

Where would NSW be without mining?

Jai McDermott, Director Strategic Communications, 19 July 2010

Thank you to the Lake Macquarie Business Club for the invitation to come and speak with you today and to Jenny Barrie in particular for putting this event together.

I would also like to acknowledge Katie Brassil in the audience, who as well as representing one of our very important and local members Centennial Coal, is a great advocate for the Hunter business community and for the region generally.

One of the nice things about working for the Minerals Council and the mining industry is the fact that it brings me up this way regularly. I grew up out at Caves Beach and lived in Newcastle up until 2004, so this is an area I am very familiar with and it's always nice to have an excuse to come up the F3.

When I was first invited to speak at today's event we were in the middle of an intense national debate over the Resource Super Profits Tax, or the RSPT. This was a tax proposal which would have seriously undermined the industry's international competitiveness, increased sovereign risk and cost jobs and investment to the long-term detriment of the economy and the Hunter region in particular.

Well what a difference a month can make. The RSPT is gone and we have the far more benign sounding Minerals Resource Rent Tax or the MRRT, the Rudd Government is now the Gillard Government and we'll soon be asked to vote in a Federal election run on climate change and asylum seekers... some things never change.

While the shape of the MRRT is certainly an improvement on the original tax proposal, there is still plenty of work to be done. By confining the new tax to iron ore and coal, the Gillard Government has ensured that NSW and therefore the Hunter will do much of the heavy lifting in generating \$10.5 billion over the forward estimates. This presents some challenges and opportunities for this region.

I've been asked in my address today to answer the question "Where would NSW be without mining?" It is an interesting way to pose the question about mining's contribution in NSW and it illustrates a fundamental challenge our industry faces in the constant battle to maintain our licence to operate. The reason for that is that most people wouldn't have the faintest idea.

"You can't eat coal" is one of the favourite lines spruiked by people who campaign against mining. This is true – but there's a much longer list of things you can't do without it. Ours is an industry which services an insatiable and growing demand for energy both here and overseas at the lowest possible cost.

Even so, I believe one of the biggest tasks we face as an industry is to better communicate the enormous contribution made by the industry to our way of life. For example, through the essential commodities it provides for domestic use and export customers, the economic benefits it provides through royalties and taxes or directly to the local economies of host communities; through financial and in-kind assistance for a host of causes, groups and projects; and last but not least, through job creation and capacity building in regional NSW.

Without better communication of these facts, and in the absence of a product the community is likely to actually touch or feel emotionally connected to, we risk ever increasing regulation that does not necessarily deliver better outcomes but simply poses more challenges to growth and investment, such as the one we have just been through with the original RSPT.

Mining in NSW is a \$23 billion industry. Of course there is more to the NSW mining industry than coal, even though it accounts for 85% of total production value. Metallic minerals account for approximately 12% of the total value of production and we have large reserves of industrial minerals. While these commodities comprise just 1% of total mineral production value, they are essential for the manufacture of important products like bricks, cement, glass, ceramics, pavers, pipes, paints and plastics.

Payments to the NSW Government from royalties alone increased from \$489 million in '06-07 to \$1.3 billion in '08-09. That's a 261% jump in the space of three years. It's a contribution which effectively halved the State budget deficit in that year.

In 2009-10 the industry's economic contribution included a return to the people of NSW of an estimated \$953 million in royalties which will increase by 85% to \$1.8 billion this coming year.

This year's NSW Budget projects that the industry will pay \$6.8 billion in royalties to the people of NSW over the next four years. These royalties are free and clear of wages, infrastructure, community support programs and state and federal government taxation.

These royalty revenues support the State's schools, hospitals and other vital infrastructure. As the Budget figures also demonstrate, these royalty revenues increase substantially, to the benefit of all NSW citizens, when the minerals market is robust.

Talking about the mining industry's royalty contribution is just as topical as ever, because for a long time now the region has been fighting a battle to see a fair share of those funds returned to the Hunter by way of investment in infrastructure, both hard and soft.

NSWMC is supportive of the need for publicly funded infrastructure to keep pace with the needs of growing populations and the aspirations of regional communities in NSW.

