



# MINERALS COUNCIL OF AUSTRALIA

## PRE-BUDGET SUBMISSION 2020-21

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JANUARY 2020

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## 1. EXECUTIVE SUMMARY

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Australian mining is part of the identity of Australian communities and regions. It contributes to national economic strength and to local commerce and employment. It is a responsive and responsible neighbour, particularly during times of challenge.

Mining provides an economic bedrock for the Australian Government to meet its immediate and long-term challenges. The priorities of the 2020-21 budget should be to maintain the stable policy settings that underpin mining's considerable contribution today, support investment (including in skills) as the best path to support its contribution in future, and promote a partnership that deliver long term community and environmental benefits.

Australian mining today contributes record exports of \$273 billion, the highest wages in Australia with an average of \$141,000 a year, ongoing supply chain opportunities in regional areas, leading edge innovation, respectful engagement with Traditional Owners and significant tax and royalties contributions of \$31 billion annually to underpin national prosperity and vibrant regional communities.

Mining continues to play its part during times of natural disaster providing practical support to employees and communities – through paid leave for volunteers and donations – and a revenue stream to support and federal government recovery expenditure.

To maintain this contribution, policy needs to provide confidence for investment today through:

- Stable fiscal settings
- A pathway to lower taxation
- Greater transparency and clarity for foreign investors
- Productivity-enhancing regulations.

In addition, the government can make targeted investments to build future capacity through:

- Extending Geoscience Australia's Exploring for the Future program to \$100 million annually and maintaining the Junior Minerals Exploration Incentive that provides \$30 million of tax credits for investors in emerging mining companies.
  - This should include increasing public investment in geoscience and drilling research programs such as the Minex CRC
- Accelerating low emissions technologies, such as carbon capture use and storage, as part of the imperative of meeting Paris Agreement's climate goals
  - The proposed Technology Investment Roadmap offers an opportunity to seriously explore the technology options which can deliver significantly lower greenhouse gas emissions. The MCA welcomes that a broad range of technologies will be considered, including carbon capture and storage, hydrogen, renewables and biofuels and storage.
  - The MCA would also like to see the role of nuclear energy explored in the roadmap.
- Expanding the Skills Organisation pilot for the mining sector to realise the opportunities of new technologies.
  - The future minerals workforce will be more diverse, geographically distributed and digitally connected. In future workers will need skills and capabilities that are adaptable, transferable and relevant to the needs of the future economy.

The opportunities for Australian mining and Australia's prosperity will continue to expand as the incomes of highly populated emerging economies, particularly in Asia, converge to those of developed nations and technology becomes more advanced and diffuse.

The 2020-21 Budget is an opportunity to consolidate Australia's comparative advantage in minerals.

# Australian mining

minerals.org.au

**Australia exports more metals and minerals than any other country.**



**\$273b**  
**Export earnings**  
 Australia's total resources export earnings in 2018-19.

**19%**  
**Driver of growth**  
 Mining has accounted for 19 per cent of Australia's GDP growth since 2008-09.

**240k**  
**Jobs**  
 Direct employment in the resources industry.



**\$243 billion**  
**13 years of royalties & company tax**  
 That's enough to build more than **9500 schools** or **340 hospitals** in Australia.

**\$141k**  
**Average wages**  
 Average annual wages in the mining industry in 2018-19.

**\$234b**  
**Investment**  
 Mining capex in Australia over the past ten years.

**\$2.3b**  
**Exploration**  
 Minerals exploration expenditure in 2018-19.

**58%**  
**Total exports**  
 Resources share of export revenue in 2018-19.



Source: ABS, Deloitte Access Economics.

**Mining has the highest wages of any industry in Australia – 61 per cent higher than the national average.** Source: ABS

## Mining contribution State by state

### Western Australia

Resources jobs	106,300
Economic value	\$84.5b
Share of economy	32.4%
Exploration	\$1440m
Key outputs	Iron ore, gold, lithium

### Queensland

Resources jobs	68,200
Economic value	\$43.5b
Share of economy	12.2%
Exploration	\$314m
Key outputs	Coal, copper, bauxite

### New South Wales

Resources jobs	38,700
Economic value	\$18.4b
Share of economy	3.0%
Exploration	\$252m
Key outputs	Coal, gold, copper

### Victoria

Resources jobs	16,000
Economic value	\$5.2b
Share of economy	1.2%
Exploration	\$102m
Key outputs	Gold, coal, antimony

Source: ABS

### Northern Territory

Resources jobs	3,300
Economic value	\$4.7b
Share of economy	18.1%
Exploration	\$132m
Key outputs	Zinc, gold, manganese

### South Australia

Resources jobs	11,400
Economic value	\$3.2b
Share of economy	3.0%
Exploration	\$85m
Key outputs	Uranium, copper

### Tasmania

Resources jobs	2,700
Economic value	\$1.1b
Share of economy	3.4%
Exploration	\$19m
Key outputs	Tin, iron ore

There's more to  
**Australian Mining**

## 2. MINING INDUSTRY OVERVIEW

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- Mining continues to make a significant contribution to the Australian economy and society. In 2018-19 it generated \$273 billion of export revenue (which was 58 per cent of total export revenue), directly employed 240,000 people in highly-paid, highly skilled jobs and invested \$33 billion in new capital expenditure. The mining industry also pays its fair share of taxes with \$31 billion of company taxes and royalties paid in 2017-18.
- The minerals industry's number one value and commitment is the safety and health of its workforce, where everyone who goes to work in the industry returns home safe and healthy. The industry has set itself the ambitious goal of becoming free of fatalities.
- The industry is increasingly focused on long-term community partnerships and strategic investment to support sustainable long-term development outcomes.

Australia has built its mining industry on a reputation for smart, sophisticated, sustainable exploration, mining and minerals processing – from bulk commodities like iron ore, coal and bauxite, to metals like gold, copper and nickel, and increasingly, critical minerals like lithium and rare earth elements. Mining makes a significant contribution to the Australian economy and society. In 2018-19 it generated \$273 billion of export revenue (58 per cent of total export revenue), directly employed 240,000 people in highly-paid, highly skilled jobs and invested \$33 billion in new capital expenditure.<sup>1</sup> Mining also pays its fair share of taxes with \$31 billion of company taxes and royalties paid in 2017-18.<sup>2</sup>

More than just a driver of domestic economic growth, the Australian mining industry is the largest exporter of minerals and metals in the world. It is an essential part of the supplier chains underpinning the new transportation networks, clean energy systems and modern consumer products which are improving the living standards of billions of people around the world. Importantly, the Australian mining industry is meeting the world's growing demand for steel, energy and critical minerals with an unwavering commitment to sustainability, community engagement, rehabilitation and greenhouse gas emission reductions.

