2 June 2000

The Committee Secretary
House of Representatives Standing Committee
On Industry, Science and Resources
Suite R1-116
Parliament House
Canberra ACT 2600

Dear Paul

Inquiry into value added to Australian raw materials – industry case guidelines

Thank you for your letter of 10 April 2000 inviting a submission to the above Committee of Inquiry.

Incentives and Impediments to Investment

One of the most frustrating situations, which we view as a significant impediment to investment, is the available infrastructure, outside of the major capital cities, and between the states.

The key factors affecting our ability to carry out a definitive feasibility lie in the apparent inability of state development bodies to deal quickly with decisions on transport, energy and water. This situation is exacerbated by the inconsistent approach of the states.

Take for example the introduction of the national electricity code and systems. The introduction of this market model has had unfortunate side effects. Private companies have purchased state assets at excessive prices (in Victoria), public entities adopt theoretical models of free market operation independent of government (NSW), leasing of assets (South Australia), retention of public control and reversal of operational structures (Queensland) and exclusivity arrangements (Tasmania). Added to this are the extraordinary losses in trading.

It is now nigh on impossible to obtain an agreed price for electricity in any state, due to the nature of the trading and the pool operation and the desire of generators and distributors to recoup their losses.

The asking price for a megawatt hour of electricity, of a load such as our need, of 200MWh, can be anywhere between $30 MWh and $75MWh depending upon the location and source of supply.

The TUOS (transmission) and pool charges that are then loaded on top, as mandatory requirements of the NEM, render the price uncompetitive against global competitors.

These independent, or quasi government, entities have indicated that they are solely focused on return on investment and issues of social and community benefit, such as job creation, resulting infrastructure and multipliers for regional development are concerns of government and not within their ambit of consideration.

The operation of the electricity market is a form of roulette where the buyer is being asked to risk the possible enormous fluctuation of price. Electricity, which is vital to the current technologies of magnesium production, under these conditions, is a floating currency bomb of vague proportions.

It would seem logical that some mechanism could be inserted into this model to permit projects of national significance to have set price contracts initially that would enable major projects, such as magnesium production, to be launched and given a time period to become competitive.

Intellectual Property Rights

The Australian Patent registration body appears to have allowed registration of a `catch all' patent for Noranda (Canada) Magnesium, in relation to process flows for the extraction of Mg from serpentinite. This has had the effect of forcing companies such as Golden Triangle, into possible future patent disputes even though our technology developed in Australia may be "novel" in relation to our serpentinite deposits at Woodsreef NSW and the subsequent manner in which we produce our exportable products.

It is expected that Noranda will exercise their preemptory challenges as a result of the all - encompassing registration in Australia, as distinct to a more defined registration patent that was allowed in Europe, Canada and the Americas.

The secretive nature of the Australian, and for that matter global, proponents and manufacturers has acted against the market and the customers. For example, while the computer industry has tended to develop world standards upon which competing platforms are built – enabling volume and price – the magnesium industry has curtailed production against demand.

CSIRO, the Australian government owned laboratories, acting as a free market competitive science laboratory, applies its resources in exclusivity arrangements with companies such as QMC in Queensland, which is a competitor to Golden Triangle. But the size of the potential world market measured at between 2M and 5M tonnes would indicate that Australian science and manufacturing interests could co-operatively develop through joint ventures for the greater good of the nation.

National and International Marketing

Some of the commentary in the above intellectual property section has a bearing on how we, as Australian companies approach the global market. This is crucial because China is selling magnesium at substantial discounts, often below apparent costs of production. Their technologies are older, labour intensive processes. We, Australian manufacturers, would be offering quality and quantity at a price**.** However if we did this, as discrete companies, we would find our individual resources, and capacities, stretched dramatically. As a nation, we would be risking duplication of effort and counter productive outcomes.

Government Intervention

While we may assume that the manufacturers in China are subject to government control and that global free trade rhetoric is distinctly different from the actual action of international government, the role of some Australian state governments causes concern.

Golden Triangle had sizeable magnesium interests in Tasmania, but found that the government exercised a form of exclusive dealing with other interests and we were unable obtain clear answers on energy costs, infrastructure and other matters, to the point where it became inoperable.

