



16 October 2013

James Hawthorn,
Office of Senator The Hon Ian Macdonald
131 Denham Street
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Dear Mr Hawthorn,

MMG'S SUBMISSION TO COALITION'S 2030 VISION FOR DEVELOPING NORTHERN AUSTRALIA

I am writing in regards to the Coalition's green paper outlining its *2030 Vision for Developing Northern Australia* (referred to here as 'the paper').

Headquartered in Melbourne, MMG Limited is an international resources company which explores, develops and mines base and precious metals around the world.

MMG has an active presence in Northern Australia. In north-west Queensland, we own and operate Australia's largest zinc mine, Century and are also developing the long-life Dugald River ore body. Exploration activity is also being conducted with joint venture partners in the Northern Territory.

We appreciate the opportunity to comment on this paper. In doing so, we draw on our active presence (mining, processing, shipping and exploration) in Northern Australia, the unique challenges faced by our operations and perspective as a global mining company.

Of particular interest to MMG is the paper's recognition of the tremendous potential, under the right policy settings, for Northern Australia to fuel and sustain national growth. This is possible through significant expansion of the region's energy and resources industry and leveraging its close proximity to the booming economies of South East Asia.

Exploration activities

The north-west Queensland mining industry is largely the product of exploration in the early 1990s and development activities completed in the early 2000s. The ore bodies on which these operations are based, such as Century, Cannington, Ernest Henry and Osbourne, are expected to be depleted between 2015 and 2025.

To maintain its position in the world base metals market, substantial exploration and further development of the region is required in the near term. For this to occur, it is critical that a regulatory and economic environment which encourages private investment is established.

Energy and water provision

It is without question that the ongoing development of north-west Queensland, and more broadly Northern Australia, depends on the availability of secure, cost-effective gas, power and water supply.

MMG's Century mine provides a telling case study of the current and potential impact of uncertainty surrounding the availability of secure, cost-effective domestic gas and power supply on industry and future private investment.

In addition to cost increases over recent years, from 2016 Century power costs will rise by a further 27% annually. This is largely due to only a single vendor (Origin Energy) tendering for a new three-year gas supply contract (Santos declined to tender). Century has also begun supplementing its existing Santos gas supply with Origin gas, which will lead to further cost increases up to 2016.

Some analysts estimate the replacement value of MMG's infrastructure associated with Century open pit production as more than A\$2.5 billion. However, supply uncertainty and significant cost rises for energy from 2016 are likely to significantly impact on the viability of options to further utilise this infrastructure post-Century open pit production. They also place a substantial strain on existing operations. Few businesses could withstand such an increase.

Current indications are that south-west Queensland gas production will be increasingly allocated to building south-east Queensland LNG plants, leading to potential reduction in gas flowing to Northern Australia and in particular North West Queensland.

Significant potential shale gas resources underlie Northern Australia, and preliminary exploration activities have commenced in North West Queensland. Partnerships between governments, industry, investors to utilise these resources in a cost-effective, timely manner could act as a platform for unlocking the vast potential of region.

Security of water supply should also be considered when examining constraints to development of Northern Australia. In our experience, while north-west Queensland receives adequate rainfall during the monsoon, water storage capacity is limited to small to medium sized legacy dams built to support past mining development. As legacies of a previous era, these dams are now often located too far from new areas of development and further constrained by limited distribution networks.

Northern Australia Strategic Partnership

MMG believes strongly in the importance of the business and community sectors working collaboratively with government to maximise private investment and create opportunities for local communities to participate and benefit from growth.

MMG actively participates in industry and regional development organisations such as the Minerals Council of Australia (MCA), Queensland Resources Council (QRC), the Mount Isa – Townsville Economic Zone (MITEZ) and Gulf Savannah Development (GSD).

MMG is also an industry representative on the Mount Isa Townsville Economic Zone's (MITEZ) Carpentaria Minerals Province Study Stage 2. The study, which is being overseen by a multi-stakeholder working group, aims to propose practical solutions to unlock the region's untapped minerals resources.

