QRC

submission

Working together for a shared future

2008-09 Queensland Budget: Opportunity for economic reform and structural change

Premier of Queensland
Treasurer of Queensland
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The Hon Anna Bligh MP
Premier of Queensland

The Hon Andrew Fraser MP
Treasurer of Queensland

Dear Premier and Treasurer

2008-09 Queensland Budget: opportunity for economic reform and structural change

As the first new state administration in 21st century Queensland, your government has been presented with both circumstance and opportunity to lay out an ambitious policy agenda with inter-generational benefits for the people and economy of Queensland.

The Queensland context is contemporaneous with an emerging new vision for Australia following the election of a Federal Government with its own strong leadership foundations in Queensland. There is a new, constructive approach in evidence at the Council of Australian Governments (COAG); the emergence of a new direction in Australia's broader social agenda through initiatives embracing indigenous Australians; and the pending implementation of a streamlined local government system in Queensland.

Against this background, the Queensland Resources Council believes that there is great incentive for your government to set its policy sights high, and build on a vision for Queensland that capitalises on the current resources 'supercycle'.

In our view, the 2008-09 Queensland Budget must target and enable the structural changes and economic reforms necessary to lock in a prosperous and assured future. This Budget can be the driver of the economic reforms necessary to transform the economy and boost Queensland's bank of social capital. The QRC recognises your decision to overturn the tradition of bottom-up budget development informed by Ministers and their agencies, in favour of a top-down whole of government model driven by your announced priorities for the state, as a significant and laudable first step in the application of the budget to priority structural reforms. It is significant that the resources sector sits at the heart of many of your own priorities including infrastructure, climate change and the *Smart State* strategy.

Queensland is the nation’s fastest growing state in population terms, and the second fastest growing economy. The minerals demand 'supercycle' being driven largely by the rapidly growing economies of China and India is considered by many leading analysts to be a once-in-a-lifetime opportunity for resource-rich and export-focused states such as Queensland.

The Queensland resources sector is no longer a component of the Queensland economy. Evidence grows daily that it is the foundation of the Queensland economy.

Three simple statistics confirm this claim. First, the value of Queensland's minerals and energy production has surpassed $AU25 billion for the first time. Secondly, the sector represents 15% of the state’s economy. Thirdly, the sector holds the key to one in every eight jobs in Queensland.
The sector is uniquely positioned in the global economic order with governments, private companies and the wider community able to actively contribute to the economic growth that will underpin the fortunes of future generations.

The greatest domestic threat to this scenario of sustainable resource sector development is limited government vision. Sticking to orthodoxy, potential can be squandered and the sector relegated to a bit player in an increasingly global marketplace where clearly unsustainable development in developing countries may prosper at Queensland and Australia's expense.

The QRC respectfully requests not only your government's consideration of the specific budgetary responses identified in this submission but also acknowledgment of the leading role that the resources sector plays now in contributing to your government's vision for Queensland.

This role and the sector's future in Queensland continues to be obscured by traditional perceptions. Media reporting is overwhelmed by the sheer size and multiplicity of projects in various stages of development and implementation. Overlaid by the financial media's pre-occupation with share prices, mergers and acquisitions, the public's perspective narrows even more.

Behind this sits a dynamic industry base of even greater potential value for Queensland. However, its future can not be taken for granted.

The Queensland resources sector, beyond its operational activities, is distinguished by:

- ✓ a total commitment to the safety of its workforce, underlined by a goal of zero-harm
- ✓ industry leading RD&D investment in new technologies (24% of state total)
- ✓ being at the forefront of investment (with government) in funding the search for solutions to today's environmental challenges
- ✓ being the mainstay of employment in regional Queensland
- ✓ contributing actively, innovatively and constructively with governments in areas as diverse as
    - finding solutions to infrastructure bottlenecks (e.g. the O'Donnell review of the Goonyella rail system and industry's appointment of a central coordinator)
    - the development of a groundbreaking resource communities partnership agreement
    - an MoU with the Queensland Government on indigenous education, employment and enterprise development, with an initial focus in north west Queensland
    - substantiating the industrial development opportunities presented by the Northern Economic Triangle infrastructure plan
    - the largest schools-industry partnership of its kind in Australia through the Queensland Minerals and Energy Academy
- ✓ leading multi-billion dollar investment in the infrastructure that enables the sale and export of its products
- ✓ consistent export growth through competing effectively on international markets with Queensland's economy the prime beneficiary.

<u>Leading the way in carbon capture and storage *and* energy efficiency</u>
Over the next 20 years, global energy forecasts point to a doubling of demand for electricity, which means that existing fuels such as coal, gas and uranium are going to play an increasingly important role alongside, rather than in competition with, renewable technologies.

The application of new carbon capture and storage technologies for coal and gas-fired power generation is viewed by scientists and commentators alike as part of the solution to the twin challenges of climate change and energy security, in a world where almost two billion people do not yet have access to electricity.

The challenge for Queensland is how to maximise the value of its mineral wealth while minimising the environmental impacts of its use in an energy-hungry world. The QRC suggests that in parallel with the almost $1 billion investment by industry and the Queensland Government in carbon capture and storage technologies, and the growth of lower emission conventional gas technology for an alternative energy supply, Queensland can take a stronger leadership role. This would manifest through the adoption of energy efficiency measures in domestic and industrial spheres that constructively delay the need for additional investments in baseload power generation (i.e. any growth in energy demand should be partially met through inducing agreed levels of efficiencies in energy consumption).

There is no obstacle to Queensland seeking to match the target set by the Government of British Columbia in Canada to meet 50 percent of their prospective electricity load growth out to 2020 through energy efficiencies and conservation. This target is backed by a well-resourced program working with both household and business sectors. The successful partnership between the state government and local government to reduce water use in south east Queensland points to the significant potential of energy conservation measures.

Delivering key infrastructure: time for a rethink on budget risk
It has become accepted practice for governments in developed countries to assert their economic credentials through budgetary accountability typified by minimising public debt, the sale of public assets and transferring investment opportunity and risk (e.g. finance and infrastructure) to the private sector.

The QRC asserts that having established these credentials, the Queensland and Federal Governments should be prepared to move beyond the roles of brokers, facilitators and business case assessors. Where are the public assets of the future to come from, if not from calculated, bold and visionary investments by governments of the day?

The resources sector is a major source of economic activity in Queensland – delivering growing source of budget revenues through royalties, payroll tax, rates, and commercial returns in government-owned assets including ports, railway tracks, water infrastructure, energy generation and transmission and locomotives. Substantial industry revenues from GST, income and company taxes also cascade to Queensland through the Commonwealth Grants Commission process.

Over-represented on the income side of the government's ledger, the sector has a less substantial presence on the expenditure side. Government investment in infrastructure for the resources sector is fully underwritten by industry, so advantages lie in government passing on access to competitive financing rather than actually bankrolling industry expansion.

The sector pays its own way, and is continuing to underwrite massive new investments in Queensland's export infrastructure.

The industry makes a direct contribution to government coffers through royalties and dividends received from government-owned corporations that will touch $2.3 billion in 2007-08. In acknowledging the minerals and energy sector's contribution, Ministers sometimes refer to the sector paying for essential state services. Just to put this direct revenue contribution into context, the sector's $2.3 billion in royalties underwrites just on $550 of services per head of population

The QRC recognises that Queensland's rapid growth has required a greater resort to debt funding of infrastructure by the State. This pressure on the State's balance sheet can be eased if the Government is prepared to continue to further reduce its traditional role in areas of economic infrastructure which have been underwritten by industry commitments such as take or pay contracts. By further questioning government-owned corporations' investments in large scale infrastructure projects and the provision of services that the private sector could equally or more efficiently deliver, the government could move to lead in areas of genuine market failure that continue to restrain the growth of Queensland.

The Queensland Government, in conjunction with the Federal Government, industry and the private investment sector, must be prepared to shoulder more risk for leading investments in necessary infrastructure and policy implementations that establish long-term investment frameworks for private sector operations, and still secure investment returns to the state. No other stakeholder can effectively play this role for Queensland. There is a critical pre-competitive gap for infrastructure projects where a small government commitment to carrying the tail portion of the asset risk can greatly accelerate the project, with widespread economic benefits.

Only government leadership can realise these investment frameworks in all areas. Private investment capital has too many competing opportunities around the globe to endure reduced profits locally (e.g. from mismatches in investment timelines between mine life cycles and return on investment benchmarks of government-owned energy providers). This theme of government and infrastructure risk management is further explored in this submission's later focus on the North West Minerals Province where it is argued that government leadership is required to solve the energy and transport infrastructure constraints holding back that Province.

<u>The chance to add a new growth component to the State’s resources sector</u>
Not all policy risk is financial. The government must also show leadership in policy renewal in areas of perceived traditional electoral risk. Resources sector growth can be policy-led, as evidenced by the recent and rapid emergence of the coal-seam gas industry on the back of a government mandated target for gas-fired power supply. The government can add another 'new growth' component to the state’s resources sector through approval for uranium mining in Queensland.

The immediate benefits of this policy decision would be an expanded royalty base for the state and a boost to widespread mineral exploration with the potential to create more jobs and royalties. Uranium royalties for the Queensland Budget represent low-hanging fruit in revenue terms. Collateral benefits from any further mineral finds with uranium, (e.g. gold, copper), only strengthen the proposition for uranium mining in Queensland. With the recent endorsement of the Intergovernmental Panel on Climate Change that nuclear power will be part of the global climate change solution, the scientific, environmental and economic case for uranium mining in Queensland is complete.

The QRC recognises that a policy change on uranium presents an internal political challenge for the government, as there are no longer any sustainable scientific, environmental or economic grounds for the current prohibition. Queensland is withholding its uranium reserves from countries that have committed already to a nuclear powered future. Given the policy position and sound, rigid export controls imposed by the Federal Government, the Queensland Government must confront its outdated and ideologically rooted resistance to this issue.

<u>Safety</u>
QRC members have adopted a goal of zero-harm. With a vision for sector growth, this remains an absolute commitment. The government is an important stakeholder in this goal, and the QRC respectfully recommends budget funding is appropriate to ensuring that mine health and safety regulation in Queensland supports continuous improvement of health and safety through an effective, independent, publicly funded Mines Inspectorate.

Pointers to the government’s accountability are clear: the 1994 Wardens Inquiry Report on Moura No 2, the 2005 report of the Queensland Mines Inspectorate Review and more recently the review of the Queensland Mines and Quarries Annual Safety Performance and Health Report (October 2007) all highlight the government’s accountability to improve the funding and resourcing of the Mines Inspectorate.

Specific Budget allocations to implement the recommendations of this series of reviews are recommended as investments of the highest priority.

Exploration: time for a genuine "can do" commitment

QRC continues to promote Queensland as an exploration opportunity zone although hamstrung by an underdeveloped local investment community. QRC welcomes the government's recent budgetary injections and ongoing initiatives in pre-competitive geosciences, which have started to put Queensland back in the game for attracting exploration dollars. However, South Australia has shown that success as an exploration destination requires the full package – comprehensive high-quality and readily available geoscientific data; a strong marketing program which is actively promoted at the highest levels of government; a can-do attitude from government agencies; and a government not prepared to tie one hand behind their back by banning uranium mining. The overall package from South Australia has seen it pass and outperform Queensland as a preferred exploration destination.

