

## **GETTING THE BEST FROM A RESOURCES CHAMPION**

**Any football club knows how important it is to get the best performance for as long as possible from its star players. Not all clubs are fortunate enough or smart enough to have the opportunity.**

**Clubs are increasingly aware of the responsibility for their stars to behave such as to bring credit, rather than infamy to their team and their club. Champions do not have to be loved or heroic, but they do need respect.**

**At this time of exceptional growth to our north, the Australian minerals and energy industry is our economic champion, both to our club (the nation) and to our customers, who can be fickle fans. The commodities game we play has undergone some big changes. A decade ago, it was old hat, now everyone wants to play and win.**

**Overseas, our industry is envied and admired as number one in its field of mining, for its resource endowment but also for its pre-eminent technology ;we are good at it, not just lucky. At home we are regarded more like a Collingwood, but that is not new. More disturbingly, the club is blaming the champion for the poor performance of the rest of the team and working on changing the rules and spreading the gate takings around.**

**Surely it is the responsibility of the club to show its clear pride in its champions and explain their strengths, whilst coaching them on their weaknesses. It is the responsibility of the star to lead by good example in the public arena. In SA, the club; ie the Government (and the Opposition) have gotten behind the star and openly stated that they are pro mining, albeit conditionally on his good social and environmental behaviour.**

**In Canberra, the Federal League does not always project such clear support and the Green subcommittee is invariably anti mining. Disturbingly, there is a conscious move to divide the two stars of regional Australia; mining and agriculture.**

**Against this background it is vital that the industry clearly communicates the score in terms of taxes paid, direct and indirect jobs created, etc. The industry must also reform or disown its own cowboys and put forward credible and attractive personalities as advocates.**

**Many strive for stardom, but there is a high risk of failure. In mining most do not get past the exploration stage and when they do, they face the initial hurdle of funding highly capital intensive and lengthy start ups, against an uncertain future. Unpredictable prices and markets and technical challenges can convert many a try into a failure, just as an injury cuts short the career of the greatest football champion.**

**But let me mercifully drop the football analogies, although there is much to crow about in South Australia. We have some great geology, there is a lot of it and a blanket of cover has hidden it for eons. It contains one of nature's super orebodies at Olympic Dam and the probability of that supporting a massive expansion by BHPBilliton to become one of the planet's largest and most enduring mining operations – a veritable second Broken Hill.**

**We have a record of large minerals processing enterprise, as at Whyalla and Port Pirie. Copper has saved the state more than once. Population density is low; we have a lot of outback. Our commodities are varied and do not rely on a single market, like coal. The “Mines Department” of South Australia, now linked with manufacturing in DMITRE is second to none and ranked best in the world for geosciences delivery. Land access is relatively good and we have some first rate technological service, support and research capability right here in Adelaide.**

**Capping these advantages is the recognition and backing of Government for this industry, and a history of bilateral support. Only months ago, we saw the signing of a long term State Indenture Agreement for the expansion of Olympic Dam, incorporating some tricky issues for the State and the company. These include balancing the cash flow implications of years of billion dollar spends before the new ore is accessed with the need for benefits from the operation to be extended into the wider community. The longer term challenge is to use the opportunity to build new industries, just as Broken Hill did in the last two**

centuries. These are questions the Economic Development Board is currently pondering.

What could possibly go wrong to blight this happy picture? Perhaps the greatest potential retarders to the pace of development are the availability of bulk port facilities and of affordable power and skilled personnel. These are not issues that government alone can solve, but can lead and lever.

Energy costs are a real issue for value adding. Complex electricity grids, export dominated gas prices and intermittent, subsidised renewables, standby generators and a carbon tax are a heady cocktail. Researching economically feasible storage for the State's abundant intermittent wind resources has a big payoff for South Australia in particular, as our Chief Scientist is telling us. Getting our abundant geothermal resources past the proof of concept stage is also very worthwhile, as it is a genuine competitive advantage, albeit one requiring lots of cash and the operational expertise normally the preserve of the oil and gas industry.

Land access is not getting any easier, although processes for all stakeholders are generally superior here than in other jurisdictions, as backed up by the Fraser Institute. Government is acting to produce win-win outcomes on some discord over Native Title and Aboriginal Heritage.

