



Senate Economics References Committee

Inquiry into the development of bauxite resources near Aurukun in Cape York

February 2016



AMMA is Australia's national resource industry employer group, a unified voice driving effective workforce outcomes. Having actively served resource employers for more than 97 years, AMMA's membership spans the entire resource industry value chain: exploration, construction, commercial blasting, mining, hydrocarbons, maritime, smelting and refining, transport and energy, as well as suppliers to those industries.

AMMA works to ensure Australia's resource industry is an attractive and competitive place to invest and do business, employ people and contribute to our national well-being and living standards.

The resource industry is and will remain a major pillar of the national economy, and its success will be critical to what Australia can achieve as a society in the 21st Century and beyond.

The Australian resource industry currently directly generates over 8% of Australia's GDP. In 2014-15 the value of Australian resource exports were \$171.9 billion. This is projected to increase to \$256 billion in 2019-20. It is forecast that Australian resources will comprise the nation's top three exports by 2018-19. Over 50% of the value of all Australian exports are from the resource industry.

Australia is ranked number one in the world for iron ore, uranium, gold, zinc and nickel reserves, second for copper and bauxite reserves, fifth for thermal coal reserves, sixth for shale oil reserves and seventh for shale gas reserve.

AMMA members across the resource industry are responsible for significant level of employment in Australia. The resources extraction and services industry directly employs 219,800 people. Adding resource-related construction and manufacturing, the industry directly accounts for 4 per cent of total employment in Australia.

Considering the significant flow-on benefits of the sector, an estimated 10 per cent of our national workforce, or 1.1 million Australians, are employed as a result of the resource industry.

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AMMA SUBMISSION

1. AMMA welcomes the opportunity to provide this submission to the Senate Inquiry into bauxite resources near Aurukun in Cape York.
2. AMMA notes the terms of reference (ToR) to this inquiry are very broad. This submission is primarily directed to providing the Committee with general information to assist it in its consideration of the ToR, focusing on the regulatory processes for securing project approval.
3. AMMA has focused its submission on the benefits the resource sector creates for the wider community, including job creation, and on addressing regulatory processes for securing project approval. To the extent relevant, the committee should note that AMMA does not advance a position on who is or should be a preferred project proponent to develop the relevant resources near Aurukun.

Goals for resource policy and regulation

4. It is vitally important that Australia capitalises on viable opportunities to develop our resource deposits and turn these resource deposits into actual productive, sustainable mines. This will deliver the incomes, opportunities, jobs, taxation and royalties that resource developments create for the Australian community.
5. The role of our regulatory and political processes on the development of resource deposits is, at its core, threefold:
 - a. Facilitating investment into the Australian resource industry, and supporting new projects being developed, coming on line and starting to produce, export and earn incomes (and generate jobs). It is in the national interest that, subject to necessary appropriate controls and conditions, Australia grow our resource industry and grow our share of international resource exports through resource projects being approved and coming on line.
 - b. Regulating where necessary, ensuring that community and regulatory considerations are properly taken into account, and regulated on an ongoing basis, in accordance with the interests of the Australian community. This includes considerations such environmental, safety, native title and other regulatory matters.
 - c. Regulating intelligently, proportionately and effectively. This means ensuring that regulatory processes, including approvals are well understood, well communicated, practical, transparent, and navigable for applicants. Regulators have a duty to regulate according to best practice and in a manner that allows viable projects to come into operation in Australia.
6. To this we can add the importance of:
 - a. Consistency, predictability, and timeliness of approval decisions.

- b. Fairness, equity and objectivity from decision makers, and accountability for the quality of decisions and the conduct of decision making.
 - c. Open, consistent and transparent engagement by regulators with applicants and other relevant interests in approvals processes.
 - d. Flexibility (but not to the extent that it jeopardises or overrides fairness and the integrity of the process)
7. The entire end-to-end regulatory process that potential project proponents undertake, from being notified of an expression of interest through to being advised if they were successful in obtaining a Mineral Development Licence should deliver on these principles.
8. While legal and commercial in-confidence considerations can legitimately restrict some transparency between parties (and stakeholders), restrictive actions by any potential project proponent or other stakeholder can be problematic and can detract from positive outcomes and opportunities.
9. All stakeholders need to be engaged on an ongoing basis throughout the pathway to development (selection of the project proponent) and beyond.
10. If the best applicant based on the selection criteria is not awarded the mining lease rights, or stakeholder access and communication is unduly restricted to any of the key stakeholders at any stage, this may:
 - a. Create unnecessary and costly legal hurdles.
 - b. Delay the entire project or render it unviable.
 - c. Lead to a sub-optimum outcome in the development and realisation of the mine.