In Victoria, while no apparent exclusive dealing appears the case the state is unable to move quickly on a solid plan due to the situation in which the privately owned generators of electricity now find themselves. In NSW, while many services are still under government ownership, the effects of economic policy and operation of entities acts against an ability to negotiate on an umbrella basis.

The theory, and practice, of facilitation of the parties by bodies such as departments of State and Regional Development, on the face, appears positive and supportive. However such a public service – whole of government mechanism relies more upon good luck and persuasion than a realistic way of getting a project from conceptualisation to fruition.

The parties involved, both private and government, necessary to bring major development to the regions, state and the nation, have competing business and political priorities and interests.

Other matters such as incompatible legislation affect the planning and economics. NSW EPA regulations do not distinguish between types of asbestos. Serpentinite is benign and relatively harmless and yet it is treated in the same regulatory framework as the more dangerous varieties.

Issues such as greenhouse are naturally of concern to resource companies such as our own. This is another reason for like industries, and CSIRO, developing common approaches and technologies that focus on the external impacts of our mutual production.

The Location of Value Adding Industries

If a company is lucky enough to have its resources and operations in or near a capital city then the access to necessary infrastructure is far more simple. But if, like Golden Triangle, the resources lies in a regional area such as Woodsreef (Barraba NSW) or in north western Tasmania, then the logistics and the impediments are far greater.

It would seem logical, looking in from the outside, that some projects such as a magnesium refinery, would act as a catalyst for regional development and growth. However, the reticence and apparent inability of state and federal governments to provide seed funding to these communities for vital services – energy, water, natural gas and transport - does not encourage these kinds of developments.

For example – in return for an expenditure of between $200M and $350M the government and community would receive a 20 – 50 year life industry, delivering 1,000 – 1,600 jobs at construction, 350 permanent multidisciplinary jobs, training and education and apprenticeships and infrastructure that would attract down stream, value added industries. The local injection into the economy would be between $20M and $30M per annum and into the nation - $330M of exports.

This represents an expenditure of between $3,200 and $7,200 per person per year, recoverable through taxation multiplier and earning effects.

The Value Added Industries

Associated with the production of magnesium ingots is the need for alloying with aluminium, a metal production already established in Australia, including in New South Wales. The down stream activities of die casting and component manufacture from the magnesium alloys for the automotive industry provides a major new potential for global scale sales and marketing scope. This opportunity should be grasped now to provide a dramatic increase in the export revenues from those for magnesium ingots to those for component parts, while at the same time providing flow-on effects through additional job opportunities, etc.

Vertical Integration

While the restructure of state ultilities may have released the inertia providing lower electricity prices in the short term, the disaggregation of the verrtically integrated entities, who had, in the past, operated as generators and transmitters of energy, has acted against the development of major industries. We are unable to reach agreements in the vital inputs we describe above.

The Australian Skills Base

The specific technologies, especially research and test plant facilities, relating to magnesium generally in the nation are not evident in our Australian workforce and these will have to be instilled. While individual companies may be developing these skills now there is not a broader transfer of such skill across the nation.

Again this relates to the disparity in opportunity between the major metropolitan areas and regional Australia.

Investment Issues

Australia, as nation of investors, is risk averse. The Australian financial system, structure, size and affects of government process and regulation stifle the venture capital market development and in flow of capital. Banks are more focused on domestic issues and a loan mentality than they are on developing longer - term investment in the nation. Similarly superannuation funds are not geared to these markets. There is little incentive to engage in capital intensive investment, where returns come after many years, as against playing the stock and money markets with the same capital.

There is no distinction by governments in investment decisions between metropolitan and regional Australia where the latter investment requires greater capital and operational resources. The sheer effort of time, planning, cost and political machinations in attempting to develop in regional Australia can often be a disincentive.

Conclusion

The beginnings of a new industry based on the metal of the 21st Century, magnesium, should be grasped by all concerned, across the spectrum of public and private enterprise, which the entrepreneurial character of Australians has demonstrated on so many occasions, but sadly has let slip on so many of those occasions.

Chris Laughton
General Manager
GoldenTriangle Resources