Modern mining environmental practice is highly regulated, better implemented and more accountable than ever before. The minerals industry upholds high standards of environmental protection based on the use of sound science and robust risk-based approaches. The industry pursues continuous improvement in the areas of land use and mine rehabilitation, water use and biodiversity conservation. Companies may also offset significant residual environmental impacts and undertake voluntary conservation initiatives that go beyond regulatory compliance.

The minerals industry's number one value and commitment is the safety and health of its workforce, where everyone who goes to work in the industry returns home safe and healthy. The minerals industry is firmly committed to the principle that every individual, regardless of where they work, whether as a direct employee or contractor, and whatever tasks they undertake, should have the same high standard of workplace safety. The industry has set itself the ambitious goal of becoming free of fatalities.

The minerals industry approach to community engagement has evolved over past decades. The sector has developed innovative approaches to engagement and is supporting multi-party dialogues and partnerships with local communities – particularly in regional Australia. The industry is increasingly focused on long-term community partnerships and strategic investment to support community priorities and aspirations for sustainable long-term development outcomes.

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<sup>1</sup> Australian Bureau of Statistics, cat. no. 5368 [International Trade in Goods and Services, Australia, Oct 2019](#); cat. no. 6291.0.55.003 [Labour Force, Australia, Detailed, Quarterly, Aug 2019](#); cat. no. 5625 [Private New Capital Expenditure and Expected Expenditure, Australia, Sep 2019](#).

<sup>2</sup> Deloitte Access Economics, [Estimates of royalties and company tax accrued in 2017-18](#), report prepared for the Minerals Council of Australia, MCA, 26 March 2019.

### 3. ECONOMIC OUTLOOK

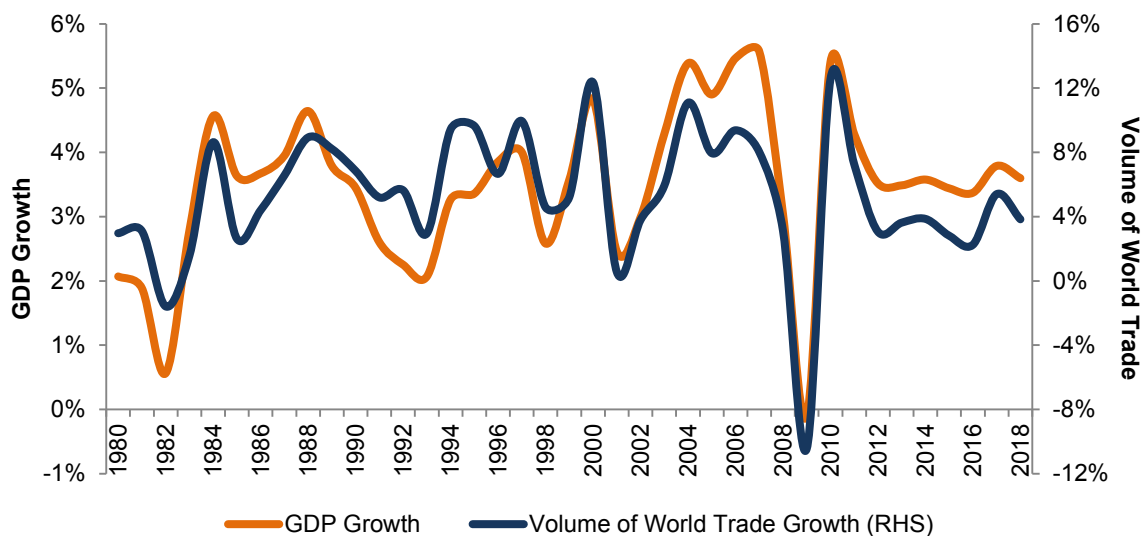
- The rise of protectionist sentiment in several key economies is a key risk to sustaining higher rates of global economic growth and could affect commodity markets and price.
- Australia must be prepared to manage the potential impacts of commodity price cycles. The government should continue to account for price risks in its budget planning and implement policies such as exploration incentives, company tax cuts and skills programs that support the mining industry investing in new technologies that will enable it to remain internationally competitive in a lower price environment.
- Australia's annual rate of GDP growth is declining and this has coincided with diminishing growth in labour productivity. Ultimately productivity, not debt, drives long term economic growth.

#### Macroeconomic outlook

In the last decade world GDP has expanded substantially, underpinned primarily by growth in non-OECD nations such as China, India and Indonesia. Urbanisation, industrial expansion and rising middle class incomes have led to rapid increases in the consumption of all mineral and energy commodities which has allowed Australia to forge strong trade relations with its regional partners and become a key part of global supply chains.

The rise of protectionist sentiment in several key economies is a key risk to sustaining higher rates of global economic growth.<sup>3</sup> As shown in chart 1, world trade is closely linked to world GDP growth. Free and open trade is an optimal policy for improving living standards around the world as trade creates greater competition among producers, facilitates technology transfers between nations and delivers a broader range of goods for consumers. Recent policy shifts in several countries that aim to limit free trade are now likely to reduce world economic growth rates in the short to medium term. This has been highlighted in recent downwards revisions to economic outlooks by many of the world's leading economic institutions including the IMF, World Bank and OECD.

**Chart 1: The relationship between world trade and GDP growth**



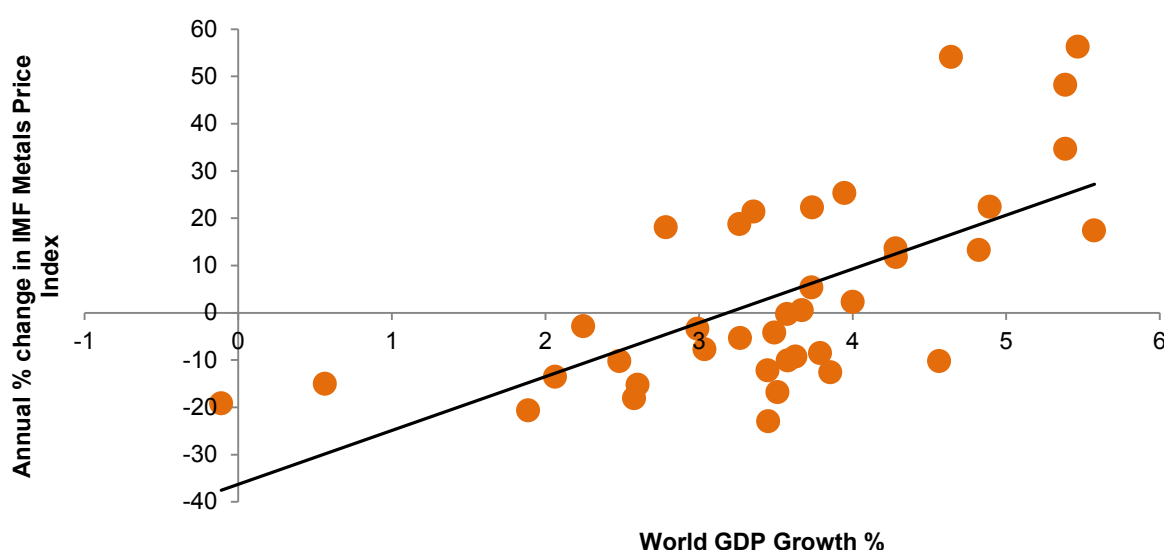
Source: IMF, World Economic Outlook database.