Opportunity for traditional owners and the wider community

11. The bauxite resources near Aurukun have the potential to deliver significant benefit to the Aurukun community, and the Queensland and Federal governments. This includes important benefits regularly prioritised by traditional owners such as:
 - a. Local Indigenous employment.
 - b. Education and training.
 - c. Community services.
 - d. Partnerships / Sponsorships.
 - e. Cultural heritage protocols and support.
12. There are also significant flow on benefits from ensuring resource deposits, such as those located near Aurukun in Cape York become realised resource projects.

13. Significant capital outlays are required to construct and maintain a producing mine, payable not only to staff but also to suppliers, contractors – and to those directly and indirectly involved in the mining industry. It is widely accepted that for every one person directly employed in the mining industry, there are three people indirectly employed.
14. The state and federal government also stand to gain royalties, taxes (company, payroll etc.) that help fund schools, hospitals and community infrastructure.
15. However, it is important to recognise that:
 - a. Australia is not the only country with bauxite resources.
 - b. The regulatory pathway a mining applicant must navigate in Queensland is complex, time consuming, costly and detracts from investor confidence.
16. With investment capital highly mobile, Queensland risks losing future investment and opportunities to other resource producing nations based on the complexity, complication, costs and regulatory deficiencies in processes for the approval of resource projects (see Attachment A).
17. Policymakers and regulators should be looking for opportunities to make Australia (and in this case Queensland) a more attractive and competitive place to invest and do business.
18. Given the very real challenging economic conditions and issues impacting on the Aurukun area, time is of the essence to generate economic opportunity for the Aurukun region.



ATTACHMENT A: BACKGROUND INFORMATION

Bauxite is a critical resource

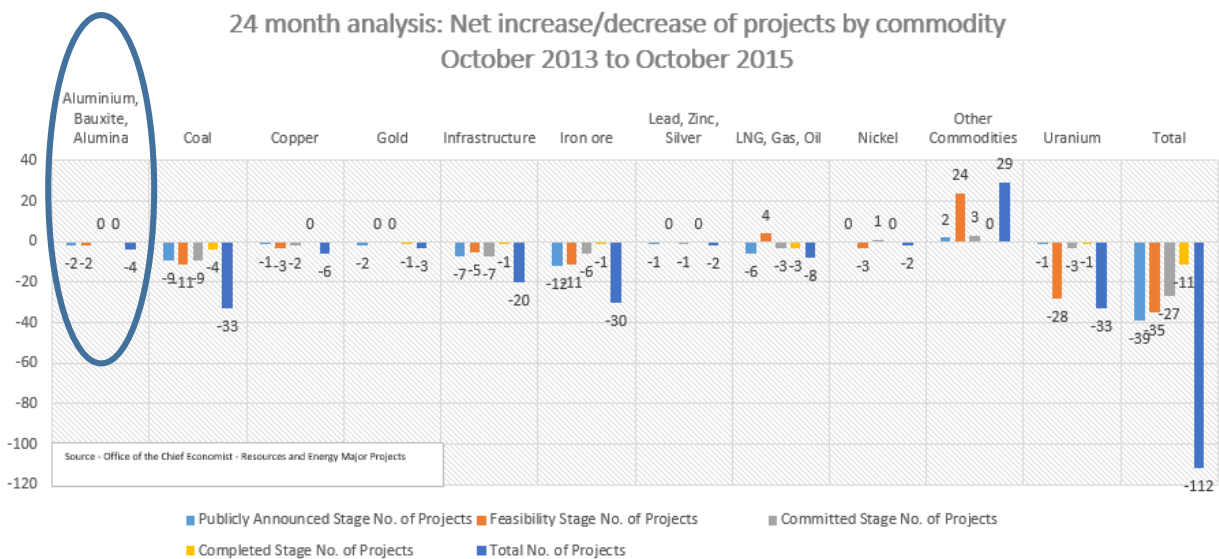
1. Australia holds the second highest bauxite reserves globally behind Guinea and is Australia is the world's largest producer of bauxite. A significant proportion of Australia's economically viable bauxite deposits are located in northern Queensland.
2. The majority of the world's bauxite is used to produce aluminium.
3. Commodities such as bauxite are thereby key ingredients to critical end-products required by governments, businesses and communities throughout the world.
4. For example, throughout the world transportation is considered a basic human right, and something governments provide, facilitate or allow.
5. One of the key uses of aluminium is in the production of various forms of transport; automobiles, aircraft, trucks, railway cars, marine vessels and bicycles.
6. For various essential end use products and services there is no substitute for aluminium. As a result, for many alumina refineries, and governments such as China, continuity of bauxite supply is of very significant importance.
7. Aluminium is critical to providing goods and services throughout the world, including making a critical contribution to development, health and living standards.
8. The essential nature of aluminium for human development should, along with other key criteria, be considered when assessing, selecting and granting mineral development licences and mining leases. It should also be considered by regulators at the state and commonwealth level.
9. Competition in the bauxite export market is extremely fierce. Prior to January 2014 when Indonesia's then President Yudhoyono authorised an export ban of bauxite, Indonesia was the largest exporter of bauxite. Australia has increased its exports as a result, however the notable rise in bauxite production and exports to Chinese alumina refineries has come from Malaysia. Again, any review of these developments needs to take into account international competition against possible Australian resource exports.