The upcoming Queensland Budget can now best reposition Queensland through overturning its uranium mining prohibition to conform with the position held by the Federal Labor Government. The prospect of $AU20billion worth of known Queensland uranium reserves is a rich incentive for further exploration in this state on behalf of an energy-hungry world.

Budget initiatives that boost the marketing of Queensland's exploration potential and augment, or else free-up, the resources of line Departments to administer tenure efficiently, in line with South Australia's highly successful PACE program, would also be sound investments in the future.

Transforming our workforce

Women, together with indigenous people, represent two key target groups as yet to enjoy the benefits of the career potential offered by the resources sector. They also represent significant pools of potential employees for the sustainability and growth of the sector.

Women

QRC considers that the government's excellent *Women in Hard Hats* election commitment has been misdirected in its implementation for the resources sector. The time for awareness campaigns is long past, as women are aware of the sector and want to work in it. It is recommended that these funds be better redirected into various industry programs that create pathways for women into employment or employment-related education and training programs. The QRC's Women in Resources Action Plan, the Mining Industry Skills Strategy recently launched by Minister Welford, and the DETA-QRC partnership in the Queensland Minerals and Energy Academy (QMEA) are examples of such initiatives.

Indigenous Australians

The Queensland resources sector has a strong commitment to growing indigenous employment and business development opportunities. QRC is encouraged by the government's participation through an MoU to work with the sector to achieve these outcomes, beginning with a pilot project in North West Queensland. QRC recommends that the budget recognise this leadership through additional funded initiatives in indigenous education and employment programs in association with schools through the QMEA and in the VET sector through the Mining Industry Skills Strategy, as well as in teacher professional development in schools and mentoring and support programs for schools and indigenous students.

Making regulation work: a commitment to administrative and regulatory efficiency

QRC would like to reinforce a key message from industry which has consistently emerged from numerous reviews of legislation and regulation. Industry is largely comfortable that existing regulatory frameworks are well tested, clear and are working well; but the administration and resourcing of these regulations is letting Queensland down. Resource limitations have meant that the key regulatory Departments have struggled to service industry's growing demand, particularly on tenure issues.

The QRC is looking for recognition that resourcing of key departments needs to reflect the economic importance of the industries they regulate and service. The QRC is concerned that the Departments of Mines and Energy (DME), Natural Resources and Water (NRW) and the Environmental Protection Agency (EPA) are over-burdened by unproductive bureaucratic processes as well as being short-changed in expertise and resources, leading to regulatory inefficiencies, delays and uncertainties around critical tenure decisions.

A high level budget commitment to improving the service that these Departments can deliver to industry would be warmly welcomed by industry and send an important signal to the global exploration market of the importance that Queensland places on a vibrant resources sector. Greater efficiency and more focussed resourcing, has the added benefit of enhancing financial returns to government from commencement of a greater number of projects in a more timely manner.

<u>A renewed focus on cross-Government coordination</u>

The coordination of government policy across multiple agencies is paramount to realising efficient and effective administration; yet this whole-of-government focus seems to be increasingly difficult to achieve. QRC is concerned that consultation processes and coordination risk being fragmented and ineffective as multiple agencies are involved across key issues including community and economic infrastructure, emissions trading, regional planning, Queensland's energy policy, tenure administration, possible new energy infrastructure, geosequestration legislation and regional development.

<u>Reform of government-owned corporations (GOCs)</u>

The QRC contends that ambitious reform and progress in GOCs, be it Queensland Rail, Sunwater or government-owned ports, requires improved commercial practices, genuine customer focus, greater business professionalism and transparency in both governance and operations. That transparency in governance should extend to shareholding Minister arrangements, with the introduction of a clear separation between portfolio responsibilities and the fiduciary responsibilities of GOC shareholding Ministers.

The budget provides the perfect platform for setting out the government's vision for genuine GOC reform.

<u>Regional Development and Planning</u>

Currently, many regional communities are experiencing social and infrastructural limits to growth. Issues such as the availability and affordability of housing and limited access to services such as health care, education options and child care are compromising the ability of resource sector businesses to attract and retain staff in rural and regional communities. Given the state government's strong commitment to regional development, QRC recommends that the Budget itself should drive major regional investments that support further strong growth of the resource sector in regional Queensland.

The QRC is looking for budget commitments by government that deliver quantifiable social infrastructure returns, such as direct support for medical services, to those communities in regional areas whose minerals and energy operations generate substantial revenues for Queensland. In addition, while this Budget must commit funding for the immediate provision of service and facilities, QRC also believes the Queensland Government needs to allocate greater government resources to improve long-term planning and ongoing management of social issues in resource communities, particularly in regional planning, and technical assessment and management of social impact assessments.

New sources of funding
Forward estimates suggest an extended period of 'sensitivity' for the state budget and its dependent policy programs. Treasury will need to factor in the potential negative budgetary impacts of one-off natural disasters such as the production losses from the monsoonal rains and associated flooding of January and February 2008, as well as the upside reflected in forecasts of strong growth in global coal prices and continuing strong metal prices. While tough environments may demand tough budgets, they also demand policy and budgetary measures that grow business investment.

Structured budget initiatives for the resources sector that further underpin the growth of the economy and increases in government revenues through production growth, rather than increases in charges, taxation, or royalties are strongly recommended by QRC. These initiatives must assure the ongoing certainty for investment for member companies through the elimination of sovereign risk. This in turn will bolster the continuing growth of Queensland's economy in an environmentally sustainable manner and underpin the government's ability to continue with policy and project implementation.

To sum up
Premier, I hope you will agree this document is not the usual pre-budget grab bag of bids for new spending and tax breaks. Industry is not seeking government largesse, it is seeking vision and a daring to run a great public administration setting the foundations for this century. Real improvements and efficiencies are achievable within the government agencies and statutory authorities that can further amplify the potential of the resources sector for Queensland. This is a plea for some new thinking from a new administration – a new Premier, Deputy Premier and Treasurer – on some of the key challenges and opportunities confronting the state.

It does propose some policy actions that may test current policy orthodoxy within the government. However, we believe such policies will best position Queensland to take full advantage of the resource sector 'supercycle'. We are also encouraged by the fact that you are on the public record as stating that you are prepared to challenge orthodoxies, and that governments can make historic decisions at this time and should choose to do so. QRC agrees with your public pronouncements that once in a generation opportunities do need a once in a generation response, across all policy areas, including the resources sector.

With the ongoing support and participation of its members, you and your government can be assured that the QRC will continue to play a leading role in the economic and social development of Queensland. The eyes of global industry and markets will be on the state government's budget for signals recognising the increasing value and transformational nature of the resources sector to Queensland.

The balance of the document provides more detail on QRC's policy agenda which we would ask that your government take into account when shaping the next Queensland budget.

Michael Roche
Chief Executive

OVERVIEW SUMMARY POINTS

In the same way that the resource sector interacts with almost every aspect of the economy, so too does a smart state resources policy require a broad and integrated set of policies. A true resources policy requires a whole-of-government focus on a range of key issues. The QRC's agenda for a sustainable Queensland resources sector as it relates to the 2008-09 budget is composed of the following broad interrelated goals:

- **i.** health and safety
- **ii.** infrastructure
- **iii.** mineral royalties
- **iv.** regulation
- **v.** exploration
- **vi.** livable communities
- **vii.** indigenous relations
- **viii.** skills, education and training

The major policy initiatives identified as necessary to achieve each of these QRC goals and the required government budgetary initiatives follow in further detail in the body of our 2008-2009 pre-budget submission.

INTRODUCTION

→ About the QRC

The Queensland Resources Council (QRC) is a non-government organisation representing companies with interests in exploration, mining, minerals processing and energy production. It is the resource sector's key policy-making body in Queensland, working with all levels of government, interest groups and the community.

QRC works on behalf of members to ensure Queensland's resources are developed safely, profitably and competitively, in a socially and environmentally sustainable way.

→ The economic importance of the resources sector

The resources sector lies at the heart of the Queensland economy. It is the foundation around which modern life revolves – providing the incomes, jobs, government revenues and infrastructure services needed for much of the state's unique quality of life.

- → The value of minerals and energy production in Queensland passed $25 billion in 2007 – further consolidating the sector's position as the state's key export earner.
- → Exploration, mining, minerals processing, energy and electricity production companies represented by the QRC directly employ around 45,000 people and are estimated to be responsible directly and indirectly for one in every eight jobs in the state.
- → Over the past three years, Queensland's minerals and energy industries have:
  - generated state royalties in excess of $3.7 billion from production worth $65 billion
  - directly underwritten more than $4 billion of new investment in the state's rail and port infrastructure capacity, with commitments in excess of $2 billion for future expansions .

→ QRC's agenda for a sustainable Queensland resources sector

The future of the Queensland minerals and energy resources sector is inseparable from the global pursuit of sustainable development. The Queensland resources sector is committed to contributing to the sustained growth and prosperity of current and future generations of Queenslanders.

The foundation of our commitment to sustainable development is the concept of a '*social licence to operate*', an unwritten social contract to operate in a manner attuned to community expectations while acknowledging that businesses have a shared responsibility with government and the broader community to help facilitate the development of strong and sustainable communities.

The QRC has a strong track record of providing governments in Queensland with prompt, representative and strategic feedback and advice on policies affecting the resources sector. We look forward to working with government in discussing the implementation through the 2008-09 Queensland budget of the QRC's policy agenda outlined in this document.

→ **QRC's health and safety goal is to ensure recognition of our industry's health and safety leadership**

The resource sector's relentless safety focus
Queensland's resource industries, through the QRC, have nominated safety as the industry's priority issue. QRC's five-year safety plan sets out major priorities for the industry from 2004 to 2009.

While it is important to recognise the many health and safety achievements of the past decade, which have seen fewer injuries to the industry's workforce, QRC believes that even more can be achieved. QRC's plan aims to further entrench continuous improvement in health and safety management in Queensland's resources sector.

Maintain Public Funding of Queensland Mines Inspectorate
QRC looks to the 2008-09 budget to deliver and maintain a well-resourced, expert, independent and publicly funded Mines Inspectorate located within the mines and energy portfolio.

The 1994 Moura Inquiry and the 2005 review of the Mines Inspectorate raised the issue of insufficient funding. That government funding for the implementation of verifying basic health and safety conditions for one of the state's largest and most important industries is insufficient implies that industry's safety has been relegated to a second-tier issue. The leadership and investment of government in further improving safety is essential. Successive reviews have highlighted the need to fund additional resources in the Mines Inspectorate from within existing royalties. This budget presents the opportunity for government to show where it stands on safety, by addressing the resourcing needs of the Mines Inspectorate.

Review of the Queensland Mines and Quarries Annual Safety Performance and Health Report

The QRC supports the majority of recommendations from the *Review of the Queensland Mines and Quarries Annual Safety Performance and Health Report* in principle with further discussions required on various recommendations with government.

The QRC supports a reporting system which will capture information to enable meaningful analysis to support proactive occupational health and safety management strategies. The QRC strongly supports refining and updating the database and to enable sites to directly enter information to avoid duplication and ensuring accuracy. In addition, QRC strongly supports the ability of sites to access the database to retrieve timely information and view industry health and safety performance to enable faster identification on any emerging trends in safety and health.

The QRC encourages the government to progress through the budget the implementation of the recommendations to provide an improved method of collecting and analysing data, and improved annual report of health and safety statistics leading to improved health and safety across the resources sector.