<sup>3</sup> Commonwealth of Australia, [Mid-Year Economic and Fiscal Outlook 2019-20](#), p. 13.

The potential slowdown in world GDP growth will likely affect global commodity markets. While demand for mineral and energy commodities is likely to continue to grow in the medium term, commodity prices are closely correlated with world GDP (chart 2 below). The IMF has forecast world GDP to grow 3.4 per cent in 2020 with base metal prices to decrease 6.2 per cent.<sup>4</sup> As discussed in Box 1 on the next page, another emerging risk for commodity markets is the potential impact of the coronavirus on China's economy.

As the world's leading exporter of minerals and metals, Australia must be prepared to manage the potential impacts of commodity price cycles. The government should continue to account for price risks in its budget planning by using modest price assumptions for key commodities and accepting revenue windfalls when they occur. It should also implement policies such as exploration incentives, company tax cuts and skills programs that support the mining industry investing in new technologies that will enable it to remain internationally competitive in a lower price environment.

**Chart 2: The relationship between world GDP and commodity prices**



Source: IMF, World Economic Outlook database.

A productive and competitive Australian mining industry will be well-positioned to supply the world's growing metal and energy commodity needs in the 21st century. The economies of China, India and South-East Asia are using increasing amounts of steel, aluminium and copper to increase their industrial capacity, create more high-density housing in large cities, and build transportation networks, communications systems and electrical grids. In addition, demand for consumer products – such as cars, televisions, laptops, mobile 'phones and refrigerators – is rising rapidly as middle-class incomes increase.

The growth in demand for advanced technologies will result in larger markets for critical minerals (such as rare earth elements) as well as for key metals like iron ore, copper, zinc and nickel. Yet Australia's comparative advantage in resources exports is not guaranteed. Government policies must attract greater exploration investment and support the development of new mines for Australia to maximise the potential of its mineral endowments.

<sup>4</sup> International Monetary Fund, [World Economic Outlook](#), released 15 October 2019, p. 47.

## Box 1: Economic shocks from health emergencies

The emergence of the ‘coronavirus’ at the beginning of 2020 has cast uncertainty over economic outlooks and commodity markets.

With responses to the health and humanitarian issues the priority, at the time of writing considerations of economic impacts are speculative and subsidiary. Australian mining companies have extensive links with the region and their first concern is the welfare of workers and the communities where they operate. For the longer term considerations of the budget, the following observations may assist when other priorities are dealt with.

The historical experience is generally useful, a point. In 2003, the severe acute respiratory syndrome (SARS), a zoonotic virus outbreak, emerged in the southern Asian mainland. It led to the recorded death of 774 people, around the world, mostly in Asia.<sup>5</sup>

There was an immediate impact across the industrial, tourism and services sectors in this coastal region as the outbreak reached its epidemiological peak in March and April 2003. Commodity prices seem to have dipped, although the use of contract and benchmark pricing makes the picture opaque. Across the calendar year, there was a fall of demand from Australia for bulk commodities in the region, with iron ore down 2 per cent, and thermal coal 17 per cent.<sup>6</sup> It is worth noting other factors may have had caused secondary effects, such as the 2000-01 global economic crisis and military actions in the Middle East.

This immediate impact was short-lived with prices and volumes soon recovering, though coming at the beginning of the extraordinary surge in Chinese economic growth which continues to this day. Research suggests that media and modelling of the impacts at the time may have been overstated.<sup>7</sup>

The present outbreak has its own characteristics. Hubei province hosts a considerable steel producing operation but the bulk of national production remains along the coast (where the SARS epidemic emerged). Iron prices remain stable at this stage (US\$ 93 per tonne).<sup>8</sup> The province is adjacent to significant hydropower resources. Hubei is a major manufacturing centre and transportation hub which means downstream metals commodities may see more uncertainty. Copper prices have dipped, though this may relate to media reports of the decision by Shanghai port authorities, the main entry point for refined copper products, to extend leave for workers as a precaution.<sup>9</sup>

## Domestic economy

### *Lifting the rate of economic growth*

Australia’s economic performance has exceeded many OECD nations in the last decade with the mining investment boom and recent growth in resources export volumes being key contributors to this success. Nevertheless, the Australian economy is now faced with the economic challenges many advanced economies have encountered in the last 20 years such as low productivity growth, rising public debt and stagnant wage growth.

Australia has become an expensive place to do business, especially compared to other countries in our region. Without significant economic reforms to boost productivity Australia risks an extended period of stagnant growth in output, low wage growth and declining international competitiveness.

<sup>5</sup> MR Keogh-Brown & RD Smith, ‘The economic impact of SARS: How does reality match predictions?’, *Health Policy*, Volume 88, 2008, p110-120.

<sup>6</sup> Department of Foreign Affairs and Trade, *Composition of Trade*, *Composition of Trade*, electronic tables, 2004. Accessed 30 January, 2020.

<sup>7</sup> Keogh-Brown & Smith, *op. cit.*

<sup>8</sup> [www.marketindex.com.au/iron-ore](http://www.marketindex.com.au/iron-ore), accessed 30 January, 2020.

