Martin Ferguson AM

Hunter Business Mining luncheon

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12pm: South’s Leagues Club, Merewether, NSW

Introduction

Thank you for the opportunity to speak to the Hunter Business Mining. As the Resources and Energy Minister for over five years, in the Rudd and Gillard Governments, I have historically had a lot to do with the industry and the Hunter.

I thank Westrac for sponsoring the event and express my appreciated to its Chief Executive, Greg Graham, for his kind words of introduction.

Today, I wish to reflect on the impact of the mining boom and particularly highlight the benefits to ordinary Australians that would not consider themselves participants in the industry.

I will also touch on the challenges confronting the industry, especially from a coal perspective as we move decisively from the investment phase of the mining boom to the production phase.

Benefits of the Boom

But let me first turn to consider the current post-Millennium boom.

It began in about 2001 when prices for energy and mineral commodities began to surge on the back of Chinese demand for iron ore and strong growth across Asia for LNG and coal.

Since 2001, mining's share of GDP has risen from 1 per cent of the economy to 8 per cent.

It has accounted for more than 20 per cent of business investment and generated around 50 per cent of our imports.

The boom has clearly been without historical equivalent and has brought with it clear and substantial economic and social benefits to Australia.

We have seen around 400 resources and energy major projects progressed through to the committed stage, representing a combined investment value of $407 billion, with around $220 billion of projects still under development.

Export revenues from minerals and energy also tripled over this time and are projected to continue growing to $274 billion in 2018-19, at an average rate of 7 per cent a year from 2013-14.

The boom has boosted our terms of trade remarkably with the average level of the past decade around 60 per cent higher than in the 1990's.

The elevated terms of trade has contributed to a higher Australian dollar, which in turn has generated increased disposable incomes and greater purchasing power for ordinary consumers.

In terms of the resources sectors overall contribution to the national economy, in 2013-14, the mining industry generated 11 per cent of Australia's G.D.P from 2.3 per cent of its workforce.

It has also resulted in a rapid expansion in the size of the mining industry workforce.

As at May 2014, the mining industry employed around 264,000 people, an increase of 150 per cent relative to June 2004.

We should also not forget the huge benefits to non-resource activity.

In other words, the services not directly relating to extracting resources, such as business services, construction, manufacturing and transport, overwhelmingly derived economic value from the boom.

This represents a large spill over from the resources sector into other parts of the economy.

While the industry added around 160, 000 jobs in the past ten years, three times this number was created in secondary, non-mining activities compared to those created in direct resources extraction.

As a Grattan Institute report from July last year makes clear, the mining boom has also been very good for the less formally skilled and educated workers.

In particular, the boom in construction has provided these workers with more opportunities than may ordinarily be available.

Closely related to workforce numbers has been a huge growth in mining industry wages, particularly for skilled workers. In each year since 2003-4, wage growth in the mining industry (measured by the ABS wage price index) has been above the national average.

Another key benefit has been the boost to regional development in Australia, including for Indigenous Australians.

The mining industry proudly boasts of being the highest private sector employer of Indigenous people.

I specifically refer to these facts, as there has been a tendency by some of our detractors in the public arena to assess the contribution of mining to Australia's economic and social welfare by the revenue take from one particular tax.

This is as simplistic as it is wrong

The benefits of resource development have been, and will continue to be, broad and manifest – higher economic growth and rising national incomes, a massive increase in export revenue and terms of trade, more jobs, dispersed economic development in key regional areas and increased revenues for local, state and federal government.

We as a nation are better off for the boom then had it not occurred. It was the foundation of Australia's economic success over the last ten years.

The next phase

The sector is now undergoing a transition from large scale investment and construction to the operations and production phase.

No longer do high commodity prices support record revenue levels, high profits and huge investment.

The mining industry has been required, not without pain to transition from record investment to increased output. This has impacted on employee numbers, capital investment and lower exploration expenditure.

The focus is on increased production, off a lower cost base and lifting productivity.

This has been made more difficult by a strong dollar which has not come down substantially as industry historically expected with the moderation in commodity prices from record levels.

We might have a tradition of being a reliable exporter of mineral and energy commodities, with valued trading partnerships, both old and new found friends, but our future is dependent on addressing our productivity in the immediate future.

We must not price ourselves out of the market as we cannot take for granted Australia's attractiveness for investment.

Going Forward

Things might appear gloomy to the industry today, but we have been there in the past and we will be there in the future,

It is the nature of the industry.

Despite our challenge, in 2013-14, mining is still the key contributor to Australia’s economic growth, followed by financial services and construction.

