

2 July 1999

Ms Fran Bailey MP  
Chair  
Standing Committee on Primary Industries and Regional Services  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Ms Bailey

**RE: STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL SERVICES *INQUIRY INTO INFRASTRUCTURE AND THE DEVELOPMENT OF AUSTRALIA'S REGIONAL AREAS***

The Minerals Council of Australia welcomes the opportunity to provide a letter to the Committee setting out some issues that may be of relevance to this Inquiry.

**The importance of the mining and minerals processing industry**

The Minerals Council represents companies responsible for around 90 per cent of Australia's mineral production. The industry is a significant contributor to Australia's economic and trade performance. The mining and minerals processing industry:

- directly contributes approximately \$36 billion to Australia's GDP and makes a large indirect contribution;
- directly exports \$30 billion of mineral resources commodities per year;
- accounts for around 240,000 jobs in Australia (directly and indirectly); and
- has directly represented 20 per cent of total business investment in Australia in recent years.

**The role of the mining and minerals processing industry in infrastructure development in Australia's regional areas**

The minerals industry frequently operates in remote and regional areas with poor transport,

communications, town and port facilities which must be upgraded, enhanced, or, more generally, built to maximise economies for the transport of mineral products. Such infrastructure costs can be as much as 50 per cent of the cost of developing a project. Industries operating near existing infrastructure services do not have to bear this significant cost impost. The exploration and development of the minerals industry has underpinned much of the infrastructure development in remote and regional Australia.

For example, the industry is the largest producer of electricity in Australia (outside of the electricity utilities themselves), is a significant user of rail services (both as a consumer of public rail services and as owner / operators of private rail services) and is a significant user of shipping and port facilities and services and associated infrastructure (such as channels and navigational aides). In addition, the 1,380 kilometre, \$400 million, Goldfields gas pipeline, that has transformed the outlook for Western Australian gas producers and large energy users and given Western Australia a more internationally competitive supply of energy, was built and initially operated by a joint venture involving three minerals companies.

Many remote and regional towns were originally developed by, or developed because of, the minerals industry. Many of Australia's major cities and regions, such as Broken Hill and Kalgoorlie, and in more recent times others such as Mount Isa, Roxby Downs, Karratha, Weipa, Gladstone, Newman and the Bowen Basin area have been established. In addition, many of the major ports for minerals exports (such as Port Hedland and Hay Point / Dalrymple Bay) are based in remote and regional areas.

Much of Australia's accumulation of physical and human capital has occurred as a result of developing and putting our natural resources to productive use. By using these resources productively in the future, Australia will continue to build infrastructure, develop its research capacity and enhance its skills. For example, over the ten years to 1997-98 Australia's mine production (which was already significant in the world context in 1987-88) has increased by over 70 per cent and smelting and refining production by about a fifth - and this will increase further with the expansions of Olympic Dam, Worsley, Wagerup, Tomago and Mount Isa smelters / refineries.

### **The importance of reform**

Australia is one of the world's principal producers and suppliers of ores, concentrates and refined metals with a modern and efficient processing sector.

This status, of course, has been hard-won.

Until recently many countries had mineral (including exploration) regimes that did not attract international investment. However, that is all changing and many of these countries, particularly in South America, Africa and Asia, are now actively competing for international participation in their minerals industries. As a result, the attractiveness of the Australian continent for world-class mineral deposit exploration has diminished in relative terms.

Clearly, to compete in the global market requires minerals companies to gain access to the best assets possible, whether in Australia or overseas. A study conducted in 1993 by Otto and Bakkar for the United Nations, surveyed 39 transnational mining companies to establish which factors

were taken into account in the investment decision-making process. The ranking of these factors for both the exploration and mining stages indicates that, with the exception of 'geological potential', all are associated with the regulatory system.

Government policy reforms that are directed at removing restrictions on competition in the supply of key inputs can do much to encourage the further development of Australia's minerals industry (and associated regional infrastructure development).

Sound macroeconomic management and a vigorous and continuous program of microeconomic reform are central to encouraging the further development of the minerals in Australia. The Australian minerals industry operates in a very competitive global market. Regulatory and / or institutional impediments to acquiring land, goods and services on at least as favourable terms as competitors limits the growth and development of the Australian industry. For example, transport (especially land and sea transport and the interface between these transport modes), energy and industrial relations reforms increase opportunities for further minerals processing in Australia by improving the economic viability of such activity.

Another important influence on decisions to undertake new development in Australia, and possibly in the continued commitment to current levels of activity, is the impact of regulation - including environmental regulation and land access regulation. With respect to environmental regulation, the Commonwealth Government has a key role in facilitating greater certainty and consistency of approach to environmental issues by reducing duplication and overlap between and within jurisdictions, improving the efficiency and timeliness of development approvals, improving the consistency of environmental standards, minimising distortions due to different approaches in different jurisdictions, reducing disputes between levels of government, facilitating the resolution of issues that cross State / Territory borders, and obtaining regionally appropriate but consistent outcomes.

With respect to land access, the progressive quarantining of land for mineral exploration through either restrictions on access or the prohibition of access is a major issue for greenfields mineral exploration (and therefore future development in the industry). A policy on multiple land use needs to be adopted. Such a policy should involve an evaluation of competing values for the land and where possible, mineral exploration should be permitted. In many circumstances, mineral exploration and development can proceed with competing land values under specific conditions. Native title and heritage values are issues that form part of a successful multiple land use approach.

A further key area of reform is the implementation of an efficient and competitive taxation regime. A competitive taxation system is one important factor that contributes to sustained economic prosperity in Australia. Australia is recognised as having one of the most complex and outdated tax regimes in the developed world. Australia's tax system impacts negatively on the minerals industry's competitiveness and risks deflecting potential investors who may be considering investing in large projects in regional Australia. The Council is therefore pleased that the Commonwealth Government has vigorously pursued tax reform in recent months. The tax reform package that has been negotiated and recently passed by the Parliament will put Australia's future prosperity on a stronger footing.

The remaining area of taxation reform is that of reform to Australia's business taxation system, currently under consideration by the Review of Business Taxation, chaired by Mr John Ralph, AO.

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Business taxation reform must result in the establishment of a more internationally competitive investment regime for minerals projects. Increasing globalisation means that the industry (and, therefore, funds for short- and long-term investment) will respond to project and market opportunities wherever they arise. In this context, it is crucial that Australia's investment regime is internationally competitive.

### **Further information**

Please find enclosed three documents that may be of some assistance to the Committee during its deliberations:

- the Council's submission to the Review of Business Taxation's Second Discussion Paper, *A Platform for Consultation*;
- *Value Adding by the Minerals Sector*, a paper prepared for the Council by the Centre for International Economics, and recently provided to the Standing Committee on Industry, Science and Resources as part of the *Inquiry into increasing value-adding to Australian raw materials*; and
- a four-page summary of the study *Minerals: Our Wealth Down Under*, prepared by Dr Andy Stoeckel, Executive Director of the Centre for International Economics. *Minerals: Our Wealth Down Under* was launched as part of Dr Stoeckel's keynote address to the 1999 Minerals Industry Seminar, held in Canberra on 2 June 1999.

The Minerals Council of Australia would be pleased to discuss any of the matters raised above with the Committee at an appropriate time.

Yours sincerely

R C WELLS  
EXECUTIVE DIRECTOR

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