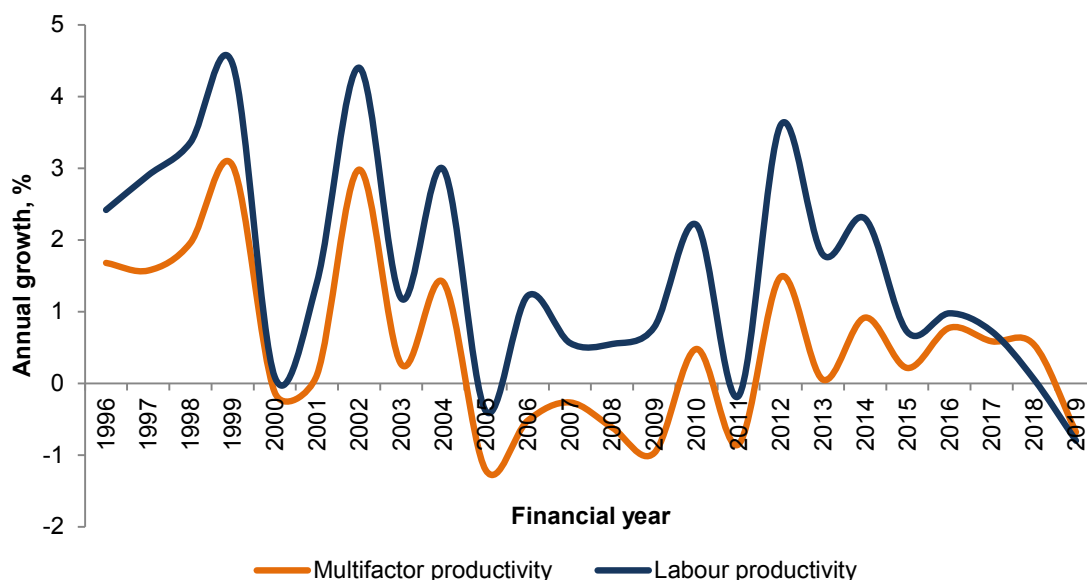
<sup>9</sup> [www.metalbulletin.com](http://www.metalbulletin.com), ‘China’s virus lockdown puts copper smelters in logistic bind’, accessed 30 January, 2020.



### The productivity challenge

A fundamental driver of Australia's slowing rate of economic growth has been the decline in private sector productivity growth. As shown in chart 3, Australia is now experiencing similar productivity trends to many OECD nations with labour productivity and multifactor productivity growth declining over the last decade and actually decreasing in 2018-19.<sup>10</sup> There are several drivers of this, but a key factor has been the decline in capital investment in Australia. A growing and modern capital stock is vital to economic growth as it directly enhances labour productivity and supports higher wages.

**Chart 3: Annual productivity growth in Australia**

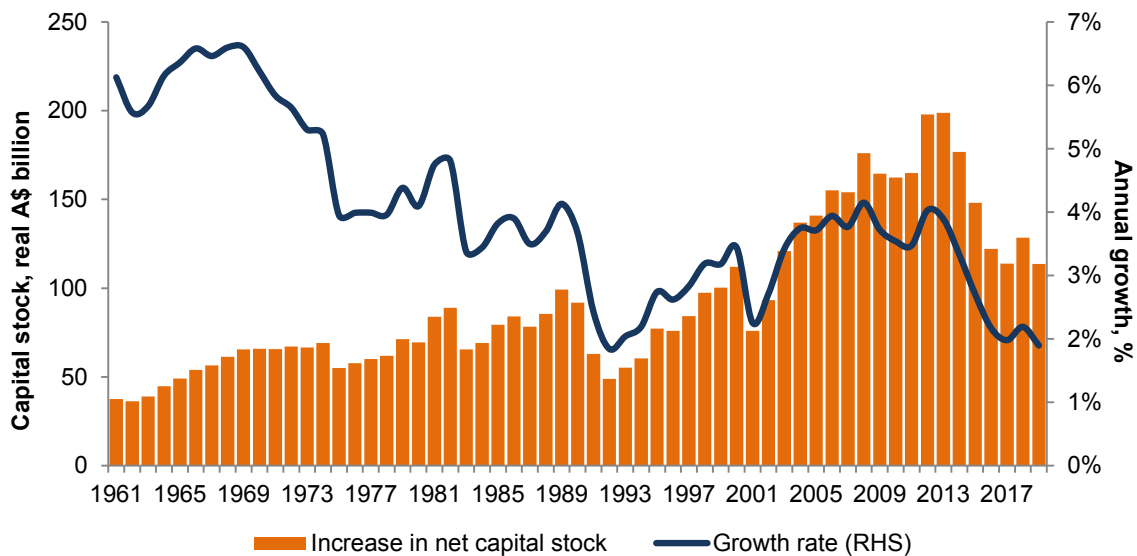


Source: Australian Bureau of Statistics, cat. no. 5260.0.55.002 [Estimates of Industry Multifactor Productivity, 2018-19](#), released 2 December 2019.

Capital deepening, or the increase in capital per worker, is an important contributor to labour productivity growth. As shown in chart 4 (see next page), capital accumulation in Australian has slowed significantly in the last seven years. The government's plans to tackle regulatory congestion and streamline approvals are welcome first steps towards addressing many of the barriers that have held back greater investment in Australia's mining industry. These reforms and internationally competitive company tax rates are important measures for restoring growth in Australia's capital stock.

<sup>10</sup> Australian Bureau of Statistics, cat. no. 5260.0.55.002 [Estimates of Industry Multifactor Productivity, 2018-19](#), released 2 December 2019. The Australian Bureau of Statistics defines labour productivity as real output per person employed or per hour worked and multifactor productivity as the output per combined unit of labour and capital.

**Chart 4: Annual growth in real net capital stock**



Source: Australian Bureau of Statistics, cat. no. 5204 [Australian System of National Accounts](#), 2018-19, released 25 October 2019.

In response to lower labour productivity growth, wage growth in Australia has also slowed significantly over the last seven years. Higher wage growth is optimal for an economy and the welfare of its residents; however, imposing wage increases without commensurate increases in productivity would be counterproductive. Such actions are likely to result in a number of unintended consequences throughout the Australian economy as the additional business costs will further erode Australia's international competitiveness. While domestic industries that are not exposed to international competition may be able to absorb the higher labour costs, the Australian mining industry is a price-taker and cannot pass on higher domestic costs as higher prices.

Australia is already a high-cost place to do business. Additional unsupported wage pressures will make it more challenging for Australian businesses to compete in international markets and drive investment to other jurisdictions. Capital is highly mobile among investors planning long term ventures – particularly those aiming to operate in highly competitive international markets. Australia's reputation as a leading destination for mining investment is already diminishing with several leading Australian mining companies now preferring other countries for mine development or asset acquisitions.

The impact of Australia's declining productivity growth on GDP has until now been offset by large increases in both household and public sector debt. However, this position is not sustainable and is unlikely to drive long-term economic and wage growth in Australia. Ultimately productivity, not debt, drives economic growth.