→ **QRC's infrastructure and physical business inputs goal is advocating to government and infrastructure providers the imperative of both timely access to competitively priced infrastructure services and of a long-term government plan to support industry growth and development.**

GOC infrastructure services
QRC is looking for some new thinking around our important infrastructure provider government-owned-corporations (GOCs). Industry is not convinced that a vertically integrated Queensland Rail (QR) has been a successful experiment. While QRC has welcomed the establishment of separate business units within QR as a result of the review conducted by QR's Chair, industry concerns over the efficacy of QR's 'Chinese walls' remain.

In relation to ports, there is a concern that the available Board and management expertise is being spread across too many separate GOCs. Similarly, the DBCT privatisation experiment has shortcomings from a resource sector viewpoint.

SunWater is another GOC whose responsiveness to commercial issues is consistently cited by QRC members as lagging. Like many of their GOC counterparts who are still grappling with the transition to commercial operations, industry is frustrated that SunWater is cumbersome in negotiations and starts from an extremely risk adverse position.

QRC is therefore looking for the government to engage with industry in a discussion around options for transitioning governance of government owned infrastructure to a more professional and sustainable footing.

The Treasurer's budget speech provides the perfect platform for outlining the government's commitment to ongoing GOC reform.

Industry underwrites infrastructure
Industry continues to be concerned at the manner in which investment in industry infrastructure (rail, ports, water pipelines, electricity transmission infrastructure and the like) are reported and discussed publicly.

A member of the public could be excused for thinking that their public funds are being invested into expanding infrastructure to service the needs of the resource industry – as some form of 'business welfare'. Typically in announcing a major expansion, Ministers refer to "our investing" or "government spending". As the Ministerial budget papers make very clear these investments are made through government-owned corporations which are directly underwritten by industry. The risks and costs are contracted to sit with industry and not with government.

A good example of this relates to investment in coal related infrastructure. The coal industry pays for infrastructure in a variety of ways, including direct up-front contributions, regulated charges (including a guaranteed rate of return) and the underwriting of long-term contracts. Irrespective of the method, the one constant is that the coal industry pays for all coal infrastructure. As a consequence, revenue from coal royalties reflects pure economic rent for the benefit of all Queenslanders and commercial returns from government-owned corporations provide commercial rates of return on the state investments which are underwritten by industry.

Over the next three years, the coal industry has guaranteed in excess of $2 billion for additional infrastructure. These huge infrastructure investments are to transport additional production expected from almost $4.3 billion of committed mine site investment between now and 2011. Active consideration of infrastructure required to develop the Southern and Northern Missing Links (rail and port infrastructure) to be underwritten by individual coal companies represents an additional $6.6 billion of further investment by the Queensland coal industry. The additional mine site investment has been estimated by ABARE to provide in excess of $5 billion relating to seven related projects alone.

In short, the industry pays its own way, and is continuing to underwrite massive new investments in Queensland's export infrastructure.

Role of government to facilitate industry development

QRC advocates for the state governments to play an explicit industry development role by sharing at least some of the initial investment risk in key infrastructure projects. Government shouldering this investment risk should not imply a corresponding role in ownership or management of the asset. Rather, governments have a role in facilitating investment on the basis of a 'pure user pays' approach, rather than a 'first user pays' approach.

The distinction is that the first users should pay an efficient cost to access the infrastructure and not face a price that capitalises the full cost of the infrastructure over their initial use of the infrastructure rather than the asset's economic life. This first mover disadvantage is not in the interests of the state's economic development as the investment threshold becomes inefficiently high, deterring investment which should be economic.

The role of the state should be to cover the asset's long term tail, providing the infrastructure developer (likely a government-owned corporation) with certainty of return on the investment until subsequent users are in a position to sign contracts and assume this risk. The state could then recover its share of investment risk from future users, rather than the current situation whereby first users underwrite commercial infrastructure projects and subsequent users enjoy the benefits of decreasing costs to scale.

With global commodity markets currently delivering strong prices, the impact of physical infrastructure constraints on government revenues highlights the lost opportunity to generate royalty revenue to the state. The joint industry-government O'Donnell Review highlighted that infrastructure constraints on the Goonyella export system alone generated an economic cost of $1.2 billion in the 2006-07 financial year. QRC urges the government to consider the impact of inadequate export infrastructure in terms of the economic cost to the state, including lost royalty revenues, jobs and market opportunities.

Addressing investment timing decisions is of paramount importance in enabling a sustainable competitive advantage for Queensland in what is a truly global commodity market. In addition, by smoothing the path for expansions or new operators – the resulting increase in production would also generate a larger base of royalty revenues to the state. The most obvious example of this policy imperative is in the North West Minerals Province.

North West Minerals Province

Unlocking the world class mineral wealth of Queensland's North West Minerals Province has the potential to drive economic activity in the top half of the state for decades. QRC welcomes the government's recognition of this potential, with the release of a five year infrastructure plan for the Northern Economic Triangle. In particular, industry is looking for the government to have a plan for ensuring competitive energy pricing in the north and north-west of the state to support the potential for mining and minerals processing. QRC welcomed the Premier's November 2007 commitment to identifying a practical solution to energy supply for the state's North West within six months, and has been actively cooperating with Departmental work towards this end.

For the most part, a user-pays approach serves the resources sector well. In many cases, the industry not only pays, but also plans and delivers basic infrastructure. An exception to this general rule has emerged as a result of the surge in demand for mineral resources and provision of long-life infrastructure assets like mines and ports. The experience of the Queensland's North West Minerals Province provides some salutary lessons.

The development of the North West continues to be hampered by a mismatch between the investment horizons that shape the demand and supply for infrastructure services in the region. The demand for infrastructure services comes from mining and minerals processing projects, which typically are established on a planning basis of an eight to 10 year economic lifespan. By contrast, many of the key infrastructure services – such as rail and energy – are supplied on the basis of 30-50 year investment horizons.

These key infrastructure services are typically provided by government-owned corporations (GOCs) who have an operating mandate in terms of the risks they can bear, which limits the scope for them to play an explicit industrial development role.

This investment mismatch means that to secure an expansion of infrastructure, the GOC supplier is required to capitalise the expense of new infrastructure over the much shorter mine life. Clearly, this dramatically increases the unit infrastructure costs and provides a much greater investment threshold for the start up of new operations or expansions. The irony is that it is necessary to encourage these new operations to provide the economies of scale that will drive down infrastructure costs and also provide a sequence of overlapping life of mine forecasts, which can combine to provide a stable longer-term regional demand profile for the GOC supplier.

The mismatch in investment horizons, by serving to front-load the cost of infrastructure, increases the cost of starting new mine operations in the region. These higher costs not only deter new start ups, but by increasing costs, also increase the cut-off grades for the calculation of economic reserves and tend to drive down existing mine life estimates.

In June 2007, Townsville Port finalised a complex master planning process to map out future expansion paths. At the same time, yet seemingly independently, QRNA have released a draft rail masterplan for the Mount Isa to Townsville line in late December. There is a need for careful coordination amongst all of these worthwhile initiatives to ensure the maximum synergies and linkages between all of these disparate planning processes. The focus needs to be providing low-cost and reliable transport services to service the inland mineral province and to foster continuing export growth.

Sitting across both processes was the AusLink corridor study which reported in mid 2007 and presented a fairly pessimistic perspective of the region's prospects. QRC is concerned that this dour appraisal of the region's growth is unlikely to attract much needed AusLink funding. QRC is keen to work with the Queensland Government to ensure that AusLink decision makers have a more accurate picture of the regional growth dynamics.

AusLink funded upgrades to the Mount Isa-Townsville rail corridor is a means of ensuring that a world-class minerals province is serviced by a world-class rail service. QRC has a firm view that the AusLink processes provide the ideal circuit-breaker for the investment horizon mismatch, which has constrained the development of the North West Minerals Province for some years.

The availability of low-cost and reliable energy is paramount to the continuing development of North West Queensland's world class minerals province. Fuels to support electricity generation in the region are limited to a single gas supplier. Alternatively, diesel is used on site. Neither option is cost effective. The region is not connected to the National Electricity Market (NEM). As a result, energy prices in Mount Isa are routinely 2-3 times higher than coastal regions connected to the NEM.

Of greater concern than the price of energy in the North West is its availability. The region's aging generation plant is close to capacity, which means poorer reliability. Expansions in capacity require substantial upfront investment by the region's sole generator. The mismatch in investment time horizons between mining operations and power generation means that the effective price of this new generation capacity is high with costs capitalised over seven to 10 years. The resulting marginal cost of incremental growth limits new project and brownfield expansion.

A number of projects are rubbing up against this constraint right now. The absence of a clear government plan to expand energy supply for the region, and a range of competing capital intensive options, means that the region is facing a major step change in supply at a time when a range of companies are actively looking to establish and expand operations. The opportunity cost of delays is real, and risks driving individual companies to take decisions which suit their imperative rather than the regions. Mining companies should not be forced into power generation to ensure they can continue to operate.

The Queensland Government is examining options to improve energy supply in the region. Some options have the potential to upgrade energy infrastructure through Mount Isa and on to Darwin. Given that much of the prospective geology associated with the Mount Isa Inlier extends into the Northern Territory, such proposals could vastly expand the economic catchment serviced by Mount Isa.

Similarly, competitive energy costs would immediately increase the proven mineral reserves of the whole North West region. This would flow through to production increases as projects under feasibility become operational and more exploration activity follows.

→ **QRC's mineral royalties goal is for a competitive regime of taxes, charges and levies applying to the resources sector in Queensland.**

Stability and certainty are paramount
QRC supports a stable and considered approach to the setting of royalty rates for Queensland mineral commodities. QRC suggests that the Budget presents an opportunity for the state government to commit to current royalty rates to promote greater investment certainty within the Queensland resources sector.

In a capital-intensive industry competing for funds on global markets, even the rumour of royalty increases can generate market jitters. QRC members appreciate any public statement that helps to minimise this damaging uncertainty. A sudden increase in royalties represents a significant sovereign risk issue for resources companies as very large investments have been made and planned, based on current royalty arrangements.

The budget must similarly avoid introduction of ad-hoc levies or charges for services that should properly be funded out of general revenue. Such definitional legerdemain is a rate increase in all but name, and brings all the opprobrium and damage to Queensland's reputation of an actual royalty increase. These de-facto royalties which have an unbudgeted impact on industry's bottom line not only raising the same concerns with sovereign risk as an increase, but also send the wrong signal to industry about the government's commitment to the industry's future. Treating industry as a cash cow can risk deterring future expansions and investments.

A number of QRC's coal members have suggested that continuing unprecedented royalty windfall presents an opportunity for your government to rescind the distortionary 2002 coal 'super-royalty', which added the cost of rail freight to the value of coal for the purposes of royalty calculations. In effect the Queensland Government collects a tax on coal rail freight charges. Furthermore, because of the way freight charges are calculated, the super royalty has a manifestly inequitable incidence impacting differently on mines facing longer freight hauls. None of these are the traits of an effective and efficient globally competitive system of royalties.

The budget processes provide an ideal opportunity to provide a public confirmation of current royalty arrangements for the remainder of this term of parliament, together with a timetable for winding out the super royalty. Such an announcement would be warmly welcomed across the entire sector and would be an important signal of confidence from the government to resource companies currently considering billions of dollars of investment.