Performance of the bauxite market

10. The price of bauxite (Al: 48-50%,Si: 6-7%) Australia (USD/mt) is trading at two years lows at \$51.90¹ (on 8 Jan 2016).

¹ metal.com

11. The production of alumina consumes over 90% of the world's production of bauxite. The price of Alumina (Aust. spot fob) is trading at \$198.4/t² which is down from \$US354³ a year ago.
12. Most of the world's alumina is used to produce aluminium. The price of aluminium (11 Jan 2016) is trading at 67.0 ¢/lb⁴ which is down from 81.6 ¢/lb⁵ a year ago.
13. As bauxite, alumina and aluminium prices have been suppressed for a prolonged period of time, it has led to falling investment in bauxite projects. For example, over the last two years (Oct 13 to Oct 15) in Australia, the investment pipeline of major⁶ bauxite projects have fallen by at least AUD \$1.2 billion.



The Aurukun bauxite resource

14. The Aurukun bauxite resource has been explored for over 45 years, however the Aurukun deposit has never been developed into an actual bauxite producing mining operation.
15. The Aurukun deposit is estimated to be able to yield an internationally competitive bauxite grade and dependent on the production rate, is projected to provide decade(s) long life-of-mine, and thereby decade(s) of production, jobs and royalties were it to be developed. However:

² UBS

³ UBS

⁴ UBS

⁵ UBS

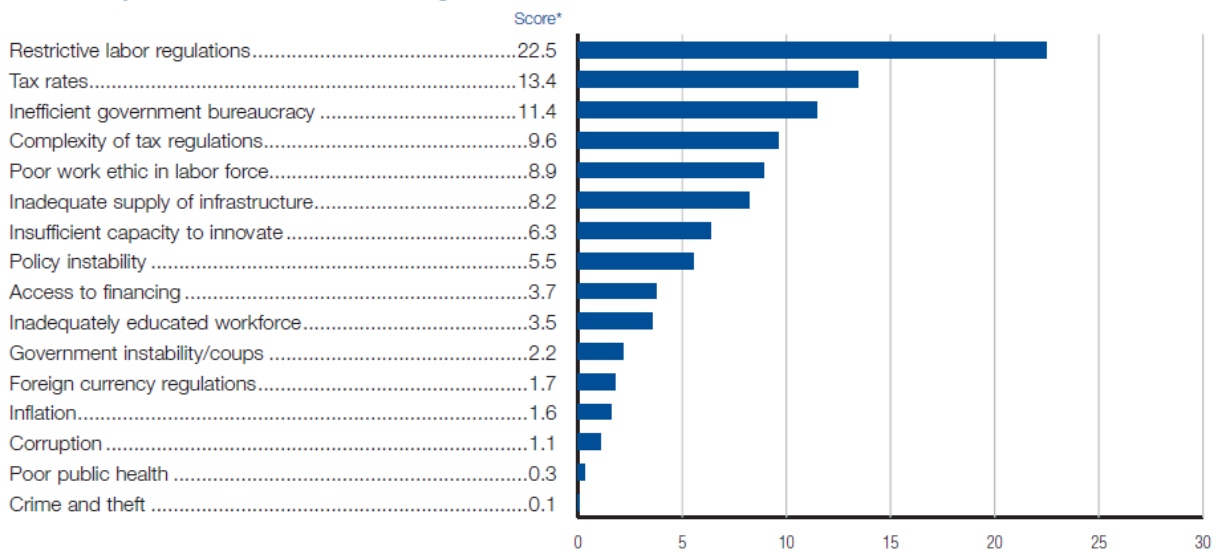
⁶ 'Major' investments that are greater than \$50 million.