## 4. POLICY RECOMMENDATIONS

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- The 2020-21 Budget is an opportunity to consolidate Australia's comparative advantage in minerals exports and extend the nation's enviable record of economic growth for future generations. The federal government should support Australia's mining future by:
  - Continuing to invest in programs such as the Resource Skills Pilot Organisation that will provide workers with the skills needed by employers in the mining industry
  - Extending and expanding Geoscience Australia's Exploring for the Future program
  - Maintaining the Junior Minerals Exploration Incentive
  - Increasing public investment in geoscience and drilling research programs such as the Minex CRC
  - Investing in low emissions technologies and lowering Australia's energy costs via a competitive energy market that provides reliable and lower emissions electricity for businesses and households.
- The government should aim to deliver future operating surpluses to give it the flexibility to respond to future fluctuations in the business cycle or national emergencies such as the recent bush fires in regional Australia.
- The federal government should aim to boost productivity growth in Australia by:
  - Investing in productive infrastructure, such as transport, energy and water projects, that deliver tangible benefits to Australian businesses and enhance national productivity.
  - Reducing the company tax rate applicable to large business to make it more internationally competitive and attract the vital investment in new productivity enhancing capital equipment.
  - Ensuring that Foreign Investment Review Board (FIRB) screening requirements are the same for all private investors, irrespective of their country of origin. Screening thresholds in non-sensitive sectors should be raised from \$261 million to \$1.13 billion for non-FTA nations, consistent with the level that applies to Australia's FTA partners.
  - Ensuring workplace rules encourage efficient and harmonious enterprises while continuing to provide a strong safety net for workers.

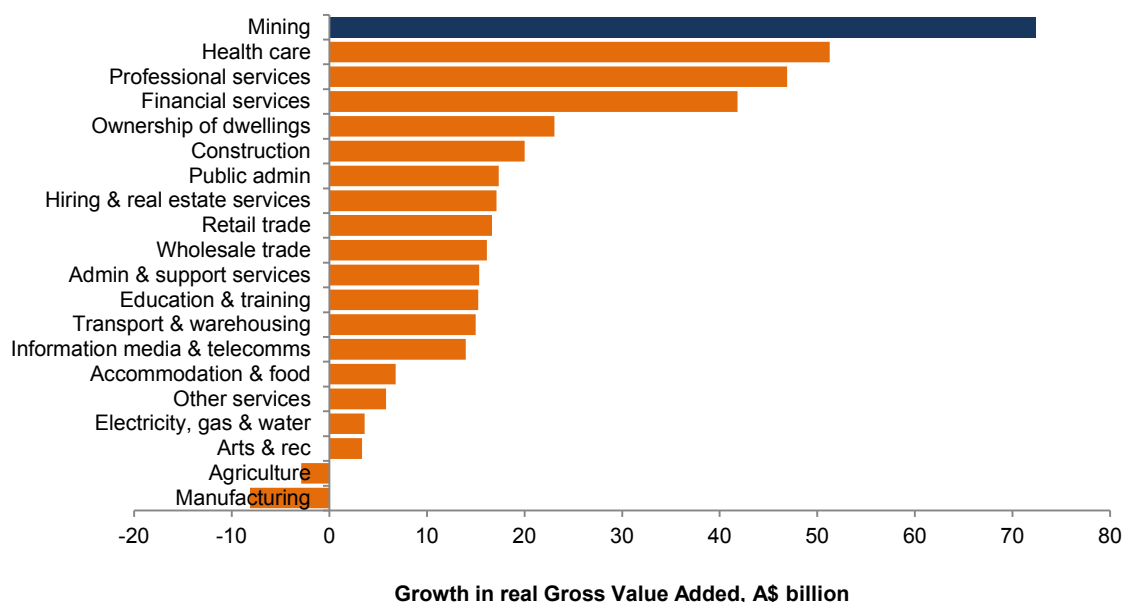
### **Supporting Australia's mining future**

Australian mining is part of the identity of Australian communities and regions. It contributes to national economic strength and to local commerce and employment. It is a responsive and responsible neighbour, particularly during times of challenge.

Mining provides an economic bedrock for the Australian Government to meet its immediate and long-term challenges. The priorities of the 2020-21 budget should be to maintain the stable policy settings that underpin mining's considerable contribution today, support investment (including in skills) as the best path to support its contribution in future, and promote a partnership that deliver long term community and environmental benefits.

Mining has been Australia’s most successful sector over the last decade. As shown in chart 5, mining has accounted for the highest share of GDP growth since 2008-09, has the highest wages of any industry and together with its supply chains in the mining, equipment, technology and services (METS) sector supports over 1.1 million jobs.<sup>11</sup>

**Chart 5: Contribution to GDP growth, 2008-09 to 2018-19**



Source: Australian Bureau of Statistics, cat. no. 5204 [Australian System of National Accounts, 2018-19](#), released 25 October 2019.

But this success is far from guaranteed in the future. Emerging mining jurisdictions are increasingly competitive for investor capital and more must be done to retain Australia’s competitive advantage in mining.

Mining is not only a driver of economic growth for Australia, it supports regional development and delivers the essential materials for modern technologies that are delivering clean energy systems, improving health outcomes and enriching our lives. To maintain this contribution, policy needs primarily to provide confidence for investment today through stable fiscal settings, a pathway to lower taxation and productivity-enhancing regulations.

### Developing the future workforce

Australia’s resources sector depends on a highly skilled, highly paid workforce that covers a range of scientific fields, professional occupations and trades. The productivity of this workforce will be bolstered by the new tools of data analytics, automation, robotics and artificial intelligence. The nation’s most pressing challenge is creating the education, training and workplace relations framework that maintains Australia’s competitive advantage and the minerals industry’s contribution to prosperity.

The traditional occupations and associated skills will remain relevant and essential to the future minerals workforce, but they will be enhanced and complemented by a suite of broader skills and capabilities. The broader skills and capabilities important to the future minerals workforce include core, technical skills coupled with cognitive or ‘soft skills’ and interpersonal skills, as well as technological literacy and specialist skills in complementary disciplines.

<sup>11</sup> Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), a report prepared for the Minerals Council of Australia, MCA, released 29 March 2017.

The government is to be commended for their significant reforms to workforce skills and should continue to invest in programs that provide flexible skills acquisition that are valued by employers for a growing skilled economy. The Mining Skills Organisation Pilot, which will trial new ways of working across the national training system to ensure graduating trainees and apprentices have the particular skills needed by employers in the mining industry, is an excellent co-contributory initiative with the minerals industry for developing the skills needed for the future mining workforce. This modest \$9.7 million investment over three years from 2019-20, matched with significant industry in-kind and financial support, will see MCA facilitate a program of work that will develop a model for a mining skills organisation and inform improvements to the national arrangements for skilling the workforce.

