

The mining boom is not over:

Capturing the next wave of global resource investment



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WHILE THE RESOURCE SECTOR'S INSATIABLE COMMODITY PRICE BOOM MAY BE OVER, THE "MINING BOOM" IS NOT. THE RESOURCE SECTOR IS CYCLICAL, AND A NEW WAVE OF RESOURCE ACTIVITY IS ON THE HORIZON. HOWEVER AUSTRALIA AND AUSTRALIAN RESOURCE ORGANISATIONS NEED TO PREPARE AND SUCCESSFULLY POSITION, AND TRANSITION, IF WE ARE TO MAINTAIN OR GROW OUR MARKET SHARE, WEALTH AND THE LIVING STANDARDS WE HAVE BECOME ACCUSTOMED TO.

Resource companies typically invest in long-life, low cost, multi-million/billion dollar projects. It is not unusual for resource companies to have long-life project strategies that project out 10, 20, 30, 40 and 50+ years. So in reality, many resource companies are preparing for 2065 not 2030. This should make analysing the resource industry in 15 years' time relatively simple, however this is far from the case.

In 2015, global resource markets are highly volatile and uncertain. The Australian resource industry is incredibly fragile at the moment, exposed to commodity price fluctuations, geopolitical events impacting on prices and certainty, and growing pressures for investors to diversify away from resource stocks.

While Australian production is set to increase based on investment decisions taken five or more years ago, there is as yet no pipeline of new major global resource investments coming to this country.

By 2030, Australia has an opportunity to become the world's resource exporter of choice and the premier resource nation in which to invest, do business and create jobs:

- 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 reserves.
- Iron ore is our most important commodity. By 2017 Australia is forecast to be the world's largest coal exporter and by 2020, Australia is forecast to be the world's largest exporter of LNG.

- The quality of Australian commodity exports is generally very high.
- We are well situated to service growing Asian markets.

Countering the positives are the challenges Australia faces in becoming the world's leading resource exporter:

- Australia is a high cost country, particularly labour costs. Wages in resource construction have increased 2.5 times faster than the national average.
- Resource production costs can be up to 50% higher in Australia.
- Since 2001, Australia's resource gross value added multifactor productivity has fallen by more than 46%.
- Australia's workplace relations system is less attractive to investors than those of other OECD countries.
- Global competition has ramped up to record highs, following new and expanding operations constructed in times of boom commodity prices.
- Australia has higher mineral rents than competing nations Canada, US and NZ.
- Australia has longer approval time for major resource developments than Canada, the UK, or NZ.
- Environmental approval times are uncompetitive. They can take up to two years to produce and 18 months to assess.

So, how can Australia capture the next wave of global resource investment?

Australia needs to critically assess itself against competing resource economies and pursue reforms that give our industry a fighting chance. We need to ensure we do not rely solely on our natural resources, but also on our success in extracting and exporting them competitively.

We need to understand and exploit opportunities where we have a potential international competitive advantage, and repair uncompetitive and costly policies and structures that are driving inefficiencies. For example, Australia needs to provide:

- Genuine effective incentives for research and development.
- Competitive incentives and concessions for resource exploration.

- Globally competitive tax and royalty obligations.
- Simpler and faster asset depreciation rates.
- Reduced red-tape and compliance burdens.
- Genuine reform of our workplace relations system; to better encourage employment and investment.
- "One-stop-shops" for resource project approvals (including environmental approvals).
- Improved incentives and reduced red-tape restricting workforce mobility.
- The skills and qualifications required for the resource jobs of the future.

Australia also has an opportunity to become a global powerhouse as the home for new multinational resource companies, building on the existing success of our resource companies as international investors, partners and operators.

With the right policy settings, Australia could house the head offices of more than our share of the world's major diversified multinational resource companies by 2030, not only producing in Australia but injecting billions of dollars of incomes from international operations into our economy.

One thing that we can guarantee over the next 15 years, will be the rapid application, sophistication and deployment of emerging technologies in the resource industry. Transitioning to a technology-enabled industry will fundamentally affect the way we work, the labour intensity of resource work, and companies bottom lines. This is set to encompass:

- A global shift towards the use of remote operations centres and monitoring centres.
- Evolving mineral extraction techniques, including liquid rock, increased use of chemical energy (explosives) rather than mechanical energy for breaking rock, and new tunnel boring technologies.
- Advancements in robotics and mechatronics that will increase the use of autonomous and remote controlled equipment such as mining trucks, bulldozers, drills, shovels.
- Increased use of drone technology.

- Further development of cleaner high efficiency low emission technologies.
- Advanced oil and gas drilling technologies and methods.

These technological gains could be "game changers" for the resource industry. Those able to extract the most optimal use will have the most advantageous improvements in organisational productivity and competitiveness, while achieving lower all-in-costs (including cash costs) per unit produced and a better safety record.

Given Australia's reliance on the resource sector, and given that Australians are intuitive, diverse, creative, technologically advanced and hard-working, we should be at the forefront of research, development and usage of new techniques to drive labour and capital efficacy in our resource projects.

A potentially emotive but essential debate that must take place is on the mining of uranium and nuclear energy. The debate needs to respect the facts that:

- Australia's uranium is sold strictly for power generation.
- Australia is a party to the Nuclear Non-Proliferation Treaty as a non-nuclear weapons state.
- Uranium is vital to a clean energy future (emits relatively low amounts of carbon dioxide), is powerful, efficient, reliable, cheap and is easily transportable.

Australia needs to consider how exporting our uranium (U_3O_8) and using it to generate power could benefit all Australians. It would be anomalous to say the least if by 2030, a country with 30% of the world's uranium had chosen to divorce itself from a key energy source of the future.

The Australian Mines and Metals Association (AMMA) is Australia's largest national resource industry employer group. For more information, visit: www.amma.org.au.