3 March 2023

Committee Secretary
Senate Select Committee on the Cost of Living
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By email: costofliving.sen@aph.gov.au

Dear Committee Secretary

The Minerals Council of Australia (MCA) welcomes the opportunity to provide a submission to the Senate Select Committee on the Cost of Living.

The MCA acknowledges that cost of living is a major concern for many Australians. The December quarter National Accounts show that the real disposable incomes of Australians fell 3.5 per cent over 2022. Higher taxes, increasing loan repayments and inflation are putting pressure on household budgets.

Government and the minerals industry must work together to ensure Australia has the right policy settings for the industry to be internationally competitive and continue its substantial contribution to the economy. The Australian Government must put business growth and investment at the centre of its policymaking, so Australians have the jobs and incomes to support their budgets now and longer term. Governments trying to provide cost of living assistance to households through measures that adversely impact businesses only put at risk the economic growth needed to protect households from economic shocks.

The importance of enabling businesses and households to respond to changing conditions

The large increase in inflation that people experienced over the past year was caused by the combination of constrained supply of goods and services and very strong demand. Some of the factors leading to imbalances in supply and demand were specific to Australia and others originated overseas. The Reserve Bank of Australia has found that at least half of the increase in inflation is being caused by supply-side factors.

The Australian economy has been working through the very large fiscal and monetary policy stimulus provided in response to the pandemic along with negative impacts from extreme weather events at a time of tight supply conditions. The major shock to global food and energy markets from Russia's invasion of Ukraine produced exceptionally high prices for commodities including natural gas and coal. Global supply chain bottlenecks are now being resolved and energy prices are declining towards their pre-invasion levels. Markets are doing what they do best – providing price signals to encourage changes in behaviour.

The lesson from previous economic disruptions and shocks is that an economy with a safety net to look after the most vulnerable and that allows businesses and households to adjust flexibly to changing circumstances, performs better than one that does not have these attributes. It is important that governments do not create policy settings that introduce rigidities and constraints that restrict the ability of businesses and consumers to respond to price signals and thereby scar the economy's performance longer-term.

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The Australian Government plays an important role in improving the economy's ability to cope with shocks by implementing policies to alleviate supply-side rigidities while complementing the actions of the Reserve Bank of Australia in carrying out the necessary monetary policy to fight inflation. Ensuring government policies and regulation support strong economic growth without fuelling inflation is fundamental to enabling businesses and households deal the best they can with rising costs.

A strong mining industry is critical for securing Australian's prosperity

Australia's standard of living will be largely determined by the performance of the mining sector for decades to come. It is crucial that policy settings ensure Australian mining can continue to deliver the strong economic performance and commitment to responsible social development and effective environmental management that will support the prosperity of current and future generations.

Over the last decade, the minerals industry contributed to $2.4 trillion in resources export revenue, $252 billion in mining wages, $143 billion in company taxes, $112 billion in royalties, and generated 21 per cent of the economy's growth. These contributions have helped governments pay for schools, hospitals and critical infrastructure, and provide vital services including mental health, aged care and childcare while also supporting the economic viability of communities across regional Australia. The industry's contribution to company taxes alone is equivalent to five years' spending on the National Disability Insurance Scheme.

The minerals industry's substantial contribution to the economy over the last decade is the result of $246 billion of investment in exploration, mining projects and sustaining capital that was made during the expansion of mining that began in the early 2000s. This reflects the years it takes for most mining projects to go from deposit discovery, obtaining approvals, securing finance, completing construction to producing the minerals that provide the jobs, incomes and activity that support households and businesses across the country.

The world must undergo an extraordinary deployment of clean energy technologies to achieve global net zero emissions by 2050, along with a massive increase in global production of the material inputs required to manufacture the necessary technologies and infrastructure. Global mining investment is expected to increase by US$100 billion annually from current levels to produce the mineral commodities required, which equates to about A$4 trillion of investment required between now and 2050.[1]

The economic opportunity this presents for Australia is significant and will depend on the share of investment the nation can attract to expand the capacity of existing mines, open new mines and expand downstream minerals processing and advanced manufacturing.

It is estimated that Australian households were $14,800 better off in 2020 owing to the expansion of mining. Put another way, Australia's economic growth would have been 13 per cent lower in 2020 – the first year of the COVID-19 pandemic – had there not been a permanent increase in the size of the mining industry from 2005.[2]

Policy setting must be as efficient and effective as possible

Deteriorating global and domestic conditions and a structural federal budget deficit that stretches well beyond the next decade present a difficult policy landscape for Australia. Efficient and effective policy settings are fundamental to enabling Australian industry, particularly mining, to unlock its full potential to drive capital investment and the productivity growth it can unleash that will deliver higher wages and incomes to Australian households. Policy settings must not impair the mining investment that is essential for the economy to deliver these outcomes.

However, the Australian mining industry is facing several significant challenges including:

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[1] S&PGlobal, Metal producers will need to double capex to meet net zero by 2050: BofA. 30 November 2020, viewed 29 September 2022.
[2] Centre for International Economics, *Estimating the economic benefits of mining expansion and further productivity reforms*, report prepared for the Minerals Council of Australia, Canberra, 31 May 2021, pp. 1f, 10fff.

- acute talent and skills shortages
- uncompetitive and rising costs of construction and operation, and
- higher taxes and more complex regulations than competitors in other countries.