**On the environment and conservation side, we have seen a unilateral exclusion of the Arkaroola area from mining and exploration and in the light of overwhelming public opinion, and a settlement involving compensation to Marathon Resources, the tenement holder. This has not helped to build confidence in the exploration sector, but the impact is likely to be short lived.**

**There are a few key lessons to emerge from this issue. For companies, it is to think long and hard about tilting their lance (or drill rig) at the few real conservation icons and, if they are so bold to ensure that their activities are outstandingly compliant and even benevolent.**

**For government, it is perhaps to move more rapidly in such cases using existing process and if it is necessary to use special decrees, to very clearly confine this to the specific case and not create an unintended precedent. A particular in principle risk is the conferral of implied formal status to self proclaimed sanctuaries.**

**On a national basis centred around coal seam gas exploration and extraction, the concept of the holders of surface rights having de facto veto over or even ownership of subsurface resources is a threat to a well tried system that has allowed Australia to simultaneously develop its agricultural and mining industries under Crown ownership through the States. The minerals industry will only maintain its access by excellence of its operators in the field and science-based assessment and regulation by governments.**

**Against all these criteria, we find in South Australia a system and ethos that is supportive of our industry, but as previously alluded, there are some worrying and perverse trends in attitudes to mining in the country generally - and these are not being helped by the national government. Fundamentally, there is a lack of understanding that the underlying characteristics of the resources business are high risk, high capital investment and low certainty. Returns have previously been modest for decades, but the current success of the mining industry has made it much more visible to the community and governments.**

**The success of this industry and its underwriting of our trade balance is contrasted with the difficulties of other sectors, with an implication that they are inversely linked, principally by way of the high Australian dollar. High employment and remuneration of skilled people in mining is seen as driving up costs in other sectors. Food production is seen as threatened by coal seam gas operations damaging aquifers and foreign ownership as threatening our sovereignty. FIFO is considered socially destructive (despite being what most employees want) and we are branded as a major driver of global warming through coal mining and exports.**

**Worse than this, the industry has been successfully and inaccurately depicted as not paying its taxes and being dominated by a few billionaires, who have now become the public faces of mining. We badly need some real facts and some new faces! We are also going to get a Resources Rent tax, essentially a real super profits tax this time and pitched at bulk commodities (coal and iron ore), where there is little value added. Many in the industry think**

**this is reasonable, in contrast to the first “co-ownership” version of the tax, with its major sovereign risk implications. The community thinks it is justifiable, but is anxious to see the revenue raised preserved, rather used for recurrent expenditure. Indeed, the new tax revenue is going to be intermittent, while the social demands for expenditure will vary only by constantly rising.**

**As the Federal Budget approaches we are hearing that two important financial measures for the mining industry may be reversed; accelerated depreciation and the diesel rebate. Both are described as “subsidies”, although they address fundamental needs of the industry. The large sums and long periods of negative cash flow for large projects mean that rapid write offs are frequently essential to bring returns forward when they finally do flow.**

**The diesel rebate is the return of a tax collected from primary producers, which was intended for the transport industry, as users of roads and other infrastructure. Farmers and miners use the fuel in their on site businesses. In the case of mining, much of the diesel is used in removing overburden and waste to get at the orebody and the rebate is important in reducing pre-revenue costs.**

**Changes such as these can, often unintentionally, impede projects going forward in Australia, and importantly in this state at this time. We can see that competitors, such as Mongolia and in Africa will increasingly challenge us in supplying commodities markets, such as copper and iron ore.**

**In the USA, we have seen technology turn around very rapidly the cost of energy, through the breakthrough with shale gas extraction. Such changes are difficult to predict, let alone control, so those factors that we can control, like regulation should be approached with caution.**

**My message is simple: governments should get the best from their champion industry performers such as mining and processing and encourage them to continue and improve into the future and to pass on their winning ways to others. Damaging their regulatory basis for success will not help other sectors, like manufacturing, which actually have much to gain by linking themselves to the mining engine. The Federal Government could do well by emulating the overt, albeit conditional support for the mining industry evident in South Australia.**

**But that support by government and community has to be earned by good corporate citizenship and communicated effectively by the industry. A true champion is always gracious.**

**Dr Ian Gould**

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