Increasing royalties is an inefficient fiscal strategy for the Queensland Government, as the Commonwealth Grants Commissions process means that every extra dollar raised through a royalty increase results in a corresponding reduction of 40-50 cents in Queensland's allocation of GST funds. The net result of a royalty increase for Queensland coffers is dramatically reduced by this leakage of revenues to the other states and territories. QRC emphasises that royalty increases are a blunt and inefficient instrument of prudent fiscal policy.

Recognition of Coal21 Levy

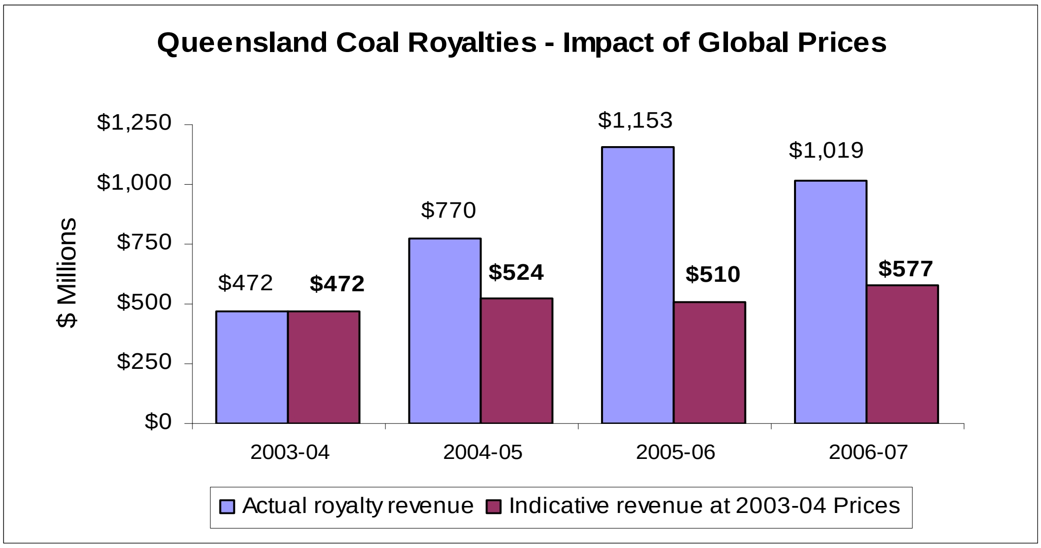
The Coal21 Fund is a world first whole-of-industry funding approach to greenhouse gas abatement. The coal industry's decision to impose a voluntary levy to collect a substantial fund to promote not just the development but also the demonstration and implementation of low emission technologies is all the more laudable given the industry's predominant export focus. The bulk of the coal mined in Australia is destined for international markets, yet the Coal21 Fund will collect on every tonne produced in order to promote the development in Australia of new low emissions technologies. These technologies will be a vital part of Queensland's response to the challenges of climate change.

The Queensland policy number 140 – *Valuation of coal for royalty purposes* explicitly recognises the public benefits of other industry-funded research such as the existing Australia Coal Association Research Program (ACARP) research levy. Given that government policy allows "compulsory levies" or "effectively compulsory levies" to be deductible for the purpose of royalty calculations, it is difficult for the industry to see why this levy should be treated differently from the existing research levy, particularly given the importance and public interest in addressing climate change. Indeed, the passage of the *Clean Coal Technology Special Agreement Act 2007*, ensures that the Coal21 Fund levy is "effectively compulsory" and logic suggest, no royalty should be paid.

The industry acknowledges that the Queensland Government is a vital partner in the race to reduce greenhouse gas emissions in the most cost effective manner. Not only the $300 million in funding for clean coal technology from the Queensland Future Growth Fund, but also the government's funding for the Centre for Low Emissions Technology are appreciated by industry as an important public contribution.

Given the government's willingness to invest substantial public amounts in the state's research and development infrastructure, the decision to collect royalty on the Coal21 Fund seems incongruous. Royalties are not simply a tax, but a payment to reflect the Crown's ownership of mineral resources. Given that the future value of Queensland's world-class coal resources will be determined by the success of the Coal21 Fund to develop clean coal technologies, it seems inconsistent for producers to pay a royalty on the value of this voluntary levy.

Infrastructure Constraints impacting on state Revenues
QRC notes that the growing revenue from resource royalties is being largely driven by international price increases, rather than increased export volumes. The following graph illustrates the impact of global coal prices on coal royalty revenues.



Assuming the 2003-04 coal price remained constant over the period, produces a dramatically different royalty outcome to the state. In the absence of such strong price growth, Queensland would have collected $643 million less in 2005-06 and $442 million less in 2006-07 in coal royalties alone.

→ **QRC's regulatory goal is a world class system of minerals and energy sector regulation and administration**

Resourcing regulation
The QRC is looking for recognition that resourcing of key departments needs to reflect the economic importance of the industries they regulate. The QRC is concerned that the Departments of Mines and Energy (DME), Natural Resources and Water (NRW) and the Environmental Protection Agency (EPA) are not short-changed in expertise and resources, leading to regulatory inefficiencies. A 2006 study conducted for the Minerals Council of Australia (MCA) suggested that the Queensland regulatory framework was amongst the best in Australia, but that the administration of that framework is lagging well behind. The government needs to treat major mining and resource developments with the same reverence as they do more obviously footloose investments like attracting regional headquarters and major events.

QRC calls for an independent review of the resourcing of these three key Departments. Such a review may need to delve into the competitiveness of remuneration in these agencies as there is strong evidence that all three are victim of substantial churn of key staff, which leaves positions unfilled and sees valuable corporate knowledge lost. Industry is not interested in micro-managing Departments, but rather in the performance these Departments deliver in administering their regulations. There is a substantial well-head of frustration in industry that avoidable regulatory delays and uncertainty are imposing real but largely unseen costs on the resource industry. An independent review would provide an avenue for a whole-of-government focus on the net performance of these vital regulatory agencies.

As an example, the government recently released a Regulatory Impact Statement (RIS) on amendments to the Environmental Protection Regulation, the core focus of which is increasing annual fees for Environmentally Relevant Activities. Although some of QRC member companies will have their fees increased by up to three times if the government accepts the EPA's recommendation, the resources sector is not opposed to the fee increase per se as we recognise that they have not increased for ten years.

However, we are concerned that the RIS continually refers to the increase in fees leading to a corresponding increase in EPA services to industry. We are not aware of any Treasury commitment that will ensure the increased fees are actually provided to the EPA so that this occurs. Consequently, the QRC seeks budget commitments that additional revenues from the increased EPA charges will flow directly to the EPA allowing the EPA to meet its RIS commitments.

It is interesting to note that a report undertaken by the Service Delivery and Performance Commission (dated February 2007) on these three agencies (two at the time), along with the DPI, almost exclusively focused on the matter of overlapping responsibilities, which in the end were quite trivial, rather than any evaluation of resourcing and staff retention issues, and therefore serious consideration of the much needed service delivery and efficiency improvements.

Uranium
QRC is looking for an end to the prohibition of uranium mining in Queensland. The current prohibition in Queensland simply favours incumbent producers in South Australia and Northern Territory. In keeping with the conclusions of the report commissioned by former Premier Beattie, QRC does not see uranium as a threat to Queensland's other energy commodities such as coal and gas. Forecasts for growth in global energy demand suggest that there is going to be more than enough demand for all

Queensland's energy commodities. The QRC does support strong safeguards and effective regulatory controls covering all aspects of the mining, processing and export of uranium. The QRC looks forward to an early end to this prohibition and advocates its replacement with a case-by-case decision making process characterised by full community consultation and explicit cost-benefit analysis.

→ **QRC's exploration goal is for a policy regime and culture that underpins an aspiration that Queensland be viewed as a preferred region for exploration.**

QRC is looking for a whole-of-government commitment in legislation, policy and programs to position Queensland as a preferred region for exploration globally. QRC seeks commitment to establish a joint, high-level government/industry steering group to pursue a Queensland Exploration Action Agenda covering four key aspects:

1. ***Land access*** – addressing the impediments to accessing land for exploration in Queensland. The current review of the *Mineral Resources Act* provides the perfect opportunity to get these policy settings right.
2. ***Pre-competitive geoscience*** – improving quality of, and access to, pre-competitive geoscience products and services necessary to attract exploration investment in Queensland. QRC has welcomed the government's commitment in this area through the *Smart Exploration* and *Smart Mining* packages but the challenge is to use these information services as a springboard for attracting greater exploration activity to Queensland.
3. ***Skills and training*** – addressing shortages of geologists, geoscientist and field technicians
4. ***Finance and investment*** – QRC and the Queensland Government are working in partnership to establish a financial environment conducive to further investment in exploration activity in Queensland.

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i. Land Access.

As noted earlier in this submission – QRC has concerns about the impact the resourcing of key agencies has on access to tenure. These concerns are particularly pointed for the exploration industry. For small exploration companies who are seeking finance, their tenure is one of their major assets. As a result, the company's chances to secure and retain funding often hinge on their certainty about the status of their tenure and the quality of information they can provide investors with about the progress of any administrative decisions on tenure. QRC members have expressed sufficient concern on this matter for the Council to establish a tenure administration working group which focuses on these vital exploration issues.

ii. Pre-competitive geoscience.

QRC acknowledges that the government has done much to fund pre-competitive geoscience and that Geoscience Queensland has been administering these funds sagely. However, despite this good start, to compete for the exploration dollar, Queensland needs to match the marketing and political capital behind promoting exploration in the strongly emerging exploration destination of South Australia.

iii. Skills and training.

These issues are picked up generally under QRC's skills, education and training initiatives, but the explicit focus on the needs of exploration is vital as the sector is largely comprised of small companies who are limited in the opportunities they can provide for formal training.

iv. Finance and investment.
As part of the Exploration Action Agenda, QRC aims to establish a financial environment conducive to investment in exploration activity in Queensland. In early 2007 QRC in partnership with the Queensland Government engaged a specialist finance consultant to coordinate an industry-wide strategy; liaise with financial service providers; establish investor networks; and explore ways to encourage local entrepreneurs to initiate mining ventures.

→ **QRC's livable communities goal is to work with government and local communities to secure the essential services for the liveability of communities in which resources companies operate.**

Currently, many regional communities are experiencing social and infrastructural limits to growth, with issues such as availability and affordability of housing and limited access to services such as health care, education options and child care compromising the ability of the resources industry to attract and retain staff in rural and regional communities.

Regional Planning
QRC has long been involved in regional planning in Central Queensland. However, with increasing growth in emerging resource areas such as North West Queensland and the Surat Basin, and implementation of accelerated regional planning in these areas, QRC is taking a greater role inputting into regional planning throughout the state.

Currently, QRC is involved as a member or active observer on seven Regional Planning Advisory Committees throughout Queensland, and is providing key industry responses to draft statutory regional plans being developed for four regions.

QRC has significant concerns with the regional planning processes currently underway in a number of these regions, and with the acceleration of statutory planning, believes there is an urgent need for greater planning capacity within government.

As such, QRC strongly advocates the need for increased funding and recruitment of planning staff, to adequately support accelerated regional planning programs throughout Queensland.

Whole of government approach to resource communities
QRC has long advocated a whole-of-government approach to cooperation with the resources sector and local communities to ensure the provision of the necessary social infrastructure such as health services and affordable housing in communities experiencing 'growing pains' from resource sector growth.

