



## MEDIA RELEASE MINERALS COUNCIL OF AUSTRALIA

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### INVEST MINERALS-LED PROSPERITY IN SUSTAINABLE GROWTH

The current strength of the Australian minerals sector should be used to address capacity constraints and promote wealth generation rather than be squandered on short-term consumption, the senior vice-chairman of the Minerals Council of Australia, Charlie Lenegan said today.

Launching the *MCA 2005 Minerals Industry Survey* today, Mr Lenegan said there were three central messages to be drawn from the comprehensive survey of business conditions and outlook for Australia's \$120 billion minerals sector.

"Profit levels in the industry, as reported by survey respondents, are at their highest levels since the 1980s, growing by 14 per cent compared with the 10 year average of 7.8 per cent. Investment is expanding strongly, nearly doubling to reach \$10.1 billion in 2004-5.

The strength and length of the current expansion will be limited however, if we fail to address continuing and emerging capacity constraints. That means replenishing our national mineral inventory, removing bottlenecks in export corridors, building the pool of professional and trade skills, tackling the problems posed by shortages in production inputs, and improving our relationship with the communities in which we operate.

The national wealth being generated by the minerals sector expansion must be used to lock in today's prosperity for the longer-term, not squandered on short-term consumption. With mineral sector contributions to the national tax take up by 60 per cent, the revenues flowing into government coffers provide a rare opportunity for fundamental, structural business tax reform."

The annual *Minerals Industry Survey* provides data on key industry indicators as well as on the safety and health performance of the sector, environmental rehabilitation, Native Title and Indigenous development, and overseas exploration expenditure.

Direct employment increased by 4 per cent in the year to June, following a 12 per cent increase in the previous year. He said that an explanation for the slower growth was the scarcity of skilled professionals and tradespeople.

The competition for scarce skills is also forcing up costs, a trend which will be even more starkly evident in next year's survey. These skills shortages, combined with the shortages of production inputs like plant and machinery, are putting projects at risk of being delayed or mothballed," Mr Lenegan said."

Mr Lenegan said another area of concern was the faltering effort to replenish the national minerals inventory. Australia's share of global exploration spending was just 12.6 per cent in 2005, substantially lower than the 17.6 per cent recorded in 2002.

"The industry urges the Federal Government to commit to measures to address the structural impediments to mineral exploration expenditure in Australia, including a flow-through shares scheme."

Mr Lenegan said the industry had taken great strides to improve relationships with Indigenous communities and must continue to refine and streamline the native title system for the mutual benefit of Indigenous communities, the minerals sector and Australia.

"The report shows that after years of under-recognition, the global market has turned our way. But we should not be seduced into a false sense of comfort. We must work even harder to ensure the industry's upswing lasts as long as possible, and makes the greatest possible contribution to society."

The report can be found at [www.minerals.org.au/mis](http://www.minerals.org.au/mis)

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### 2005 Minerals Industry Survey – Highlights

Indicators of **profitability** show the overall performance of the minerals industry improved significantly in 2004/05.

- **Net profit return on average shareholders' funds** was 14.0 per cent in 2004/05, compared with 7.4 per cent in 2003/04, and 7.9 per cent in 2002/03. The profit result was also well above the 10-year average (1995/96 to 2004/05) for the industry of 7.8 per cent and the highest result since 1989/90. Net profit return on average assets employed also rose, from 2.7 to 5.2 per cent and is well above the 10-year average of 3.3 per cent.
- **Investment growth strengthens** – Net capital expenditure on fixed and deferred assets rose by 96 per cent in 2004/05 (to \$10.1 billion), comprising a 75 per cent rise in the mining sector and a 225 per cent rise in the smelting and refining sector of the industry (from a relatively low base in 2003/04). Reflecting expected future growth, a significant number of new projects were commissioned in 2004/05. These new projects continue the levels of investment expenditure by the industry since the mid-1990s, and should underpin future expansions in industry production and exports.

**Direct employment** rose by 4 per cent (some 2,200 people to 51,525).

- Around 26 per cent (or more than 1 in 4) of full-time equivalent positions in the industry are now contracted out.
- Respondents forecast a decrease in employment, of 4 per cent, in 2005/06.

In 2004/05, average \$US **world mineral prices** rose by 33 per cent, which, when adjusted for the impact of the \$A rising around 6 per cent between 2003/04 and 2004/05, translated into a 26 per cent rise in the \$A commodity price index between 2003/04 and 2004/05. The rise in the \$US commodity price index reflected strong rises in average \$US prices for most mineral commodities, particularly coking coal, steaming coal, lead, iron ore, and copper. These increases were driven by a combination of an increase in

commodity demand due to economic activity in Asia (particularly China) and, to an extent, the impact on supply of continued industry consolidation. World prices for mineral commodities are expected to be generally higher in 2005/06, according to official and private sector forecasts.

This is expected to result from even stronger global industrial activity.

**Mine production** as measured by the Minerals Council of Australia Mine Production Index, rose by 3 per cent in 2004/05, following a rise of 4 per cent in the previous year. Overall, the Mine Production Index has risen by 34 per cent over the last 10 years. The Smelting and Refining Production Index fell by 3 per cent in 2004/05, with production results varying across the range of metals produced.

In 2004/05, respondents spent \$63 million on **overseas exploration activities** and \$488 million in **Australia**. Total exploration expenditure by all Survey respondents, of \$551 million, compares to the \$606 million spent in 2003/04 and the \$550 million spent in 2002/03. Larger Australian minerals company respondents are currently spending around 15 per cent of their exploration budgets overseas. This underlines the critical importance of Australia's mineral investment climate remaining competitive.

Some specific issues discussed in the Report are:

- The necessity for Australia's **investment climate** to remain competitive in the face of continued long-term price pressures and increased world competition. Critical issues include: ongoing tax reform; improving productivity; Native Title and Indigenous heritage issues; environmental issues, including greenhouse; international trade and investment policy issues; streamlining of approvals processes; provision of world class economic infrastructure and continued microeconomic reform.
- The **safety and health performance** of the industry requires further improvement and the minerals industry continues to accord safety and health its number one priority.

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