Government should invest in ongoing initiatives that provide the workforce with industry relevant skills and provides industry with confidence that the training system is responsive to industry needs. Industry stands ready to work with government on these programs as it is doing with the pilot Skills Organisation.

## **Investing in Australia's mining future**

### *Funding pre-competitive exploration*

Governments, as the stewards of Australia's mineral wealth, must do more to support exploration investment. Despite decades of exploration, Australia still remains under-explored, particularly at greater depths. Both federal and state governments should invest more in collecting pre-competitive geoscientific data to better identify the nation's mineral potential.

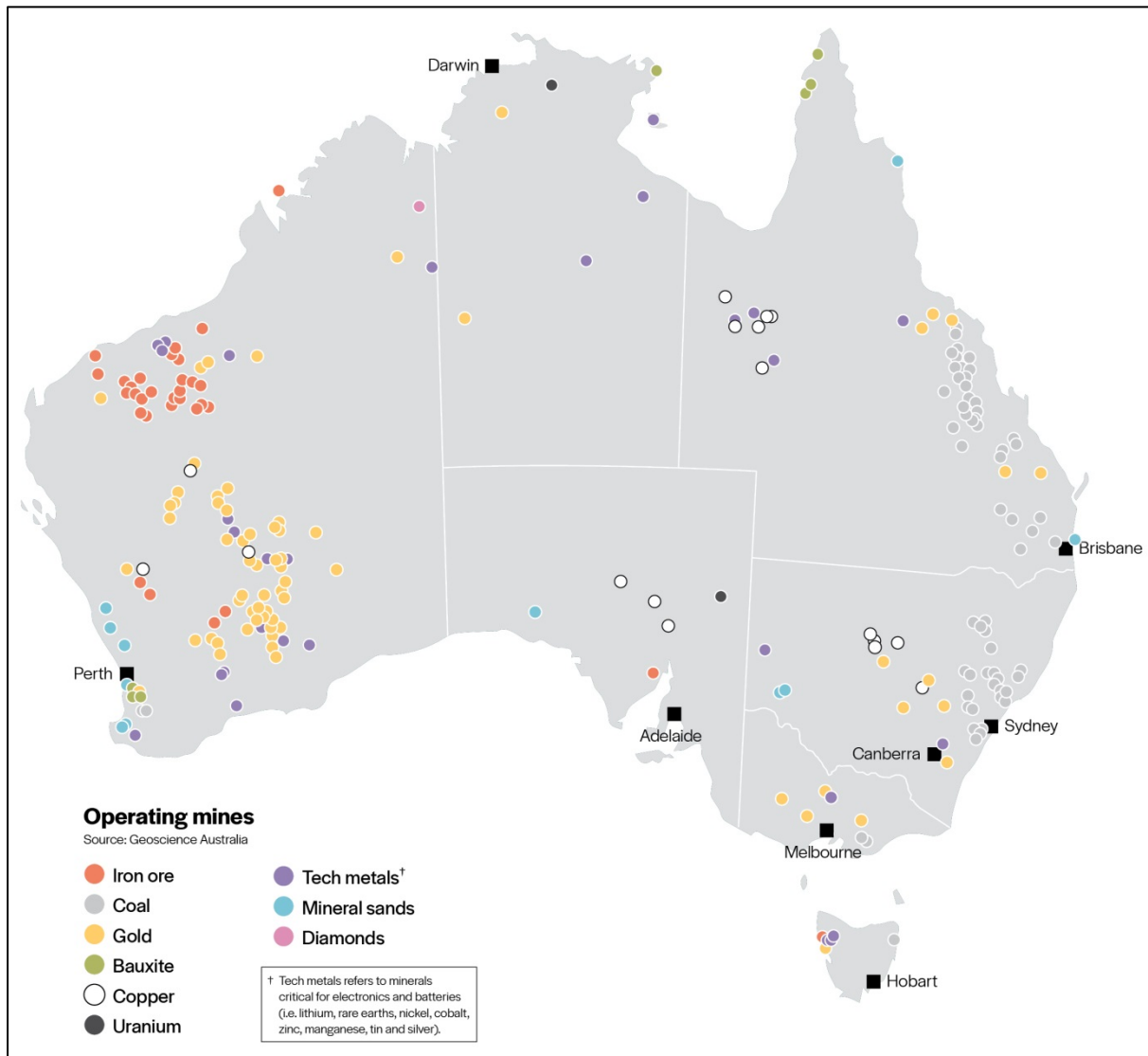
Government investment in precompetitive data is an important public good that builds a better understanding of Australia's geology for all potential exploration investors and signals that a government is committed to fostering greater mining investment. Such data is vital for narrowing down the search areas for more advanced exploration activities that are undertaken by the private sector but are more costly and better suited to smaller target areas.

The federal government should extend Geoscience Australia's Exploring for the Future program as an investment in Australia's mineral future. This program is essential for developing the next wave of mining projects in Australia that will supply the world's growing demand for copper, critical minerals and other metals. The MCA recommends the program also be expanded with funding of \$100 million a year for the next four years and seek commitments from state governments to match investments made in their regions.

This exploration activity should be prioritised for remote parts of central Australia and target identifying new resources of copper and other metals that are essential to modern economies. As shown in figure 1 (see next page), central Australia's mineral wealth is substantially less developed than other key established mineral provinces – yet it already contains several large tier one assets including BHP's Olympic Dam copper mine, Newmont Goldcorp's Tanami gold mine and a host of base metal projects in the Mt Isa and Western New South Wales regions. The federal and state government should commit to enhancing their precompetitive geoscience databases through surveys of these areas to unlock their economic potential.

To maximise the benefits of this precompetitive data and support greater private sector exploration investment the government should also extend the Junior Minerals Exploration Incentive which boosts emerging mining companies' ability to access funding from investors.

**Figure 1: Australia's operating mines**



Source: Geoscience Australia, Minerals Council of Australia

### *Research and development*

An Australian mining industry that is productive, innovative and sustainable is vital for Australia's long term prosperity. Government funded research programs at the CSIRO, cooperative research centres and Australian universities have played a key role in developing many of the technologies that have improved exploration targeting, mineral processing, mine safety and environmental management. Additional funding for these research organisations would deliver significant long term benefits to Australia by improving the discovery rate of new deposits and attracting more investment in Australian mines that are both more profitable and sustainable than international competitors.

The efficient discovery of new mineral deposits is essential to Australia's mining future. Geoscience research programs at CSIRO and the Minex CRC that are developing more cost effective ways of drilling core samples, producing new sensor technologies to detect minerals in real time and using advanced data analytics to better model mineral systems will enhance the mining industry's ability to find new 'tier one' deposits of copper, gold and critical minerals. The potential long term returns of these research programs to Australia is significant and justifies additional funding to ensure they can be advanced beyond development stages.

