2018 AUSTRALIAN MINING INDUSTRY ANNUAL LECTURE

"The Global Forces Shaping Australian Mining"

By
The Hon Andrew Robb AO
Chairman, The Robb Group

Thank you for the invitation to deliver this year's Australian Mining Industry Lecture. I was delighted to be asked.

My simple thesis tonight is that an unprecedented and unexpected surge in demand from one country, China, drove the mining boom, and further new demand from China, and other countries in our region, can sustain such growth for several decades if we play our cards correctly.

Although many may be unaware of my mining industry involvement, it has stretched over nearly 40 years beginning in the 1980's when I was Chief Executive of the National Farmers' Federation.

Of course, that was a period of much forced deregulation across many economies in the Western world following the emergence in the late 70's of technology which enabled capital to be moved around the globe in real time.

Currencies were floated, interest rates were freed up, our banks were opened up to global competition, tariffs were significantly reduced or removed, industrial relations reform began in earnest, competition policy grew strongly, privatisations unlocked much potential, and more.

As Australia was a small, highly export orientated economy, this program of deregulation laid the foundation for much of our economic success over the subsequent quarter of a century, with our economy now in it's 27th year of uninterrupted economic growth.

These developments played to our strengths; and our primary industries of mining and agriculture have soared in response.

With all that reform happening in the 80's and 90's, our primary industries of mining and agriculture joined forces many, many times to support and help shape the massive freeing up of our economy.

The Australian Mining Industry Council (AMIC) and the National Farmers' Federation (NFF) found ourselves on the same side of nearly every issue.

I worked very closely with Chief Executives of AMIC at the time, James Strong, and subsequently Geoff Dixon and their colleagues at AMIC. It helped shape my understanding of the issues confronting all our primary industries, both at home and internationally.

I got an even closer understanding of the impact of politics on these primary industries during much of the 90's as Chief Executive and campaign director of the Liberal Party of Australia (LPA).

I then had 8 years in the private sector before subsequently entering Parliament in 2004.

During that interregnum, among other things, I was on the Board of Sinclair Knight Merz (SKM), then Australia's biggest consulting engineering company; I assisted PanAust in Thailand and Laos; I had two years on the investment team for the $60bn Gorgon gas project; I did some projects for BHP, Rio Tinto and Shell; and, the hardest of all, I sought to help a small WA exploration outfit find the money to prove up resources in their tenements; this led me to make a note to myself "don't do that again".

These experiences helped enormously when I subsequently held the Shadow Minister Portfolio of Climate Change and Infrastructure during the turbulent Rudd/ETS years, and as Australia's Minister for Trade and Investment in more recent times.

In assessing the global forces shaping Australian mining tonight it is worthwhile reflecting on the forces which shaped the recent mining boom.

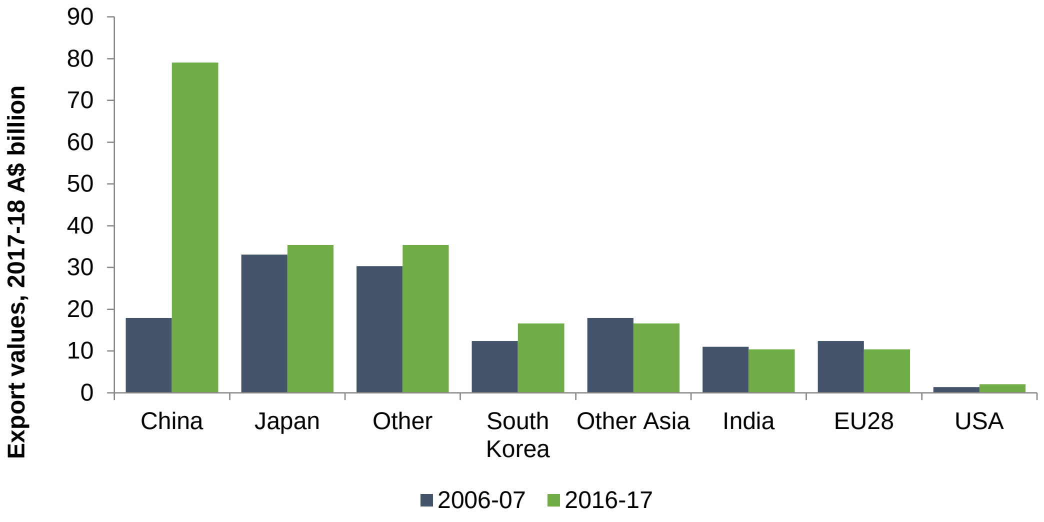
The boom that started around 2002-03 was driven almost singularly by rapid and unexpected demand from China; major mines in Australia, Africa or South America couldn't increase mine output quickly enough to keep up with the speed of infrastructure and manufacturing plant development in China. Significant price increases followed.

Although the Global Financial Crisis (GFC) stalled the high price phase, prices quickly rebounded before surging much further off the back of debt funded government spending around the world in response to the GFC.

For example, many will recall the price of iron ore reaching $US190 per tonne. This compares with around $US65 per tonne today. Similar price increases were experienced across most of our mineral and energy exports.

These exceptional commodity prices prompted a huge surge in investment activity. We've benefitted by more than $550 billion dollars of capital expenditure in resources projects over the decade to 2017, and seen major increases in Australia's production capacity, especially with iron ore, coal and LNG.

The following graph comparing export values from Australia to our eight top destinations in 2006 – 07 and 2016 – 17 presents another remarkable insight:



Department of Industry, Innovation and Science, *Resources and Energy Quarterly*, March 2018

The graph shows a nearly 5 fold increase in Australia's annual export values to China from $16bn a year to $80bn a year over those 10 years, compared to $30bn to $32bn a year for second placed Japan.