The very large populations in metropolitan areas like Sydney mean that huge resources are needed to service these centres. The problem of course is that the regions always seem to come a distant second. And in the face of significant population growth brought about by mining and other industries, the pressure on local hard and soft infrastructure grows as well.

In the absence of what people in regional areas regard as a fair share of public funds for these types of needs, mining communities in particular have mounted a strong case for a fairer share of mineral royalties to the regions that help to generate them.

Mining operations also make a direct contribution to the economies and social fabric of local communities. The NSW mining industry is a major, high value employer, particularly in regional areas. The mining industry helps to create diverse, resilient regional economies and provides young people in regional NSW with a greater range of choices for a career close to home and family.

High wages paid to employees in the industry are spent on goods and services, much of it locally. Companies provide funding to a wide range of community groups, charities and sporting clubs. Many companies also actively encourage and support staff members as they play an active role in community life through volunteer work and other activities.

The growth of investment, employment and regional economies can also lead to challenges for the communities that host the NSW mining industry. Greater pressure on local infrastructure from expanding populations, changing social structures as communities grow and evolve and the availability of affordable housing and health services are some examples of how impacts may be felt.

The mining industry acknowledges that having a job is not the only thing important to people living in regional NSW. Communities deserve adequate social infrastructure to support the economic growth brought about by mining. However social infrastructure must be partnered with hard infrastructure to ensure these communities are adequately looked after. The industry also strongly believes that its future relies on resilient and effective partnerships with the communities that host its operations.

Effective partnerships are built on respect and mutual benefit, with each partner recognising and catering for the needs of the other. The NSW mining industry has heard and supports the message from its host communities that the Government needs to invest in regional areas to ensure social infrastructure keeps pace with the aspirations of these communities.

The Minerals Resource Rent Tax has created an opportunity for some of these needs to be addressed. The Federal Government has earmarked an initial \$6 billion in infrastructure funding to be shared among the States.

This brings me to my earlier point about NSW being one of the three 'heavy lifters' under the new tax. NSW will share in the burden of the MRRT along with the other coal and iron ore producing states: Queensland and WA.

NSW makes up 42% of total Australian black coal production and comprises a 40% share of Australian coal exports. As such, NSW must share in the \$6 billion funding allocated to regional infrastructure investment from revenue raised through the MRRT.

In the past fortnight we have written to the NSW Premier and the Federal Minister for Resources urging them to ensure NSW sees a reasonable return for its contribution. The responses so far have been promising, with Minister Ferguson writing to the Newcastle Herald to assuage our concerns and the Premier telling us directly, via twitter no less, that she is well and truly onto it!

Let's hope we can turn that rhetoric into reality.

The NSW mining industry is also a major employer in NSW with over 38,000 direct jobs – about 15,000 of those here in the Hunter. If you include the 30,000 jobs in minerals processing then some 18% of NSW employment is directly or indirectly related to mining and 75% of that resides in regional and rural NSW.

One of the very interesting things I learnt through the RSPT debate was the extent of the 'knock-on' effect which the industry has across the economy. I understand some of the statistics I have just spoken about, particularly the ones on indirect employment and job multipliers can seem a bit theoretical or inflated. It's the real life stories that need to be told.

For example, I met the Managing Director of a company which provides specialised mining equipment to the industry, based in Western Sydney. The business directly

employs 80 people, with the staff coming from the South Coast, Pymble and Penrith among other places.

That business fed work to a clutch of small businesses and sole traders in Sydney, Gosford and the Hunter – painters, steel fabricators, machine shops – all critical to the supply chain and all heavily reliant on the steady flow of orders.

Sitting with him at his factory a couple of weeks ago was an enlightening experience, as he rattled off a dozen or more business in the surrounding streets of the industrial park which also did major business with the mining industry.

In the grip of the RSPT, this business had almost \$40 million worth of contracts with mining operations all over the country on hold. The Government's announcement came just six weeks after this man had bought new factory space to upgrade his operations and brought a number of contractors on as full-time staff because of his confidence in the market and the growth forecasts for the industry.