QRC is pleased to be involved in the proposed resource communities' partnership compact between state government, local government and the resources industry. QRC believes this will provide a vital communication link between government and industry, to assist in identifying and addressing key social issues in resource communities as well as encouraging a collaborative approach to solutions.

Industry welcomes the government commitment to providing a dedicated officer in the Bowen Basin area, providing on-ground support to resource communities, and helping to identify and address key social limits to growth and assisting the implementation of initiatives such as the Sustainable Futures Framework for Queensland Mining Towns.

In addition, there is a need to place greater emphasis on the social needs of emerging resource areas, particularly the Surat Basin. To assist managing emerging issues of this area, QRC would encourage government to consider duplicating this position in southern Queensland.

Adequacy of medical services and patient travel from rural communities
Currently, the attraction and retention of people to rural communities is compromised by the availability and affordability of a range of services and facilities, including access to health care.

Continued and increased government support is needed to improve health care in regional areas, including provision of key services, particularly maternity services, to rural communities, and accessibility for regional patients to specialist services in larger centres. Furthermore, greater support and funding is required for attraction and retention policies for rural doctors, including ongoing support for rural scholarships and relief for current staff.

There is a need to improve the transport of rural patients to specialist treatments only available in hub centres. This includes providing support for the Royal Flying Doctor Service, and the Queensland Patient Travel Subsidy Scheme (PTSS). However while government recently increased funding to both these programs, the PTSS continues to provide inadequate accommodation support for patients from rural communities.

QRC encourages the government to provide additional funding to the Patient Travel Subsidy Scheme, with focus on:

- patient accommodation and coverage for primary care giver escorts under a wider range of circumstances
- stakeholder and consumer groups such as the Cancer Council and Leukaemia Foundation to provide additional free accommodation to patients travelling to hub centres for treatment
- inclusion of allied health services in the Scheme.

Furthermore, to provide improved services to regional communities and assist current workforce issues, QRC recommends government consider:

- continued and increased support to assist development of rural general medicine as a specialty career path
- greater development of maternity services in regional areas, including midwifery, obstetric and anesthetic services
- general attraction and retention policies for rural doctors and other medical staff, including consideration of students and trainees, as well as aspects such as housing
- support for workforce issues and reform projects to address issues facing allied health professionals, such as review of rural and remote incentives, relief support and increased training and education.

Shaping government EIS review to include appropriate socio-economic aspects
In 2006 the government announced a proposed review of the EIS process, to better account for cumulative impacts of large mining projects. QRC is pleased this review has now commenced and

recognises the revised focus of work, with the review to now concentrate on the assessment of social impacts under an EIS. QRC has appreciated the opportunity to have ongoing input into the review.

QRC, supported by an independent academic study, has identified that a key gap in the current process is the lack of government technical capacity to provide expert advice and review in the areas of social and economic impact assessment.

To address this, QRC considers there is a need for allocation of funding to increase government's technical capacity in this area, and would suggest establishment of a skilled group, possibly as a free standing government unit to address social impact assessment and subsequent issues arising across <u>all</u> industries.

→ **QRC's indigenous relations goal is to encourage the development of resources industry-indigenous-government partnerships that contribute to improving the livelihoods of indigenous people in Queensland**

In July 2007, QRC signed a Memorandum of Understanding with the Queensland Government, establishing a framework for industry to work with indigenous communities and the state government on indigenous employment and business development opportunities.

A key focus of the Queensland Government / QRC MoU is to support industry and government establish a program to better coordinate and deliver indigenous economic opportunities at the regional level by encouraging 'work-ready' education and training.

The Queensland Government has provided ongoing support to this project, with a project manager recently seconded for its implementation by the government's lead agency, the Department of Employment and Industrial Relation. In support of this role, QRC has funded the Centre for Social Responsibility in Mining (CSRM) to undertake data collection, prepare a concept paper on the scope of the proposed initiative and provide on-going assistance to QRC in industry input to the project.

QRC encourages ongoing support of this project, as it moves through development and implementation of specific initiatives such as education programs, vocational training and enterprise development.

In 2008-09, QRC recommends budget investment in the Indigenous MOU project region in additional teacher professional development programs focused on teaching of indigenous children; VET and employment programs linked to the Mining Industry Skills Strategy; and for schools initiatives through the QMEA for teaching and mentoring programs for indigenous students associated with mainstream schooling, that complement proven educational initiatives.

→ **QRC's skills, education and training goal is to build the resource sector's capacity to sustain a highly skilled and diversified workforce.**

Skills, education and training initiatives we would ask the government to recognise through the budget include:

- Budget initiatives to swiftly grow the numbers of maths and science teachers in Queensland
- Recognising the benefits of the government's far-reaching initiative to introduce *Essential Learnings* from the commencement of the 2008 school year, the QRC encourages associated

curriculum changes that encourage take-up by students of advanced mathematics and core science subjects in senior schooling.

- QRC also seeks a commitment to rebuild a foundation of knowledge and understanding of the minerals and energy sector into the state school curriculum. For example, all pre-service primary teachers to experience physical sciences, including physics (energy) and earth sciences, as part of their program, and all secondary science pre-service teachers to have the option to major in physical sciences including physics and earth science
- Indigenous education and employment initiatives in schools, through additional structured program investments in the QMEA, in the VET sector through the Mining Industry Skills Strategy and resourcing of supporting teacher professional development and mentoring initiatives for schools and their indigenous students.
- Establishing formal linkages between the Queensland and Australian Governments' education and trade training initiatives through the Queensland Minerals and Energy Academy
- Target all mining-related training investment by DETA through grants to the Mining Industry Skills Centre for the Mining Industry Skills Strategy launched by the Minister for Education and Training in December 2007.
- Establishing and leading a tertiary education strategy for the Queensland resources sector at a state level for all universities, in collaboration with the Australian Government and the QRC and its member companies, aligned to the MCA's national tertiary strategies for the sector.
- **Beyond these preceding initiatives, a Queensland resources educational partnership is proposed.** The resource sector's recent explosive growth, ascendant economic importance, and long-term prospects now demand a more strategic and holistic approach to its workforce development across government, schools, the vocational education and training sector and universities. The QRC proposes a *Queensland Resources Educational Partnership* between QRC-industry, the Australian Government, the Queensland Government and its agencies, unions, education providers, and other stakeholders, not just on education and training for specific major projects or regions, or educational levels, but rather on education, training and international workforce solutions for the industry as a whole at a state level. With similarities to Queensland's Manufacturing Leaders' Group, the Resources Educational Partnership would be hosted periodically by a senior minister.

Queensland Resources Council
26 February 2008

QRC

submission

Working together for a shared future

Submission in response to the Garnaut Climate Change Review's *Emissions Trading Scheme: Discussion Paper*

Garnaut Climate Change Review

April 2008

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QUEENSLAND resources COUNCIL

Contents

Introduction

The Queensland Resources Council (QRC) is a non-government organisation representing companies that have an interest in exploration, mining, minerals processing, gas and electricity production. It is the resource industry's key policy-making body in Queensland, working with all levels of Government, interest groups and the community.

The Council works on behalf of members to ensure Queensland's resources are developed profitably and competitively, in a socially and environmentally sustainable way.

As the peak industry body for Queensland's mining and energy industries, QRC has been taking a keen interest in the development of energy and climate change policies which impact on Queensland's resources industries – particularly those which are energy and emissions intensive or trade-exposed to such policies. The broad range of industry interests represented by QRC's membership presents a unique cross-sectoral position in relation to energy and climate change policies.

QRC has already provided submissions to the Garnaut Climate Change Review (the Review), in terms of the general request for submissions and responding to the issues paper relating to research and development of low emissions technologies. QRC welcomes the opportunity to contribute further by means of this submission in response to the *Emissions Trading Scheme – Discussion Paper* dated March 2008 (the Discussion Paper). Developed in consultation with members through a formal QRC working group, this submission represents a consolidated Queensland resource perspective on the development of a national emissions trading scheme (ETS).

Given the importance of addressing the challenges associated with the transition to a low emissions economy, the QRC Board has endorsed a policy statement – *Position on Energy and Climate Change* – which outlines the Queensland resources sectors' preferred approach and clear policy priorities in relation to energy and climate change matters.

QRC considers that it is fundamental that a **national carbon plan** is developed and implemented in order to achieve a coherent set of energy and climate change policies that deliver a least-cost transition to a low emissions economy. This plan represents a suite of policies to manage emissions by integrating policies on energy efficiency, emissions trading, adaptation, and encouraging large investments in low emissions technologies.

The entire range of related market failures, externalities, and policy frameworks need to be addressed in order to generate certainty and promote a smooth market-driven transition to a low-emissions economy. As such, this submission has also been developed with a view to assisting the Review develop practical administrative and policy frameworks to promote an effective and efficiently designed ETS and identify the risks of the proposed ETS providing for unintended adverse policy outcomes – particularly relating to transitional assistance to trade-exposed and emissions intensive industries.

Executive Summary

A national carbon plan

→ In order to deliver a least-cost transition to a low-emissions economy a national carbon plan must be developed and implemented in order to achieve a coherent set of energy and climate change policies.

→ The imposition of a price-signal on emissions is an essential element of any proposed policy response to managing emissions. However, an emissions trading scheme (ETS) must operate to *complement* other essential policy areas in order to address other underlying market failures and operate removed of inefficient market distortions.

Fundamental considerations emissions trading scheme

→ The design of an ETS needs to have regard to a range of matters surrounding economic efficiency, environmental effectiveness and equity considerations.

Protect the competitiveness of energy-intensive, trade-exposed industries

→ The international competitiveness of Queensland's emissions-intensive, trade-exposed (EITE) industries should not be eroded for the benefit of international competitors (existing and potential) who are not exposed to the cost of comparable carbon constraints.

→ The design elements of a national ETS should avoid exporting emissions simply by diverting new investment and existing production overseas in order to avoid a carbon price-signal.

→ Until there is a truly international agreement that underpins carbon constraints on Australia's international trading competitors, then appropriate transitional industry assistance is critical.

→ Addressing the consequential impacts of an ETS on EITE industries should be relatively simple, reflecting an administrative allocation of permits to cover the emissions that are embodied within trade-exposed products and costs associated with continuance of mandated energy schemes. Such assistance should be provided based on undertaking 'best in class' emissions performance.

Addressing market distortions

→ Streamlining all imposed distortions into a single economy-wide carbon price is essential. The ability of the ETS to realise a least-cost solution is dependent on removing artificial barriers that distort the efficient operation of this market. This includes policies and schemes introduced by all levels of government to function as a pseudo-emissions price-signal (in the absence of an economy-wide transparent price-signal) and legislative provisions which seek to address matters that an ETS will effectively address.

The design framework must be carefully crafted

→ A properly designed and implemented national ETS with appropriately calibrated operating requirements (coverage, permit allocation and design) and emissions constraints will be fundamental in determining the ultimate success, or otherwise, of the scheme. Least cost international linkages and use of permit auction revenues are particularly critical.

Significantly affected industries in the non-traded sector

→ Where firms are unable to pass through a significant portion of the increased cost of production due to the introduction of an ETS, or where firms face a material reduction in the economic life – and therefore value – of their assets due to the introduction of a carbon price, then these strongly affected firms should be entitled to disproportionate loss compensation.

PART 1: QRC's energy and climate change position

In order to advocate effective and efficient policy responses to address the challenges associated with the transition to a low-emissions economy, QRC's *Energy and Climate Change Position* outlines the Queensland resource sectors' preferred approach to addressing these emerging policy frameworks.