Advances in ore extraction, sorting and processing technologies will have an increasingly important role in improving productivity and reducing costs for Australian mining companies. The research of CSIRO and CRC ORE has already led to several innovative technologies that are delivering productivity improvements across the mining industry; however new innovations are still needed to meet the challenges associated with declining ore grades and deeper ore bodies at Australian mines.

Safe and sustainable mining operations are the highest priority for the Australian mining industry. Technological advances in ventilation, site rehabilitation and tailings management have improved the Australian mining industry's performance, but more can be done. Increased funding for university and CSIRO research into environmental science, low carbon energy systems, safety monitoring equipment and underground wireless communications systems will provide the foundations for many mining companies to further improve their mine site safety and environmental management performance.

#### *Government policies to maximise investment potential*

To convert this research and exploration effort into new mining projects, policy settings need to support Australia's attractiveness as a destination for international investment. These should ensure the foreign investment and foreign influence review process does not needlessly create political tensions, and provide clarity and transparency for foreign investors seeking to invest in Australia. This will also help make sure that Australian businesses investing overseas are supported through open and clear investment rules and our trade agreements.

The government should ensure that Foreign Investment Review Board (FIRB) screening requirements are the same for all private investors, irrespective of their country of origin. Screening thresholds in non-sensitive sectors should be raised from \$261 million to \$1.13 billion for non-FTA nations, consistent with the level that applies to Australia's FTA partners.

#### **Energy and climate technology**

The supply of reliable and affordable energy is critical for Australia's resources sector, particularly as Australia's electricity sector reduces its emissions intensity. Australia's participation in the Paris Agreement and its track record of meeting its international emission reduction commitments means reducing greenhouse gas emissions will continue to be a key focus of investment decisions for the resources sector.

The Government's announced Technology Investment Roadmap offers an opportunity to seriously explore the technology options which can deliver significantly lower greenhouse gas emissions. The MCA welcomes the announcement that a broad range of technologies will be considered, including carbon capture and storage, hydrogen, renewables and biofuels and storage.

While primarily focused on the energy sector which accounts for 34 per cent of Australia's emissions, the Technology Investment Roadmap could serve as a blueprint for a broader consideration of emission reduction technologies in other sectors. The MCA would welcome a broader consideration of technology options which could lower emissions across the Australian economy.

Maintaining an internationally competitive power supply is important for the commercial viability of existing new mining and mineral processing projects in Australia. The sector is currently responsible for 15 per cent of Australia's total electricity consumption.<sup>12</sup>

The National Electricity Market (NEM) in Australia is facing serious challenges including the erosion of baseload generation capacity which is already adversely impacting Australia's industrial sector and households.

Australian manufacturing, minerals processing and other energy intensive activities are increasingly finding themselves priced out of international markets.

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<sup>12</sup> Department of the Environment and Energy, [Australian Energy Update 2019](#), released September 2019.

Recently, several east coast companies have experienced difficulty sourcing long-term energy contracts with generators and often required to pay significantly higher rates in order to secure electricity supplies. This reflects that Australia has lost its competitive advantage of low cost energy. Over the past decade, Australia has moved from having some of the lowest energy costs to some of the highest in the developed world.

The key principle underpinning energy policy should be technology neutrality.

If Australia is serious about reducing emissions while also maintaining an internationally competitive manufacturing and minerals processing industry, then all technology options should be on the table. A competitive and technology neutral energy market is the best way to deliver affordable, reliable and lower emissions energy.

Any policy approach should aim to reduce energy costs in Australia and retain a focus on securing reliable lowest cost dispatchable energy supply that is available 24/7. Although banned in Australia, nuclear energy is used in 31 countries, where it provides around 10 per cent of the world's electricity with 452 reactors in operation and another 495 under construction, planned or proposed. Global emissions are 2.2 billion tonnes lower because of nuclear power.

The current ban on nuclear power generation and discriminatory treatment of carbon capture need to be reversed. The distortionary impact of the current energy policy framework which favours one group of technologies undermines serious attempts to decarbonise Australia's economy. This is an issue which the COAG Energy Council, and State governments in particular, need to address.

### **Fiscal strategy**

The restraint in federal government spending growth in recent years and rising corporate tax revenue have delivered a balanced budget in 2018-19. Sound fiscal management has also now enabled the government to respond to the recent bushfire emergencies and fund assistance packages to people and businesses in affected areas. Longer term fiscal strategy should remain focused on retaining an operating surplus to give it the flexibility to respond to future fluctuations in the business cycle.

The government's spending priorities should focus on investments that will lift Australia's productivity after a decade of decline. This includes invest in productive infrastructure such as transport, energy and water projects that deliver tangible benefits to Australian businesses. Such projects must be subject to rigorous cost-benefit analyses, demonstrate broad economic returns for multiple users and support long-term economic growth.

#### *Fuel tax credits are vital to mining's competitiveness*

Fuel Tax Credits (FTCs) are critical to a diverse range of regional industries reliant on diesel including mining, agriculture and tourism. In the case of mining, diesel fuel is amongst the top three expenses for many open cut mines and consumption can account for up to one-quarter of operating costs at some mines.

FTCs are not a tax subsidy and are based on the fundamental tax policy principle that business inputs should not be taxed – the same principle that underpins the GST. FTCs also ensure that fuel excise, as an effective road user charge, is not applied to off-road use of fuel. Further, the minerals industry is a builder of roads that service their projects and local communities. Bi-partisan support for FTCs is grounded in sensible tax policy. Any reduction to FTCs would simply amount to a new tax on regional industries and have a significant, negative and disproportionate impact on regional Australia.

#### *Remote area workforce and Fringe Benefits Tax*

The Productivity Commission's draft report into Remote Area Tax Concessions and Payments recommends changes to the Fringe Benefit Tax (FBT) concessions that, if legislated, would materially increase the cost of employer-provided housing in remote mining communities. Currently the provision of employer-owned or leased accommodation to employees located in remote mining communities and towns is exempt from FBT. The Productivity Commission's draft report recommends



that 50 per cent of the value of the accommodation should be subject to FBT as there is a private benefit. This would significantly increase the cost of the provision of accommodation as well as increase the cost of complying with FBT legislation.

There are clear operational reasons why mining companies provide accommodation to employees working in remote areas. In most remote locations, employer-built and provided accommodation was initially the only available semi-permanent accommodation. Further, the choice of alternative accommodation to suit employee needs is limited. The provision of remote area accommodation is not a form of private remuneration benefit to an employee. It is instead a necessary and unavoidable business cost for the mining company employer and the imposition of FBT would add an additional and unjustified business cost.