Commodity prices and investment might be down, but the production and export of mineral and energy commodities increased considerably over the past twelve months.

As a trading nation Australia’s proximity to Asia positions us well as does our diverse and prospective resource base, low sovereign risk and transparent and respectful institutions.

The demand for energy is a prime example of the opportunity ahead of us.

Demand for electricity

As we can all appreciate, base load affordable and reliable electricity is an essential service.

It is central to industrial development, vital in delivering clean water and sanitation, the provision of basic health and education services and jobs.

The rapid uptake of electricity was fundamental to the industrialization of O.E.C.D economics, increased prosperity and higher living standards.

Fortunately, for a resource rich nation, the non O.E.C.D world has the same aspirations for economic growth as we do, yet across the globe 1.3 billion people do not have access to low cost reliable sources of electricity.

In fact, 17 per cent of the world's population resides in O.E.C.D countries yet they account for 49 per cent of world electricity consumption.

This is despite of the fact that world electricity use increased by 85 per cent over the last two years, with Asia, our backyard, being the key contributor to this growth.

For these reasons the global demand for energy is set to grow over the next two decades, half of this growth being in China and India.

All forms of energy will grow in demand, but fossil fuels will continue to make up the bulk of global energy supply.

As the International Energy Agency stated in its World Energy Outlook 2013, by 2035 fossil fuels are expected to account for 75% of total global energy supply, same share of primary energy supply as today.

Moreover, in addition to coal, Australia has abundant resources of natural gas, renewable energy and uranium.

Thermal coal

But given that I am in the Hunter today, the focus is very much on thermal coal.

Like the Prime Minister, I believe that coal has a future.

It is our largest export and as Geoscience Australia, a wonderful institution states “we have the fourth largest share of coal reserves in the world.

We are also the second largest exporter of thermal coal in the world.

This is important in the context of thinking about the developing world and the ultimate goal of global universal electricity access.

The Bureau of Resources and Energy Economics, September Quarter 2014 Report, referenced that 1.7 billion people gained electricity access between 1990 and 2010.

Central to this was economic development, and urbanization driven by low cost energy sources.

Of course, there is a place for renewables, nuclear and gas but in this period for every person that gained access to electricity through solar and wind energy, four gained access through hydropower, six through gas and 13 through coal.

For these reasons the I.E.A forecasts that thermal coal will continue to be the largest source of fuel for power generation globally, 25 per cent of total primary energy supply by 2035.

All of this represents an enormous year on year addition to market demand for Australian production – if we play our cards right.

The problem is that as global supply expands Australia is facing growing pressure from other low cost suppliers.

At the same time, rising local input costs and moderating commodity prices are placing pressure on project profitability and Australia's investment attractiveness.

There is a risk that we will begin to price ourselves out of the market.

Falling prices have placed increasing pressure on Australian industry to find cost savings that will not only see new investment but will ensure that existing mines continue to operate.

New coal and LNG investments could be worth over $50 billion over the next half decade.

BREE reports that Australia has around 70 coal projects worth an estimated $78 billion in investment that have been publicly announced or committed to.

But as the recent string of decisions to cancel or postpone a number of projects has shown, maintaining current projects – let along capturing new investment – will not be easy.

Growing global competition for investment dollars, and tighter operating margins, means we need to focus on improving our competitive position.

In this regard there are three areas of policy reform requiring urgent attention:

- Firstly, lifting business productivity through increased innovation, smarter business practice and greater workforce productivity;
- Secondly, successfully managing the transition in skills and training that is required in the next phase of the mining boom, and;

- Thirdly, lowering costs by streamlining and reducing red and green tape.

I will briefly address each of these in turn, starting with productivity.

Lifting business productivity

In an environment where prices are no longer at their historical highs, and competition from low cost economies is on the rise, the industry needs to lift its game and get more value for the money it has spent.

According to BREE, multifactor productivity in the mining sector has fallen in recent years.

This reflects the move to lower grade ore bodies and the lag between heavy capital investment and reaching actual production.

As we have already seen with increasing quantities of commodities being exported, it is reasonable to assume that the heavy capital investments will see further output growth and lifts in productivity.

However, in a more competitive economic environment we must look for all reasonable opportunities to improve productivity.

This means adopting smarter business practices and improved technology and process innovation.

The next wave of projects will also need greater cooperation and use of shared facilities to hold down their capital costs and to attract investment.

One area where Australia has an enviable record of lifting productivity is through innovation.

This is reflected in the numbers, with industry spending more than $4 billion annually on research and development.

Given Australia's high wage levels, we depend on advances in innovation to lift our productivity and competitiveness.