- a. The grade of the Aurukun bauxite reserve is estimated to be inferior to those found at Weipa (grade deteriorates further south).
- b. The scale of any development/mine is estimated not to be at the same magnitude as the South of Embley project.

Australia/Queensland as a place to business

16. Investment in Australia's resource sector is impacted not only by the price of a given commodity but also by a range of other factors. AMMA notes for example, according to the most recent World Economic Forum's Global Competitiveness report, the most problematic factors for doing business in Australia are as follows⁷:

The most problematic factors for doing business



* From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

17. According to a Fraser Institute survey of international mining executives⁸:
- a. Queensland is regarded as an increasingly less favourable destination to invest (see table 1); and
 - b. Queensland government policies⁹ are regarded as less internationally competitive – which is a discouraging sign for domestic and foreign investment into the state (see table 2).
18. In short, Queensland's mining sector is becoming less internationally competitive as viewed by mining executives that control and/or influence the allocation of international mining investment capital.

⁷ http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf

⁸ Fraser Institute Annual Survey of Mining Companies: 2014 – Published 24 Feb 2015

⁹ A composite index that measures the effects of government policy on attitudes toward exploration investment

Table 1: Investment Attractiveness Index

		Score					Rank				
		2014	2013	2012/2013	2011/2012	2010/2011	2014	2013	2012/2013	2011/2012	2010/2011
Australia	New South Wales	58.9	63.0	52.1	58.3	60.2	51/122	39/112	50/96	47/93	45/79
	Northern Territory	68.5	74.7	68.7	72.4	68.1	51/122	17/112	22/96	21/93	29/79
	Queensland	71.5	73.5	68.3	71.0	69.2	27/122	21/112	23/96	23/93	26/79
	South Australia	75.1	73.8	71.6	77.4	74.0	10/122	20/112	17/96	12/93	18/79
	Tasmania	65.3	63.5	49.8	54.2	64.0	39/122	36/112	58/96	60/93	35/79
	Victoria	51.2	59.5	51.0	42.8	48.1	66/122	43/112	53/96	82/93	68/79
	Western Australia	82.0	85.3	78.0	82.6	80.2	5/122	1/112	4/96	5/93	7/79

Table 2: Policy Perception Index

		Score					Rank				
		2014	2013	2012/2013	2011/2012	2010/2011	2014	2013	2012/2013	2011/2012	2010/2011
Australia	New South Wales	67.00	64.68	56.36	62.44	68.17	31/122	39/112	44/96	32/93	20/79
	Northern Territory	69.21	81.84	68.52	81.54	62.18	28/122	13/112	22/96	11/93	27/79
	Queensland	66.13	74.34	62.83	65.51	52.77	33/122	24/112	32/96	28/93	38/79
	South Australia	76.00	82.02	75.46	75.29	75.04	10/122	11/112	20/96	19/93	11/79
	Tasmania	70.20	73.38	54.05	64.77	61.32	27/122	27/112	49/96	30/93	28/79
	Victoria	59.74	68.82	65.99	52.11	56.89	44/122	33/112	24/96	44/93	31/79
	Western Australia	84.91	90.31	79.32	81.48	70.63	10/122	6/112	15/96	12/93	17/79