The MCA recommends that no adverse changes be made to the existing FBT exemption for remote area employer provided accommodation.

#### *OECD proposal for taxation of global digital and consumer facing businesses*

The OECD has developed an approach to address the tax challenges of the digitalisation of the global economy and associated transfer pricing complexities with global business to consumer transactions. The approach, referred to as Pillar One, radically transforms existing taxing rights to enable the market destination country to tax profits currently taxed in the producer country. If applied to the minerals sector, it would mean that customer countries for our minerals, such as China and Japan, would tax a portion of the profit currently taxed in Australia where the minerals are mined. This could lead to inappropriate outcomes and is inconsistent with the fact that the minerals are owned by the producing country, Australia.

The OECD has recognised the difficulty of applying the proposed new regime to the minerals industry and has suggested that the industry be carved out of the regime. The MCA supports that carve out and recommends that the government maintain the position that all minerals-related activity (extraction, processing, refining, smelting, transportation and marketing) be excluded from the proposed new international tax regime.

#### **Reforms to boost productivity, economic and wage growth in Australia**

To reverse the downwards trends in Australia's GDP, productivity and wages growth, a set of significant policy reforms is required. The government must lift educational standards, implement reforms to attract more capital, and provide greater flexibility in workplaces to optimise output.

#### *Internationally competitive company taxes are required to lift business investment*

The tax and broader fiscal regime that applies to the minerals industry should ensure that governments obtain an adequate and appropriate share of the benefits from the resources while providing a competitive business tax system that attracts investment and encourages business risk taking. Tax laws and tax rates that are stable, certain and internationally competitive reduce financial risk and uncertainty which aids in attracting new investment.

The minerals industry makes a strong contribution to government finances and pays a significant share of the total company tax collected. The Australian minerals industry paid \$18.6 billion in company tax in 2017-18 alone, accounting for 22 per cent of all company tax paid during that year. In addition the industry paid \$12 billion in royalties to state governments, funding essential services and infrastructure.<sup>13</sup>

In the last decade, government has introduced a raft of tax integrity measures, many of which are in response to the OECD Base Erosion and Profit Shifting project that have resulted in increased company tax collections and a more robust company tax base. Indeed, the recent ATO tax gap figures show a marked reduction in the large business tax gap, particularly compared to small

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<sup>13</sup> Deloitte Access Economics, [Estimates of royalties and company tax accrued in 2017-18](#), report prepared for the Minerals Council of Australia, MCA, 26 March 2019.

business and individuals. In addition, the ATO has substantially completed the roll-out of the Justified Trust project which has produced high assurance ratings and more targeted and presumably efficient ATO engagement. There is no case for additional integrity measures that apply to large business.

Globally company tax rates have been reducing since 2010, except in Australia. In 2019, Australia's company income tax rate is not competitive. It is 3.2 percentage points higher than the GDP-weighted average of G7 countries and 3 percentage points more than G20 countries. Even the grouping of Brazil, Russia, India and China (BRIC) which tends to tax company income most, now has a GDP-weighted company income tax rate that is 2 points less than Australia.

The MCA recommends that the government reduce the company tax rate applicable to large business to make it more internationally competitive. This will encourage greater business investment and thereby create jobs, restore growth in Australia's capital stock, lift productivity across the economy and drive higher wages for Australian workers.

Greater private sector investment on new capital equipment must be accompanied by government spending on new productive infrastructure, investment in enhancing the skills of the Australian workforce and reforms to workplace regulations to maximise its productivity gains.

#### *Flexible workplaces to drive productivity and employment opportunities*

Successive federal governments have recognised that flexible workplace relations, underpinned by a strong safety net, are critical to a dynamic economy and future growth in living standards. In the long term, productive and competitive enterprises deliver high wages and expanding employment opportunities. The ability to modernise workplaces by maintaining flexibility is vital to the competitiveness of the Australian minerals industry, which is increasingly focused on integrating new technology and innovations into its operations.

The share of permanent employees in the resources sector is high compared to other industries (84 per cent) and 96 per cent of workers in resources are employed full-time.<sup>14</sup> Nevertheless, labour hire and service contracting are important to the efficiency and competitiveness of mining operations and should not be subject to blunt legislative restrictions. Labour hire helps mining companies to manage fluctuations in demand and supplement core skills, such as planned maintenance shutdowns, specialised construction and high-quality rehabilitation.

Similarly, service contractors offer flexibility by providing labour, capital and expertise, as well as by running whole-of-site operations. Contractors settle their own enterprise agreements – including wage rates – with unions, and union density at some sites run by contractors is more than 50 per cent.

The MCA notes the government's election commitment to legislate a right for casual workers to request a conversion to permanent employment. The MCA supports the institution of a casual conversion right consistent with the model clause in most modern awards and submits that the definition of a casual employee should be clarified in the *Fair Work Act* to mean an employee who is engaged as such and paid a casual loading.

Further, the MCA agrees with the Attorney-General and Minister for Industrial Relations that there is scope for increasing the efficiency of agreement making by the Fair Work Commission, which would in turn reduce delays in employment and wage increases.

The MCA supports the government's proposal to extend greenfields agreements from the current maximum of four years (from the time of approval by the Fair Work Commission) to a period that covers the life of projects. The definition of project completion should not be prescribed by government, but rather should be a compulsory matter for the parties to a greenfields agreement to negotiate. Parties should also be required to consider likely future conditions in the labour market and agree to a schedule of wage increases.

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<sup>14</sup> Australian Bureau of Statistics, cat. no. [Average Weekly Earnings, Australia, May 2019](#), released 15 August 2019, cat. no. 6291.0.55.003 [Labour Force, Australia, Detailed, Quarterly, Aug 2019](#), released 26 September 2019.

Further, the reform of greenfields agreements should extend to improving the approval test for single-enterprise agreements and restoring the option of a 12-month non-union agreement.<sup>15</sup>

A key reform priority for the Australian minerals industry is confining permitted content – over which protected industrial action can be taken – to matters that directly affect employers and employees. In mining, it is not uncommon to see clauses in enterprise agreements that have little to do with the employer-employee relationship.

Simplifying the process by which expired enterprise agreements can be terminated is another overdue reform. Currently, employers cannot easily terminate expired agreements, which often contain historic clauses that hinder workplace productivity and innovation. The MCA recommends that the government institute a more practical test for the Fair Work Commission to apply when considering applications to terminate expired enterprise agreements.

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<sup>15</sup> For more details, see Minerals Council of Australia, [Submission on Attorney-General's discussion paper on project life greenfields agreements](#), 1 November 2019, MCA, Canberra.