A copy of the QRC's *Energy and Climate Change Position*, which outlines the essential policy requirements, is attached for your consideration (Attachment 1).

→ A national carbon plan

QRC considers that it is fundamental that a **national carbon plan** (as outlined in QRC's *Energy and Climate Change Position*) is developed and implemented in order to achieve a coherent set of energy and climate change policies that delivers a least-cost transition to a low-emissions economy. The explicit focus of the elements of this plan is to minimise and manage the impact of the costs associated with decoupling emissions growth from economic growth.

QRC notes that the imposition of a price-signal on emissions is an essential element of any proposed policy response to achieving proposed national emissions constraints. However, QRC maintains that an ETS must operate to complement the other important policy areas in order to reinforce the price-signal and address other underlying market failures.

Nonetheless, ensuring that the proposed emissions trading market is able to discover an efficient price (in terms of least-cost abatement while satisfying emissions constraints) requires attention to redressing market distortions inherent in a variety of existing and proposed emissions and energy reporting requirements, mandated targets and compliance programs. Furthermore, a range of legislative and policy matters impose artificial barriers that also need to be reconsidered in terms of their relevance after emissions trading commences in 2010.

→ QRC's position on emission trading

In responding to the Discussion Paper, the QRC reaffirms its position in relation to the development of a national ETS. Specifically to:

→ Establish an **emission trading scheme** as the most efficient means of putting a market price on carbon. The adoption of any targets needs to reflect the best possible scientific and economic advice. Other features of an emissions trading scheme should seek to:

- Recognise the imperative to protect the competitiveness of emissions-intensive trade-exposed industries.
- Streamline all existing emissions and energy reporting requirements along with mandated targets and compliance programs into a single economy-wide carbon price.
- Develop other policy mechanisms, as tested with industry, which provide an equal incentive for abatement where emissions trading will not be efficient – for example managing fugitive emissions and methane emissions from agriculture.
- To ensure future investment and availability in generation capacity, existing assets need an explicit transition provision to offset the impacts of adverse policy changes.

QRC notes that the consideration of matters relating to economic efficiency, environmental effectiveness, and equity are essential to addressing appropriate design features of the ETS.

→ **Economic efficiency considerations**

- The scheme should take a long-term perspective in addressing the challenges of decoupling emissions growth from economic growth.
- Promote economic growth though the efficient allocation of resources.
- Provide sufficient protection to emissions intensive, trade-exposed industries that are subject to competition from markets not subject to similar emissions constraints – in terms of direct cost impacts and disincentives to invest in new projects.
- Determine an economy-wide emissions price that is unhindered by polices which distort the ETS.
- Appropriate transitional arrangements to facilitate the replacement of existing federal and state programs that become superfluous or were established to provide a pseudo-carbon price signal in the absence of an ETS – for example, the Mandatory Renewable Energy Target scheme.
- The ETS should provide a least-cost emissions price path that reflects the opportunity cost of marginal abatement.
- Emissions trajectories (and the corresponding emissions price path) should reflect the accessibility of commercial available technologies to realise the necessary abatement required.
- Ensure a substantial proportion of revenues collected by an ETS are invested (in addition to current Government commitments) into programs to support the commercialisation and deployment of low emission technologies – in order to achieve the long-term objective of reducing emissions in a least cost manner.
- Availability of information and processes to inform markets of the future value of emissions prices (functional secondary markets to provide investor confidence).
- Establishes an appropriate price signal on emissions that provides incentives for firms to implement proven commercialised low emissions technologies, in order to reduce financial liabilities associated with acquitting permits – representing a rational response to the price signal.
- Provide streamlined administrative arrangements that aim to minimise the deadweight costs to the economy associated with unnecessary transaction and compliance costs.

→ **Environmental effectiveness considerations**

- The ETS should assist in achieving desired emissions reductions – providing an inconsequential emissions price (or penalty charge) would result in the price-signal not achieving its intended impact on consumers or industry. Equally, providing an extraordinary emissions price would result in exceeding sought emissions targets, but at an exorbitant economic cost.
- Changes in Australian emissions should not provide for a net increase in global emissions due to locational production shifts – realising carbon comparative advantages (in terms of available technology, production processes and characteristics of resource endowments) is the fundamental requirement to reduce global emissions in a least-cost manner at an international level.
- Robust measurement processes which provide sufficient confidence in terms of emissions and abatement results.

→ **Equity considerations**

- The costs of imposing a price on emissions needs to affect the consumption of consumers and production methods of industry in order to influence behaviour – simply seeking to insulate one group will not achieve the intended purpose of an ETS.
- There are valid equity arguments in support of transitional assistance to low-income earners and compensating shareholders exposed to disproportionate asset value loss due to the introduction of the ETS.

PART 3: Addressing industry priority concerns

An ETS in isolation of the other policy measures will not enable a least-cost transition to a low emissions economy. There are clear market failures and market distortions that need to be addressed in association with the design features of the ETS. These include inefficiencies surrounding exposure to emissions-intensive, trade-exposed industries (EITE industries), mandated and voluntary schemes introduced by all levels of government to function as a pseudo-emissions price-signal (in the absence of a economy-wide transparent price-signal) and legislative provisions which seek to address matters that an ETS will effectively address.

→ The imperative to protect the competitiveness of trade-exposed energy-intensive industries
Queensland, with its significant energy reserves, growing energy exports, and emissions intensive industries, is particularly exposed to the risk of any hastily conceived (or implemented) ETS. The international competitiveness of Queensland's EITE industries should not be eroded for the benefit of international competitors (existing and potential) who are not exposed to the cost of comparable carbon constraints. Policies should avoid exporting emissions by diverting new and existing investment overseas; this includes the design elements of a national ETS.

In light of this, QRC welcomes the Discussion Paper's recognition of the need to provide transitional measures (until competitors are exposed to similar emissions constraints) to EITE industries. The Review's acknowledgment based on environmental and economic efficiency reasons is well understood and not controversial.

QRC appreciates the Review's acknowledgement of the need for government intervention to address 'carbon leakage' – that is, when production and emissions are both effectively exported to countries which are not exposed to a similar national carbon constraint in order to avoid a domestic carbon price-signal. The direct result of this 'carbon leakage' is foregone domestic economic activity with no global emissions benefit – in the worst case where a carbon comparative advantage exists in Australia, due to particular production processes or natural resource characteristics, global emissions would actually increase due to the introduction of a national ETS.

Until there is a truly international agreement that underpins carbon constraints on Australia's international trading competitors, then appropriate transitional industry assistance is critical.

→ A simpler approach to emissions-intensive, trade-exposed industry transitional assistance
In relation to the methodology outlined in the Discussion Paper, QRC's preference is for a relatively simple transitional mechanism to protect the competitiveness of EITE industries from international competitors (existing and potential) not exposed to similar emissions constraints. This must include the administrative allocation of permits to cover the:

- emissions that are embodied within trade-exposed (export and import) products; and
- costs associated with continuance of mandated energy targets (including the current Mandatory Renewable Energy Target or proposed Renewable Energy Target).

The remittance of permits would also be directly linked to firms achieving and maintaining benchmarked 'best in class' emissions performance in order to ensure that individual firms were not given the incentive to seek rents by undertaking less than the benchmark emissions performance threshold.

Given that international competitors without a similar carbon constraint are enjoying the classic carbon 'free ride', in terms of unpriced emissions within their traded goods and services, it is fundamentally important to ensure appropriate assistance (to overcome this inefficiency) is provided in order to address the challenges facing Queensland's EITE industries.

→ **Streamline all imposed distortions into a single economy-wide carbon price**

The purpose of introducing an ETS is to provide a price-signal on emissions. However, the ability of the ETS to realise a least-cost solution is dependent on removing artificial barriers that distort the efficient operation of this market – redressing such market distortions inherent in a variety of existing and proposed emissions and energy reporting requirements, mandated targets and compliance programs needs to be undertaken.

Furthermore, there is a range of legislative and policy matters that impose artificial barriers that Governments (at the state and federal level) need to reconsider in terms of their relevant after emissions trading commences in 2010. Policies, programs and legislation that do not directly address market failures and are related to energy and climate change policies need to phased-out.

In order to streamline these distortions into a single economy-wide carbon price, QRC's views on these matters are address as below.

→ **Unnecessary reporting and mandated compliance schemes**

Streamlining reporting and mandated schemes creates administrative certainty, efficiency and reduces the deadweight compliance burden on industry. In order to achieve this, QRC urges the Review to assess the appropriateness of streamlining related national and state-based programs, with a view of consolidation. QRC acknowledges the current Wilkins strategic review of climate change policy of Commonwealth measures has commenced this process, although more work is needed in terms of the commitment to a coherent and streamlined set of climate change policies across all jurisdictions.

QRC notes that many of the economic models of the costs of moving to an ETS simply assume there will be a single streamlined reporting scheme. The awkward reality of a multitude of overlapping schemes cannot simply be assumed away and if not systematically addressed, risks eroding industry's support for an emissions trading scheme – as industry ultimately bears the significant costs of this unnecessary duplication.

QRC considers that streamlining in reporting should remove duplicative (or near-duplicative) reporting requirements – which currently exist or are proposed to be implemented by governments (state and federal). QRC strongly supports the immediate review of all duplicative reporting requirements so they can be consolidated within a national reporting scheme. This includes the consolidation of reporting requirements of relevant national and state-based reporting related programs.

In terms of mandated compliance schemes, it is not clear to the QRC the role of forced compliance in light of the introduction of an ETS. While certain mandatory and voluntary initiatives will effectively become superfluous upon the introduction of emissions trading, there may be advantages to certain firms of participating in a consolidated voluntary program. For example, the continuation of voluntary national-based industry energy efficiency program (refining the role the current Energy Efficiency Opportunities programme) would represent a more appropriate approach from government in relation to these matters in light of the introduction of an ETS.

→ **Addressing overlaps between the ETS and other policy measures**

Streamlining of programs (not only data collections) is a priority objective from an industry perspective. QRC considers that where federal and state schemes overlap with the policy intentions of the proposed ETS – establishing an efficient market to discover the least-cost price to reduce greenhouse gas emissions – then the role of these programs addressing the market-failure impacts also needs to be thoroughly assessed.

Numerous government initiatives need to be reconsidered in terms of their relationship with the ETS. However, QRC does not propose that all programs should be abolished, but rather the Review should undertake an independent consideration of the costs and benefits of the range of government programs that are related to greenhouse and energy policy more generally.

Detrimental differences, different reporting cycles, providing multiple copies of the same information, all have a material impact on compliance costs and should be systematically reviewed. This applies in particular to the role of mandatory government programs (state and federal) after a national emissions trading system is established. QRC suggests that after appropriate transitional arrangements for certain programs, the need for mandatory programs diminishes, as government's role becomes a facilitator of efficiency and assistance programs.

