and competitiveness. Over time, the protected industry falls further behind foreign competitors, requiring ever more protection and increasing the cost to consumers and the community in general.<sup>69</sup>

The Coastal Trading (Revitalising Australian Shipping) Amendment Bill 2017 proposes a number of improvements to the operation and administration of the Coastal Shipping Act. While the MCA broadly supports these remedial measures, they do not go far enough. The government should also:

- Introduce a single permit system allowing unrestricted trade for both domestic and foreign vessels
- Ensure that Australian and foreign-registered vessels are subject to the same conditions of access and operation by removing the ability of domestic ships to contest voyages proposed by foreign ships.

<sup>64</sup> Data provided to the MCA secretariat by the Bureau of Infrastructure, Transport and Regional Economics, 9 May 2017.

<sup>65</sup> See Rio Tinto, [Our business: Aluminium](#), viewed 30 November 2017.

<sup>66</sup> *ibid.*, p. 7577.

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

<sup>68</sup> *ibid.*, pp. 49f, 83.

<sup>69</sup> Productivity Commission, [Regulation of Australian Agriculture: Final Report](#), 15 November 2016, released on 28 March 2017, p. 392.

## 7. ENSURING ENERGY IS AFFORDABLE, RELIABLE AND LOW EMISSIONS

- Over the past decade, Australia has lost its low-cost energy advantage as prices moved from among the lowest in the developed world to some of the highest. Policies that promote affordable and reliable energy while reducing emissions are critical to the productivity and competitiveness of Australian businesses and should aim to reduce – not just limit – price rises.
- The MCA welcomes the National Energy Guarantee as a constructive approach to addressing the long-running energy policy challenge confronting Australia. The proposed Reliability Guarantee must provide incentives to maintain flexible, dispatchable sources of power supply to improve the reliability of Australia's electricity grid and reduce the risks of power outages.
- Energy policies should be technology-neutral, with all low emissions options treated equally, including nuclear, high efficiency, low emissions (HELE) coal technologies and carbon capture and storage (CCS).

### Australia's energy policy restore our low-cost energy advantage

Reliable and affordable energy is central to the competitiveness of the Australian economy and the standard of living of Australians. Over the past decade, Australia has moved from having some of the lowest to some of the highest energy costs in the developed world. Australian manufacturing, minerals processing and other energy intensive activities are increasingly finding themselves priced out of international markets.

Government interventions have also contributed to household electricity prices increasing by around 110 per cent in the last decade.<sup>70</sup> Some of this price increase is due to higher investment in network infrastructure to ensure reliable supply to customers in peak periods. But market-distorting policies – notably subsidised investment in intermittent renewable energy – have also inflated prices.<sup>71</sup>

Australia now needs a simple, pragmatic energy and climate policy that can reduce power prices and emissions as well as improve network reliability. This policy requires a coordinated approach between state and federal governments that recognises the energy and resource intensive nature of the Australian economy. Policies to address emissions and reliability should also be designed to reduce energy costs – not just limit price rises.

### A way forward

To deliver low cost reliable power while meeting Australia's emission reduction targets, the MCA has proposed a simple, pragmatic energy and climate policy:

- All sectors of the economy have a role to play in meeting the challenge of Australia's emissions reductions targets. The electricity sector should not be expected to contribute a disproportionate reduction in its CO<sub>2</sub> emissions.
- Proceed with the National Energy Guarantee (NEG) with commitment from all states to support it. In its design, the NEG must deliver sufficient levels of lowest cost dispatchable energy supplies available 24/7 with the objective of lowering prices and meeting Australia's emissions reduction targets.
- The NEG and related policy mechanisms should provide for:
  - Technology neutrality for all low emissions energy sources - including renewables, gas, nuclear, advanced coal technologies (such as HELE) and CCS

<sup>70</sup> Australian Bureau of Statistics, Cat No. 6401 [Consumer Price Index](#), viewed 12 December 2017.

<sup>71</sup> Australian Government, [Energy White Paper](#), 8 April 2015, p 9

- Clean Energy Finance Corporation funding to address any gaps in the financing provided by conventional markets. This should be made available to all low emissions energy sources
- Addressing policy risk that is stopping investment in new least cost 24/7 dispatchable energy supply to ensure that Australia has the generation that it needs under a coordinated climate and energy policy. This may be through use of a range of commercial and policy mechanisms – such as Contracts for Difference or reverse tenders – which are already used by State governments to finance new renewable energy
- Continuation of the Emissions Reduction Fund and Safeguards Mechanism. The Emissions Reduction Fund has delivered significant abatement at less than \$12 per tonne.
- Access to international offsets should be allowed as these allow a least cost approach to abatement, lowers the cost of meeting Australia's Paris commitments and delivers associated environmental benefits such as reducing deforestation.

### **A technology neutral approach**

The National Electricity Market in Australia is facing serious challenges owing to the removal of dispatchable generation capacity. Any policy approach should aim to reduce energy costs in Australia and retain a focus on securing a reliable, lowest-cost dispatchable energy supply that is available 24/7, while meeting emissions reduction targets. The MCA believes a technology neutral approach should be adopted for all low emissions energy sources where no one technology is favoured to the exclusion of others. High Efficiency, Low Emissions (HELE) coal technologies and nuclear energy should both be options for supplying electricity under Australia's future energy policies.

Advanced coal technologies like HELE are affordable, reliable, and can deliver significant CO<sub>2</sub> emissions reductions. HELE technologies can reduce CO<sub>2</sub> emission intensity by up to 40 per cent.<sup>72</sup> When fitted with carbon capture and storage (CCS) CO<sub>2</sub> reductions at HELE power stations can be up to 90 per cent.<sup>73</sup> For these reasons, countries that account for more than half the world's CO<sub>2</sub> emissions are using HELE technologies to meet their Paris Agreement targets while maintaining the affordability and reliability of their electricity mix. Given Australia's abundant coal resources and the competitive low costs of HELE technologies they 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 CO<sub>2</sub> emissions over its lifecycle. Modern small modular reactors 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.

<sup>72</sup> ACA Low Emissions Technologies (ACELET) assessment based on publicly available information on world power plant efficiency levels, July 2015. 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 CO<sub>2</sub> emissions by up to 50 per cent. See the Department of Resources, Energy and Tourism (as was), [A Cleaner Future For Power Stations](#), Interdepartmental Task Group Discussion Paper, 1 November 2010, p. 5.

<sup>73</sup> International Energy Agency, International Energy Agency, [Technology Roadmap High-Efficiency, Low-Emissions Coal-Fired Power Generation](#), Paris, originally published in 2012, updated March 2013, p. 19.