From May 2 when the tax was first announced, he estimated that he had until sometime in August before he would face some hard decisions. The potential for collateral damage was immense, smack bang in the middle of the Western Sydney mortgage belt. It illustrated for me the reality of mining knock-on effect, well beyond mining towns and regions, right through the economy.

The industry spends more than \$2 billion a year on local and regional suppliers in the Hunter and contributes more than \$10 million a year towards local community projects and amenities.

In addition to taxes, royalties and jobs, the industry is also injecting real wealth into the NSW economy. The value of coal exports in 2008-09 was an estimated \$17 billion; up from \$8.2 billion the previous year. Including our other minerals and metals exports, the value blossomed to more than \$20 billion this year.

Global demand for commodities which are mined in NSW are projected to grow strongly over the next five years. Growth will be supported by a return to growth in developed economies and continued strong demand from developing nations. The outlook for growth driven by population growth, rapid urbanisation and industrialisation remains strong, particularly in the developing economies of Asia.

NSW has capital expenditure of more than \$5.2 billion in projects either under construction or committed.

Additional projects worth almost \$12 billion are categorised as 'less advanced'. The percentage of these projects which will proceed to the advanced stage will depend on a wide range of factors including global demand and access to capital. Critically for the NSW economy, other determining factors such as the cost competitiveness of developing NSW deposits versus those held elsewhere, sovereign risk factors, regulatory efficiency and policy settings will also play a decisive role. The potential for economic growth should NSW get these right, is immense.

The industry's performance in recent years has been hampered by infrastructure constraints, particularly in the coal export supply chain. It is estimated that coal supply chain constraints have cost the industry \$2 billion in lost export revenues between 2005 and 2010 and demurrage charges of approximately \$300 million per year. Indirect costs including decreased customer confidence, loss of exports markets and market share are also significant. There is also an opportunity cost for the people of NSW through foregone royalties and lost employment opportunities.

Major reform of port access arrangements, expressed in the Capacity Framework Arrangements for the Hunter Valley Coal Chain, which commenced on 1 January 2010, underpin investment in additional port infrastructure which will take Newcastle's coal export capacity to 211 million tonnes.

This is being matched by significant investment in rail infrastructure by the Australian Rail Track Corporation (ARTC) as well as investments to expand the capacity of

haulage providers. Collectively, it is estimated that this reform and investment will deliver NSW additional export revenue of \$6.5 billion, 25,000 jobs and an additional \$500 million per year in State royalties.

These are just some examples that illustrate the point that a strong minerals industry means a strong NSW.

I would like to close by addressing briefly some of the realities about the industry's impacts. Certainly while mining brings many benefits to NSW, the industry does have impacts, many of which are regularly and hotly debated not just in some sections of our host communities, but also in Macquarie Street.

Last week the NSW Government announced a new 'whole-of-government' approach to coal mining including a Sub-Committee of Cabinet which will be established specifically to consider mining issues and to develop a strategic plan for coal mining by the end of the year.

We think that a whole-of-government approach is long overdue and should help to demystify the regulation regimes already in place and hopefully debunk some of the myths about mining.

While there are more than 570 pieces of legislation, regulation and guidelines applied to mining making it the most regulated industry in NSW, it is clear that some parts of the community remain concerned about the impact of our operations. Where there are problems identified, we think this new process creates a pathway to have them addressed.

Coal production is expected to increase to meet growing demand for exports over the coming years, which is why we all need a better coordinated approach to assessments, development and regulation. This renewed focus should provide the community and the industry with more certainty about the Government's approach to issues such as the environment, development and the need for strategic land use planning in regional

NSW. We look forward to taking part in the consultation process as the NSW Government's strategic plan for coal mining is developed.

So in answer to the question "where would NSW be without mining?" I would conclude that as consumers we would have a choice between living in the dark or paying considerably more for the energy required to power our modern lifestyles.

As a region we would need to find alternative employment for the 15,000 men and women who are directly employed in the Hunter mining industry, as well as identifying a new source of work for the many small businesses which service the industry.

And as a State we would be considerably poorer without our most valuable export commodity. We would also have a significant shortfall in our capacity to deliver the essential infrastructure and public services which we take for granted.

Thank you.

ENDS