In order to highlight the extent of the numerous government programs/activities which need to be assessed for streamlining (either in part or full), both in the context of reporting requirements and emissions trading, QRC lists the following programs for consideration – these include, but should not be limited to:

- Commonwealth programs:
  - ABARE Fuel and Electricity Survey
  - Generator Efficiency Standards
  - Energy Efficiency Opportunities
  - National Greenhouse Gas Inventory
  - Greenhouse Challenge
  - Greenhouse Friendly
  - Mandatory Renewable Energy Target
  - Proposed Renewable Energy Target
  - National Framework for Energy Efficiency (Standardisation of government reporting)
  - National Pollution Inventory
- Queensland programs:
  - ecoBiz Queensland
  - 13% Gas Scheme
  - Proposed mandatory energy efficiency programs
  - Proposed renewable and low emission energy target
  - Smart Energy Savings Program

In particular, QRC notes that the imposition of a mandatory renewable energy target is not an economically efficient mechanism for achieving emissions abatement – as the abatement will not be least cost. In contrast, QRC recognises that there is a need for complementary policies to accelerate low-emissions technology development and commercialisation as a priority. The imperative is to ensure the deployment of low-emissions technologies in order to accelerate cost reductions prior to the widespread commercialisation stage – this will reduce abatement costs in the future thereby minimising the overall costs to the economy of emissions abatement. QRC recommends that complementary policies be developed to accelerate low emission technology development – these should be based upon a rigorously designed low emission technology strategy.

→ **Development of appropriate planning approval guidelines**

Currently there are a range of legislative requirements which operate (or have the potential to operate) as proxy emissions constraint mechanisms. These effectively provide for legal processes for parties to object to project approvals made by government agencies (for example, grant of mining tenements and environmental approvals for projects).

QRC considers that energy generation and emissions intensive industries require appropriate planning approval guidelines to be reviewed in terms of the introduction of an ETS. An emissions price-signal should replace the need for any emissions related project approval requirements. Furthermore, project based emissions conditions, in addition to a market price for emissions, also risks reducing investor uncertainty and promotes vexatious litigation.

The introduction of an ETS will effectively enable emissions to be priced according to the emissions constraints determined by Government – this will remove the need for legal claims to avoid, reduce or offset emissions of greenhouse gases that are likely to result from production, transport or incidental (fugitive emissions) to an appropriately approved project.

QRC considers that there is a need to adopt sensible legislative amendments to a range of Queensland and Commonwealth legislation to ensure that the ETS operates without unnecessary distortions and industry is able to operate with certainty as to legislative obligations surrounding greenhouse emissions. The imposition of a price-signal will provide a financial incentive to project proponents to implement best practice environmental management to mitigate emissions and the establishment of the ETS will ensure that emission obligations are acquitted using a least-cost approach to abatement.

→ **Compensation for the non-traded sector**

Emissions trading will reduce the future income (and consequently asset value) of a whole portfolio of sunk investments in long-life generation capacity and other emissions intensive mining and mineral processing industries, which may be unable to be recovered by means of cost pass-through arrangements – the scope of this depends largely on the design features to be employed. Clearly, trade-exposed industries will be unable to pass-through costs due to price-taker characteristic of international markets. To this end, the ETS policy framework needs to be capable of providing transitional assistance to industries, including the generation sector, exposed due to the inability to pass-through costs.

In relation to the non-traded sector, where firms are unable to pass through a significant portion of the increased cost of production due to the introduction of an ETS, or where firms face a reduction in the economic life – and therefore value – of their existing assets due to the introduction of a carbon price, the shock to those firms can be expected to create costs for investors which will be revealed to the broader economy over the short to long term in the form of higher energy prices and possibly sub-optimal investment patterns. Examples of the ways in which the costs could manifest in a market subject to significant value driving regulatory change include increases in the costs of debt and equity for new investment, and, where firms' options for obtaining value are suddenly extremely limited, short run behaviour in the electricity market which seeks to increase price volatility so that returns are obtained much more quickly. However, as the cost of a shock to current investors manifests, it will unnecessarily increase the cost of the transition to a lower emissions economy. To ensure a smooth transition path, then these strongly affected firms should be entitled to disproportionate loss compensation.

PART 4: ETS policy design framework

→ **The importance of the emission trading design framework**

QRC emphasises that Queensland, with its significant energy reserves, growing energy exports, and energy intensive industries, is particularly exposed to the adverse consequences of inefficient design features being incorporated within the schemes design.

The operation of a national ETS is critical to ensure the costs and benefits of such a trading regime realise the least-cost price to emissions in order to achieve Government emissions trajectories. A properly designed and implemented national ETS with appropriately calibrated operating requirements and emissions constraints will be fundamental in determining the ultimate success, or otherwise, of the scheme.

The following design features of an ETS are outlined along with QRC's preferred policy positions.

→ **Preferred emissions price-signal approach**

- An emission trading approach, based on a 'cap and trade' model, which is comparatively simple in design is required to achieve the desired outcomes.
- Equitable in terms of providing transitional assistance.

→ **Comprehensive coverage**

- Broadest possible sectoral coverage.
- Inclusion of all internationally recognised greenhouse gases.
- Transitional measures (either delayed or backdated entry) for industries subject to measurement and outstanding policy issues.
- Uncovered sectors able to generate 'offset credits', until entering the scheme – subject to cost of reporting not exceeding the benefits of inclusion within the ETS.
- Ability for individual firms to acquire unlimited accredited international 'offset credits'.

→ **Permit design**

- Emissions permits to be issued with a significant life of operation to reflect investment horizons in long-life assets and supported by appropriately strong property rights to the holder.

→ **Emissions constraint**

- Adoption of any national emissions constraint needs to reflect the best possible scientific, technology and economic advice – and be reflective of international political, environmental and economic circumstances.
- Reflect the comparative and competitive advantages of the structure and resource endowments of the Australian economy.
- Total emissions constraints should be the net result of the baseline plus accredited offsets.
- Targets and trajectories based on long-term targets – in order to provide greater investment certainty to emissions sensitive investments with long asset lives.
- Targets and trajectories to reflect the timing of deploying proven commercial low emissions technologies to ensure order is maintained and markets for essential services such as electricity are not disrupted.

→ **International linkages**
- To be determined on basis of least-cost linkages to consistent international schemes and effectiveness of agreed international efforts.

→ **Allocation of permits**
- Periodic allocation of permits to EITE industries is supported in order to avoid prejudicing their international competitiveness as a result of the costs from the introduction of ETS until global competitors are exposed to similar emissions constraints.
- Initial allocation of permits in recognition of the impact on strongly affected industries (discrete allocations for certain energy and emissions intensive industries) unable to pass-through the total impact of the emissions price.
- Auctioning of remaining permits, with revenues clearly ring-fenced from consolidated government revenues (refer below).

→ **Developing priorities for distributing revenues from auction revenues**

QRC considers that the substantial revenues raised by virtue of auctioning emissions permits (and revenue from penalty fees) needs to be clearly ring-fenced and used to address related energy and climate policy priorities. In the first instance, QRC does not support ETS revenue being received within government consolidated revenue accounts, but rather within a fund under the direct control of the proposed Independent Carbon Bank. Similar to the operation of the Reserve Bank which controls significant funds in order to achieve agreed policy outcomes, the Independent Carbon Bank should maintain a primary position as both regulator and fund manager of the streams of 'carbon cash' which this policy will generate over time.

The independence of the proposed Independent Carbon Bank should be maintained in terms of receiving revenues and distributing them through appropriately determined Government priorities and programs to address market failures and realise positive externalities.

In terms of priorities, the distribution of the funds should be used to address the following priority areas:
- Industry assistance to EITE industries.
- Investing in approved low emissions research, development and deployment projects.
- Complementary policy measures to ensure the timely commercialisation of low emissions technologies, including financial incentives.
- Transitional assistance for low-income earners and recipients of limited genuine welfare payments to reduce the cost impacts of introducing a carbon constraint.
- Complementary measures that are cost-effective in addressing market failures – possibly energy efficiency programs for consumers.
- Acquiring international credits to satisfy international obligations as required by the regulator.

QUEENSLAND resources COUNCIL

Conclusion

QRC welcomes the opportunity to participate further in the Review's consultation process and present a further contribution in terms of the matters related to the Discussion Paper.

This submission has also been developed with a view to assisting the Review develop practical administrative and policy frameworks to promote an effective and efficiently designed emissions trading scheme – this includes removing unnecessary distortions which will impact on the proposed scheme by streamlining all existing emissions and energy reporting requirements along with mandated targets and compliance programs into a single economy-wide carbon price.

Furthermore, there is a range of legislative and policy matters that impose artificial barriers that Governments (state and federal) need to reconsider in terms of their relevance after emissions trading commences in 2010.

Responding to climate change ultimately means redressing two major market failures, both of which are global in scope – the negative externalities which stem from carbon being unpriced and the positive externalities which result from research, development and deployment of new generation technologies. The development of an efficient and effective ETS is critical to ensuring a least-cost emissions price-signal is discovered by a market sufficiently free of distortions from irrelevant Government policies and programs.

Should you wish to discuss this submission or QRC involvement in further Review processes, please contact Russell Silver-Thomas, Industry Policy Adviser, on (07) 3295 9560.

Note: Attachment 3

The Mineral Council of Australia's report *Staffing the Supercycle* can be found at

http://www.minerals.org.au/__data/assets/pdf_file/0011/17120/Staffing_the_Supercycle.pdf

24 April 2008

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Working together for a shared future

Mr Mike Woods
Commissioner
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

via: regulatoryburdens@pc.gov.au

Dear Mr Woods,

Thank you for the opportunity to provide a submission on the Productivity Commission's issues paper *Annual Review of Regulatory Burdens on Business – Manufacturing and Distributive Trades* dated February 2008.

The Queensland Resources Council (QRC) is a non-government organisation representing companies that have an interest in exploration, mining, minerals processing, gas and energy production. It is the resource industry's key policy-making body in Queensland, working with all levels of Government, interest groups and the community.

QRC acknowledges the Commission's efforts in identifying specific areas of regulation that are unnecessarily burdensome, complex or redundant, including the duplication of regulations, or the role of regulatory bodies, throughout Australia.

Minimising the regulatory burden on business is not necessarily minimising regulation itself but improving regulatory outcomes. In terms of assessing regulatory burdens, QRC supports the Taskforce on Reducing the Regulatory Burden on Business principles for good regulatory process.

In terms of Commission's approach to considering the regulatory burdens based on an annual review of particular sectors, this timetabled approach will cause considerable overlap amongst the range of activities that are associated with QRC's member companies – specifically the relationship between:

- mining (primary sector – completed 2007);
- minerals processing (manufacturing sector – 2008);
- transportation and electricity infrastructure (economic infrastructure – 2009); and
- generic economy-wide regulations (2011).

In light of this, QRC seeks to assist the Commission's review by highlighting the effects of regulation on the full range of the economic activities undertaken by the mining, minerals processing and energy sectors – noting that the 2008 review will focus primarily on minerals processing.

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Queensland's mineral processing industries – in particular the concentration of extracted product, smelting and refining – compete within a truly competitive international market, which is a commodity market with price-taker characteristics. As a result, minimising costs is the primary consideration of business in this sector. In order to leverage Queensland's significant resource endowment, maintaining an economy that is free from the deadweight loss of regulatory burdens is essential to realise the challenges of global competition.

QRC remains concerned with the overarching need to improve the administration of regulatory frameworks, and in particular for Governments to focus on the resulting compliance burdens. QRC set out examples of these regulatory inconsistencies and overlaps in its 2007 submissions to the Commission's review of the Primary Sector.

In relation to areas for the review to consider, QRC would like to bring to the following items to the Commission's attention.

→ **Vocation Education and Training (VET) reform agenda to ensure that regulatory impediments are removed –** QRC considers that there is a need to accelerate appropriate reforms in the vocational education and training arena which may assist in alleviating skills shortages.