Skills and Employment

Another way that we can increase industry productivity is through the provision of adequate skills and training for workers.

As the industry moves from the construction to the operations phase, we are going to have to work hard to train a workforce with different skills to manage projects.

The employment outlook in mining operations remains positive with job numbers expected to increase by 7.4 per cent to 2018.

The Australian Workforce and Productivity Agency, in its Resources Sector Skills Needs report of 2013, has recognised the transition that is occurring in the resources sector.

The skill shortage may not be as acute now as it was two or three years ago but the Agency still projects a shortage of workers in mining and gas operations.

As the Agency has pointed out, the shortage has shifted from construction workers to jobs like metal fitters and machinists, structural steel and welding trade workers, and engineering technicians.

At the same time, the increasing automation of activities is not expected to reduce overall employer numbers, but it will demand a higher level of training and up-skilling of workers.

Filling these kinds of gaps is crucial to both our industry and the Australian economy.

We must also be looking at labour productivity – both in terms of ensuring realistic wages and conditions, but also in promoting the skills and development of our workforce.

This is not about forcing longer hours and lower wages on workers but rather about working smarter and being pragmatic in relation to the circumstances of the business cycle.

But continuing to pursue top-end pay and conditions as profit margins across the sector fall clearly places further business opportunities at risk and is a lose-lose outcome for workers. Some unions need to be more conscious of this.

Reducing regulatory burden

The final area where we can not only achieve cost-savings but make Australia a more attractive investment destination is by reducing regulatory burden.

Increasing compliance costs of Federal and State project approvals has become a significant deterrence to investment in Greenfield and Brownfield projects.

Quite simply, we need to reduce green tape.

Now, people might hear that and assume that I am suggesting that we reduce environmental protection and management.

This is not the case.

It is just ridiculous that we tolerate, as a nation facing cost pressures, a situation where weak environmental processes exist, and resource companies prepare assessments for both State and Federal Governments, each of which cover separate and overlapping areas of responsibility.

The result is project delays and cost blow outs without a demonstrable environmental benefit.

In terms of the regulatory regime, the Minerals Council estimates that the time needed for regulatory approvals in Australia is 18 months longer compared to competitor countries.

Currently, more than 95 per cent of government effort goes into project assessment and condition-setting while less than 5 per cent goes into monitoring the effectiveness of approval conditions, environmental and performance outcomes.

I think the ultimate goal should be a single, national environmental regulator that is separate from both state and federal government department.

A model for this is the National Offshore Petroleum Safety and Environmental Authority, which regulates environmental matters in Commonwealth waters.

Social license to operate

Finally, as we have seen in the development of the coal, uranium, on shore natural gas and wind industries, an intangible but critical factor in business environment is securing a 'public license' to operate.

Unfortunately, I believe that this is becoming increasingly difficult for both industry and government to manage.

This is because of an ideologically driven minority that is loose with the truth and employs disinformation, or simplistic and uniformed arguments, to sway public opinion.

When this generates widespread community concern it can result in almost irresistible pressure on politicians to reach for hastily conceived policies or over-regulating industries.

In my experience, a great deal of the angst and concern occurs before projects are on the ground when community fear and lack of experience with the company or technology is greatest.

A good example is the onshore natural gas industry in Queensland where much of the community resistance has dissipated following operations commencing and apocalyptic consequences failing to materialize.

It must be said that companies picking up their game with respect to community consultations has also helped.

Hopefully, this experience will be mirrored in New South Wales, which faces a crunch in its gas supply in the next few years.

If we don’t get new supplies of gas in the market then consumers all around the east coast of Australia will face higher gas bills.

Politicians need to take a stand on the issue and stare down opponents who hate development but are well-off enough to pay their own higher gas bills or don’t work in energy intensive industries where their jobs will be at risk.

Again, this is not an attempt to suppress alternative views.

But we need a more informed debate and for industry and government to work closely with local communities to build understanding from the earliest stages.

Conclusion

In closing, Australia has benefited greatly from a decade of hard work and investment in building a world class resources sector and capturing the opportunities offered by a once in a lifetime event of a rising China.

In one sense this was because we were lucky to be in the right place at the right time.

But we are not the only country with major mineral and energy endowments.

The lesson to be learned from this period is that we were able to grab these opportunities because we had the policies in place to quickly attract the investment needed to bring product to market.

As these investments transition into the production phase, and global competition grows, we must remain focused on maintaining that competitive edge.

Make no mistake, we have tremendous further opportunities available but will only release these if we do the hard reforms to improve our competitiveness. Thank you