Accordingly, we welcome the Coalition's interest in working closely with industry as well as other stakeholders through partnerships and working groups.

Population growth

Our experience at Century is perhaps indicative of some of the challenges to encouraging and sustaining population growth across Northern Australia.

Century's Lawn Hill site is too remote for a residential workforce to be feasible. However, to support the employment of local people and encourage employees to stay in the region, MMG operates commute flights between the mine and the Gulf communities of Burketown, Doomadgee, Karumba, Normanton and Mornington Island. Century also provides incentives, including access to a number of MMG-owned rental properties, power subsidies and financial support for the children of employees to attend boarding school, for employees working at its Karumba Port.

MMG's experience is that over time locally-based employees choose to relocate to Townsville, Cairns and other coastal centres. Reasons for these decisions vary, but are commonly based around policy and social settings such as their desire to purchase their own home and to access a broader range of educational and medical facilities.

This experience indicates that, while tax and other incentives may impact decisions, access to housing, education and medical facilities are key considerations when a person determines a home town for themselves and their family.

Encouragement of investment by South East Asian neighbours

MMG welcomes the proposal to further leverage the region's proximity to Asia to encourage long-term investment and expand markets for Australian commodities.

We believe that MMG is an example of how Australia can benefit from investment by our Asian neighbours. MMG strikes a unique balance: we are listed on the Hong Kong Stock Exchange (HKEx) with China Minmetals Corporation as our majority shareholder while maintaining our headquarters in Melbourne.

Since the formation of the company in 2009 following the acquisition of a number of OZ Minerals assets, MMG committed to implementing Australian standards for safety, health, environmental and community management across the business. It has also since worked to strengthen its SHEC performance through alignment with International Council of Mining and Metals (ICMM) standards.

The Company is also undertaking a review to ensure it maximises the value of its Dugald River project, with a view of developing the ore body in a way that delivers long-term, sustainable benefit. This investment has been made possible by our major shareholder's long term investment view.

In 2012, MMG committed to fund an independent three-year study by the Australian National University's (ANU) Crawford School of Public Policy into the opportunities, challenges and other considerations associated with Chinese Foreign Direct Investment (FDI). The study will provide independent data and information to inform public debate regarding Chinese FDI.

Indigenous Affairs

While this aspect is not explicitly prefaced in the paper, MMG advocate strong, mutually-beneficial partnerships between Traditional Owners of Country and private companies to ensure ongoing investment across Northern Australia and enable some of Australia's most disadvantaged communities to benefit from this investment.

The Native Title Agreement under which Century operates was one of the first of its kind. The training and employment opportunities provided throughout the life of mine are substantial as well as funding (about \$1.2 million annually) for the establishment of local Indigenous businesses. The aim is to create change through participation in the mine's operations, rather than simply providing compensation and other payments.

However, in our experience, too often opportunities to participate in private industry are impacted by complications with low literacy and numeracy levels, poor health or issues with drugs, alcohol or violence.

Governance improvements within Native Title organisations are also key to ensuring that Traditional Owners can participate and benefit from development. To assist, MMG funds a number of governance committees beyond its obligations within the agreement to ensure effective management of aspects including environmental management, cultural heritage and financial benefits to Native Title groups.

MMG understands that government is not the only solution to these issues. The broader community, including industry, must work together to empower individuals. For example, Century has a team of mentors to support its young Indigenous trainees and apprentices. In addition, through a funding arrangement with the Queensland Government, young Indigenous trainees and apprentices participate in an off-site 15-week pre-vocational course to prepare them for the workforce.

However, it is essential that policy settings support the achievement of a basic education and life skills, good health and safe families and communities.

Summary

MMG appreciates the opportunity to provide its unique perspective of opportunities and factors for consideration in relation to the development of Northern Australia.

Please do not hesitate to contact Executive General Manager Stakeholder & Investor Relations Troy Hey at troy.hey@mmg.com (mobile 0409 709 126) or myself if you would like more information or to discuss any part of our submission.

Kind regards,

Mark Adams

General Manager Queensland Operations