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RE: INQUIRY INTO INCREASING VALUE-ADDING TO AUSTRALIA'S RAW MATERIALS

Thank you for the letter of 26 May 1999 from Committee Secretary, Mr Paul McMahon, notifying the Minerals Council of Australia of this Inquiry and inviting us to prepare a submission.

As a contribution to the first stage of the Inquiry, which is to focus on an evaluation of the current state of value adding in Australia, the Council is pleased to provide to you the attached paper. The paper, entitled Value *Adding in the Minerals Sector,* was prepared for the Council by the Centre for International Economics.

Some of the key messages of this paper are:

- The idea of adding more value to our minerals and agricultural products by further processing is often advanced. Value adding is seen as a way of. increasing employment through jobs in processing; improving our net export performance **-** through exporting "higher value" products; reducing Australia's exposure to price fluctuations for raw materials; and improving regional or national income.
- While such objectives appear attractive, there are some traps. To avoid the traps, the concept of value adding and how more value adding should be brought about need to be clearly understood.
- Raising the value of a product through further processing is <u>not</u> synonymous with increasing value added. It is the <u>net,</u> not the gross, value of the output that reflects actual value added.
- Mining is already a very high value added industry.
- "Value adding" is a subtle concept. Decisions to encourage and undertake further value adding must be taken in a manner that ensures they do not subtract value from the total economy by diverting resources from where they could be most efficiently and effectively used.
- Sound macroeconomic management and a vigorous and continuous program of microeconomic reform is the key to encouraging further processing of minerals in Australia. For example, tariff reforms, both at home and abroad, and transport, energy and industrial relations reforms, increase opportunities for further processing in Australia by improving the economic viability of such activity which is inherently risky given the high volatility of prices of refined metals. For such processing to maximise national income, it must not detract from the performance of other sectors.

Another important influence on decisions to undertake new downstream processing investment in Australia, and possibly in the continued commitment to current levels of activity, is the impact of regulation **-** including environmental regulation. Such regulation should not impose unnecessary cost, time and administrative burdens. The mining and minerals processing industry therefore welcomes initiatives designed to improve the efficiency of environmental and other regulations. For example, in its draft report *Impact of Competition Policy Reforms on Rural and Regional Australia,* the Productivity Commission notes the phased and still incomplete deregulation of the gas market in Western Australia has seen gas prices for large industrial users **-** particularly in the Goldfields region **-** fall by more than 50 per cent.

The Commission notes this has been a catalyst for several major investments, notably the construction of the Pilbara-Goldfields gas pipeline. The pipeline passes through some of Western Australia's most significant mineral production areas. Mines and processing plants in these areas previously generated power on-site using diesel generators. Access to cheaper energy has cut production costs and has been credited by businesses as providing a stimulus to new investment. Importantly, the Commission notes cheaper energy may also help Western Australia to develop major downstream processing industries - industries that were previously deterred by relatively high energy costs.

The Council will endeavour to prepare a further submission to the Inquiry and would welcome an opportunity to meet with the Committee at an appropriate time.

R C Wells
EXECUTIVE DIRECTOR