Policies settings must address these challenges if Australia is to attract a greater share of international investment in the industry, which is crucial to realising the government's ambition of a 'future made in Australia'.

These challenges are occurring when Australia's attractiveness as a place to do business is no longer assured. Rising costs, declining productivity, and increasing policy risk are affecting investment decisions. Australia's vulnerability to competition from resource-rich economies is only growing as they seek to seize the opportunity to supply the minerals and metals needed to achieve global net-zero emissions.

Both federal and state governments must fully consider the consequences of their policies on the minerals industry to ensure its contribution remains strong. Policy settings that destroy mining's economic contribution will only result in lower wages, incomes and household consumption. New policies that impose unexpected costs and taxes on the industry undermine its ability to deliver the necessary economic growth to secure Australia's economic prosperity.

The industry is particularly concerned about the risk to capital investment and operations from changes that may be made in the key policy areas of climate change and energy, environmental approvals, workplace relations and tax.

Climate change and energy policies must put business front and centre in delivering emissions reductions and energy security while not compromising the economy. The Australian Government must ensure that changes to the safeguard mechanism put the country on a course to achieving its emissions reduction targets while maintaining the international competitiveness of industry.

Environmental policy changes must not impose greater costs on project proponents without improving environmental outcomes and considering the broader social and economic impacts. Large increases in fees, which could be many times the amounts currently paid, will significantly impair investment by small to mid-size companies, which include most critical mineral explorers, at a time where Australia's minerals can significantly contribute to net-zero emissions.

Workplace relations rules must not increase business costs while undermining conditions for improving productivity. For high-paying industries like mining, policy settings should make enterprise bargaining more attractive by improving its capacity to support real wages growth through productivity gains. The mining industry leads the nation in the range of agreement options used to drive productivity and incomes, with 99 per cent of mining workers earning above-award wages and conditions.

Tax settings must remain stable and internationally competitive to ensure adequate returns on investment. Mining investment and highly paid jobs should not be put at risk through any move to increase the already high tax burden on the industry. There should be no additional tax imposts or changes to long-standing tax policy, such as the fuel tax credit scheme, which is essential to competitive mining businesses, attracting investment in projects in mining and minerals processing and securing jobs in regional and remote Australia.

Growing the economy and wages by increasing capital investment must be a policy priority

Policy changes that result in higher costs to businesses jeopardise future investment and have a high risk of being ultimately passed on to consumers thereby worsening cost of living pressures.

Owing to the highly cyclical nature of commodity prices, attracting investment in in large, long-lasting, capital-intensive mining projects requires stable and internationally competitive policy settings. Knee-jerk policy responses by governments that impose unexpected costs and taxes on the industry threaten capital investment by increasing policy uncertainty and putting at risk perceptions of sovereign risk for investors and customers. Government must ensure policy settings do not destroy shareholder value or certainty of supply for customers if Australia is to secure large commitments of capital for projects, which ultimately provides substantial benefits to families and businesses in the regions.

Some recent examples illustrate the point. Last year's surprise decision by the Queensland Government to raise coal royalties was a contributing factor in BHP's recent decision to divest from two central Queensland coal mines. The Japanese Ambassador, Shingo Yamagami, strongly criticised the Queensland Government's decision on the grounds that it put investment in mining projects at risk. Poorly targeted interventions in the National Electricity Market to attempt to resolve structural issues such as the New South Wales coal reservation and price cap policy has also met with warnings about future investment from both coal producers and foreign customers.

Global commodity markets are highly competitive and there is strong international competition for investment in exploration, mine development and downstream processing facilities. Mineral provinces in other countries that offer high-grade deposits or lower construction costs, energy costs and taxes on projects are providing superior capital returns for investors. For example, building a lithium hydroxide processing plant costs between a quarter and half more than in South America and double to three times more than in China.[3] Furthermore, analysis commissioned by the MCA shows Australia's tax settings are not internationally competitive and the country faces strong competition from other mining jurisdictions in providing attractive tax and royalty rates on mining investment.[4]

Although several factors influence a mining company's allocation of scarce capital, policy settings are instrumental in decisions to commit to complex projects with high upfront costs, but long-lasting benefits. Australia has over 100 prospective mining and processing projects totalling about $50 billion of investment and potentially providing around 30,000 construction jobs and 20,000 operating jobs.[5] Whether these projects receive favourable final investment decisions depends on how policy settings affect their expected return on investment compared to opportunities in other mining countries.

International competition applies both between and within companies. When an Australian division of a global company makes the case for progressing a local mining project to its board, predicable and competitive policy settings are a major factor in assessing the risk profile of that project favourably against other investment opportunities in the company's international portfolio.

Australian mining has been crucial in making Australia a prosperous nation and supporting the economic wellbeing of people across the country. It will continue to do so with the right policy settings.

[redacted]

Yours sincerely

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TANIA CONSTABLE PSM
CHIEF EXECUTIVE OFFICER

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[3] P. Kerr and Thompson, B. PM's battery dream 'admirable' but unlikely: CEOs. Australian Financial Review, March 2, viewed 2 March 2023.
[4] P. Bazel and Mintz, J., Corporate tax reform to help address Australia's weak investment performance, Research report prepared for the Minerals Council of Australia, School of Public Policy, University of Calgary, 2022
[5] Minerals Council of Australia calculations based on Department of Industry, Science, Energy and Resources, *Resources and Energy Major Projects: 2022*, viewed 20 December 2022.