  Skills shortages are imposing severe constraints on future expansion of the resources sector. QRC notes the findings of the Minerals Council of Australia report, *Staffing the Supercycle: Labour Force Outlook in the Minerals Sector*, which found that by 2015, the minerals sector will need to employ an additional 70,000 employees to achieve predicted increases in output. Of particular, concern is that these increases are forecast to be in trades (26,983 additional employees required) and semi-skilled employees (22,059 additional employees required). A copy of this report is attached.

  While the Federal Government is currently seeking views on reform to the VET sector (as part of its *Skilling Australia for the Future* consultation process), QRC supports accelerating reforms to address national interest priorities such as the skills shortage in the resources sector and encourage contributions to innovative VET service delivery models.

→ **A skilled migration system** – QRC considers that the Federal Government's Skilled Migration Program represents an important (and timely) response to the acute shortage of skilled employees facing industry in Queensland. The ability to provide for 'fast tracking' of applications should be made available for pre-qualified companies to ensure recruitment times are minimised – such a process would enable critical skill shortages to be addressed in order to maintain productivity.

→ **National Pollutant Inventory** – QRC notes there are concerns surrounding the:

  - the inclusion of transfers – noting the decision of the Environment Protection and Heritage Council at its June 2007 meeting and the further work being undertaken by the Department of Environment on calculation methodologies;
  - limited public awareness – which suggests the reporting burden on industry is difficult to justify;

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- the inappropriate use and quality of data – requiring specific guidance to ensure that regulators and the general public are aware of the limitations of the data and the context in which the data is provided; and
- need for the name of this programme to reflect the inclusion of transfers, specifically the 'National Emissions Inventory'.

→ **Addressing the need for greenhouse gas and/or energy policies and programmes given the introduction of national reporting legislation and the Government's commitment to commence a national emissions trading regime (ETS) by 2010.** While reform is progressing in this area, there is an urgent need to consider the implications of policies that will distort the ETS (providing for inefficient costs) or presenting unnecessary reporting and compliance costs.

- QRC seeks streamlining of existing and proposed programmes and polices to reduce regulatory burdens on industry (in terms of both compliance and inefficient costs) – this includes reporting requirements, mandatory renewable energy schemes, requirements for firms to invest in energy efficiency measures and legislative proposals for greenhouse gas emissions triggers for project approvals.
- QRC considers regulatory design of the ETS needs to reflect best practice regulation features and principles.

A copy of the QRC's submission to the Garnaut Review regarding streamlining and design features of an ETS is attached.

→ **Poorly administered or under-resourced regulation imposes substantial burdens on Queensland's mineral processing industries** – which causes uncertainty, delays and cost increases. QRC remains concerned that this is a key issue in many jurisdictions, including Queensland. In particular, the relationship between co-ordination within and between jurisdictions (refer attached QRC's 2008-09 Queensland pre-budget submission – pages 7 and 18). While legislated regulatory regimes may provide an excellent framework, this good work is effectively lost if the implementation and operational aspects are not afforded the appropriate level of resourcing or bureaucratic priority.

It is the QRC's view that the combination of unnecessary and poorly administered regulation imposes substantial costs on the Queensland mineral processing sector. Inefficient or ineffective regulation also presents a dead-weight loss to the community and onto the wider economy – in particular, the imposition of avoidable barriers to critical export and import-related industries that reduces Australia's international competitiveness.

Should you wish to discuss any of the issues raised in this submission, including the specific aspects contained within the attached submissions, please do not hesitate to contact Russell Silver-Thomas, Industry Policy Advisor, on (07) 3295 9560.

Yours sincerely

Michael Roche

Michael Roche
Chief Executive

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ENCLOSED:

- → QRC's 2008-09 Queensland pre-budget submission
- → QRC's submission to the Garnaut Climate Change Review responding to the *Emissions Trading Scheme - Discussion Paper*
- → Minerals Council of Australia report, *Staffing the Supercycle: Labour Force Outlook in the Minerals Sector*
- → QRC's submission to the Productivity Commission's *Annual Review of Regulatory Burdens on Business – Primary Sector 2007*.

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Working together for a shared future

12 October 2007

Mr Mike Woods
Commissioner
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

via: regulatoryburdens@pc.gov.au

Dear Mr Woods,

QRC welcomes the opportunity to contribute further to the Productivity Commission's study of the regulatory burdens on primary sector business – in particular, the minerals processing, mining and energy related aspects addressed within the draft research report titled, *Annual Review of Regulatory Burdens on Business: Primary Sector* (Draft Report).

The Queensland Resource Council acknowledges the Commission's efforts in identifying specific areas of regulation that are unnecessarily burdensome, complex or redundant, including the duplication of regulations, or the role of regulatory bodies, throughout Australia.

The purpose of this letter is to broadly offer QRC's support for the approach presented in the Draft Report; to reaffirm QRC's initial response to the Commission's issues paper (8 June 2007); and to provide some additional comments on issues raised in the Draft Report, which were not specifically identified in the Council's initial response.

QRC was pleased that the Commission's Draft Report addresses a number of the principles raised within the initial submission provided to the Commission on 8 June 2007, particularly:

→ ***Unnecessary duplication in reporting requirements, particularly where these duplications are inconsistent*** – such as the proposed inclusion of greenhouse gas reporting requirements within the National Pollution Inventory framework (Draft Response 4.16) and harmonisation of environmental assessments through bilateral agreements (Draft Response 4.10).

→ ***Excessive reporting requirements, where the burdens of reporting and compliance are not consistent to the extent necessary with complementary programmes*** – such as the multiple reporting programmes which cover energy or greenhouse gas, either currently in operation or being considered (Draft Response 4.16).

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However, QRC requests the Commission reconsider QRC's earlier suggestions which seem not to have been explicitly addressed in the Draft Report – specifically in relation to the regulatory burdens which arise from:

→ ***Unnecessarily complex regulation and regulatory decisions, which are effectively made in isolation, that provide consequential impacts on actual commercial operations of integrated supply chains*** – there is a need for decisions regarding the economic regulation of certain parts of export supply chains (regulated port and regulated below-rail infrastructure) not to be made in isolation. That is, the legitimate interests of infrastructure providers and related economic regulatory decisions should be aligned with the interests of, and consideration to, the resulting impacts to the entire supply chain.

The recent O'Donnell review of the Goonyella supply chain is attached to outline the benefits and opportunities of addressing the commercial operations of integrated supply chains.

→ ***Poorly administered or under-resourced regulation imposes substantial costs on the Queensland resources and energy sectors*** –- which causes uncertainty, delays and cost increases. While legislated regulatory regimes may provide an excellent framework, this good work is effectively lost if the implementation and operational aspects are not afforded the appropriate level of resourcing or bureaucratic priority. QRC remains concerned that this is a key issue in many jurisdictions, including Queensland.

In regards to the Draft Report, the QRC has identified the following matters which were not directly addressed within the Council's initial response – specifically;

i. Review of the *Native Title Act* and capabilities,
ii. Addressing skills shortages; and
iii. Occupational health and safety.

i. Review of Native Title Act

QRC supports the Commission's proposal for a review of recent amendments to the *Native Title Act* within five years of their implementation (Draft Response 4.8). This proposal would provide an appropriate basis for assessing the implementation and operational policy framework of the amendments to ensure an efficient and stable native title system without diminishing Indigenous rights.

However, QRC does not believe that the proposed response (Draft Response 4.8) adequately addresses the long-standing issues of the need for appropriate resourcing support from the Federal Government (both financial and capacity building) for Native Title Representative Bodies (NTRBs) and Prescribed Bodies Corporate (PBCs). This support is essential to ensure the obligations of the *Native Title Act* provide an enabling framework for the recognition of native title rights and interests, and the negotiation of future acts.

Industry has argued consistently that NTRBs are chronically under-resourced in fulfilling their legislative functions representing indigenous interests. This has delayed the negotiation of mutually beneficial agreements with industry and the resolution of native title claims.

In supporting increased resources, industry clearly differentiates between the government's responsibilities for core funding to fulfil legislative obligations, functional and capacity building requirements, and from minerals companies' responsibilities to fund indigenous engagement in specific commercial negotiations.

Consistent with QRC's initial submission, there remain a number of concerns with resourcing and capabilities of agencies charged with implementing and administering these policy frameworks – including Native Title Representative Bodies and Prescribed Bodies Corporate. QRC supports appropriate institutional arrangements (including appropriate Federal Government funding) to facilitate timely negotiations while building sustainable indigenous communities.

In addition, QRC supports the national industry position put by the Minerals Council of Australia that the lack of appropriate resourcing, both financially and in terms of capacity, for NTRBs and PBCs is emerging as a business critical issue for the minerals industry.

ii. Addressing the skills shortage

QRC shares the Commission's views relating to the need to accelerate appropriate reforms in the vocational education and training arena which may assist in alleviating the skills shortages (Draft Response 4.18).

Skills shortages are imposing severe constraints on future expansion of the resources sector. QRC notes that the findings of the recent Minerals Council of Australia report*, Staffing the Supercycle: Labour Force Outlook in the Minerals Sector*, which found that by 2015, the minerals sector will need to employ an additional 70,000 employees to achieve predicted increases in output. Of particular, concern is that these increases being are forecast to be in trades (26,983 additional employees required) and semi-skilled employees (22,059 additional employees required).

Labour shortages, both skilled and trade related, in areas directly and indirectly (provision of infrastructure and construction services) relating to mining and minerals processing, are of particular concern to QRC.

National policies for vocational education and training (VET) in schools are required to build on and sustain successful existing industry, state government and education provider partnerships.

A proven concept is the Queensland Minerals and Energy Academy (QMEA), which is building career pathways for students from 18 government and private high schools with geographical and mentor links to resource sector industries.

Generally, VET policy and investment reforms need to be more closely aligned to state priorities of national economic significance. For example, a focus on exploration skills could deliver a substantial windfall to the Australian economy by laying the foundations for a global training specialty.

QRC supports accelerating reforms to address national interest priorities such as the skills shortage in the resources sector and encourage contributions to innovative VET service delivery models.

iii. Occupational health and safety

The National Mine Safety Framework (NMSF) is an important initiative for improving health and safety through legislation under a national regulatory framework based on agreed key principles, improved regulator competency, greater consistency in regulator practice and a greater level of independence for regulators.

QRC is of the view that the NMSF should not be about creating a single piece of national mine safety and health regulation and a single national mine safety and health regulator. Rather, QRC supports consistent regulatory principles across Australia and consistent regulatory practice on the ground.

There are a number of industry concerns with the inconsistent approach to the increasing use of prosecution as a first response enforcement measure to breaches of OH&S laws. Moreover, current inconsistencies across jurisdictions including penalties, length of jail terms, the nature of an offence subject to prosecution, the availability of defences and the basic rights of appeal.

Again, the QRC acknowledges the efforts of the Productivity Commission to identify specific areas of regulation that are unnecessarily burdensome, complex or redundant, including the duplications of regulations, or the role of regulatory bodies, throughout Australia. Thank you for the opportunity to provide comments on this draft report

Should you wish to discuss any of the issues raised in this submission, please do not hesitate to contact Russell Silver-Thomas, Industry Policy Advisor, on (07) 3295 9560.

Yours sincerely

Andrew Barger
Director – Industry Policy

ENCL: O'Donnell Review of the Goonyella System

[http://www.qrc.org.au/01_cms/details.asp?ID=1046]