During the boom years this represents exponential growth of resources to China, while across our seven other major resource markets, four of them saw minute increases, like Japan, and three actually went backwards.

Although capital expenditure has peaked, the higher volumes of annual mineral and energy exports will deliver economic benefits to Australia for many decades to come. For example, six or seven years ago Australia was exporting 20 million tones of LNG, compared to over 70 million tonnes being exported by the world's biggest LNG exporter, Qatar. By 2019 Australia is expected to be close to Qatar's exports with over 80 million tonnes a year leaving our shores, a four-fold increase off the back of demand from China. Many of these contracts will extend for decades.

However, from 2013 to 2016, while China's rising demand continued, prices fell severely as supply in many commodity markets finally caught up with demand. We also saw credit tightening in both the USA and China, accompanied by appreciation of the US dollar.

This price response underpins once again that commodity prices are cyclical, notwithstanding the fact that Australia continues to export record volumes of iron ore, coal and other minerals to China each year.

Fortunately, since 2016 most markets have rebalanced, and commodity prices are increasing as a result, together with better credit conditions in China.

The supply induced severe price downturn has seen a positive reaction from our mining sector with an unrelenting focus on lowering costs and maximising productivity. A big part of this response involves innovation, where the Australian mining and energy sector leads the world in so many respects.

The phenomenal application of big data, robots, artificial intelligence, autonomous drills, driverless trains, intelligent mines and algorithms that predict how a piece of equipment is likely to fail and when to best schedule maintenance work are just some of the cutting-edge technologies being developed in Australian mines today.

This industry response is going to stand the sector in very good stead as the next couple of decades unfold.

So, what about the future?

In Australia we are witnessing a phenomenon not experienced since European settlement over 200 years ago.

China and India are re-emerging to the positions they enjoyed for 18 of the last 20 centuries, namely as part of the political and economic centre of gravity in the world.

Progressively this century these two countries, constituting together 3 billion of the world's population, will share regional and global political and economic power, not with the Romans and Turkish empires this time, but with the United States. Unfortunately, the United States appears yet to accept this inevitability with both sides of the political aisle in Washington endlessly focusing on "containment" of China – a futile and counterproductive approach in my view.

This transition to power sharing constitutes the biggest opportunity, and potentially the biggest threat, to realising the remarkable opportunities emerging on our doorstep in the Indo-Pacific-region.
History shows that many such transitions to power sharing can be fraught with conflict, history also shows that conflict is not inevitable, it shows that such transitions can be associated with peace and prosperity.

Done effectively such a transition to a workable balance of power in our region will see the China development experience repeated in India, Indonesia, Vietnam, Malaysia, Thailand and the remaining ASEAN countries in the decades ahead.

China is expected to maintain its current levels of mineral commodities, but as the Chinese economy transitions from a development focus to a consumption focus, it can be expected to increasingly substitute iron ore and coal, used in infrastructure and construction, for resources, such as copper, lithium, cobalt and aluminium which are intensively used in consumer items.

While China increasingly demands resources for a consumer society, ASEAN countries will demand resources essential for development.

With Australia blessed with ample quality resources for either development purposes or a consumer focus, we are poised to benefit enormously from these developments.
However, our potential involvement is not inevitable.

While the resources sector is appropriately responding to the usual business challenges as discussed earlier, if we are to capture the extraordinary opportunities in prospect two challenges stand out, namely, maintaining trading relationships which sees China and other countries in the Indo-Pacific region continue to source Australian mineral and energy resources throughout this 21st century, and secondly to deal urgently in correcting our bloated, dysfunctional and costly project approval processes. Our regulations can be a great strength for Australia, but it must be done in a commonsense and efficient manner, or else we are pricing ourselves out of the investment market.

In both regards, we must remember that Australia does not control the supply of any commodity.

With the huge potential of the Indo-Pacific region, global investment capital is looking to foster development of new mining regions in Africa and South America, among other regions.

Yet, the impact of Australia’s State, Territory and Federal project approval processes are increasingly a major deterrent to meeting this competition for investment dollars. Major duplication, lack of co-ordination, lengthy delays, costly reports, endless litigation and the sheer growth in the number of approvals required by all levels of government is seeing major projects face the requirement for literally many thousands of separate approvals.

In recent year, after seven years of seeking to satisfy the endless stream of requests for studies and costly commissioned reports, BHP finally submitted the material supporting their Environmental Impact Statement (EIS) to develop the Olympic Dam copper mine at Olympic Dam in South Australia.

The EIS report was so large it had to be literally submitted on a trolley.

At that time the BHP Board decided to go ahead with the massive project, subject to government approval.

The development of this mine would have underpinned 80 years of prosperity for South Australia.

Sadly, the Government bowed to further demands of anti-mine interests and requested reports and studies that would require a further 12 months.

In the meantime, prices dropped and the BHP Board reversed their decision and moved on. The cost of this project bring scrapped is now being paid by the South Australian industry and community in lower economic growth, less jobs and lower quality of life.

The fact is that regulatory overreach in the 21st century could be as critical and as damaging as industrial relations overreach was in the 1980's, where the costly delays and industrial uncertainty saw Australia hand over a big slice of the Pilbara iron ore trade to Brazil.

The international competitiveness of Australia's mining and energy sectors is being seriously threatened as a consequence. In my time as Australia's Investment Minister I held approximately 80 investment round-tables in 20 countries. By far the most common concern among investors was the increasingly lengthy and costly delays in securing project approvals.

In my 27 business trips into our region since I left Parliament 24 months ago, that concern has only grown.

Let me finish with some further remarks on the biggest future threat, namely, the issue of an effective transition to power sharing in our region where your sector is the most exposed.

Australia is a middle power in all this, but we have been, and can be, effective in influencing sensible outcomes.

For example, Australia signed up to participate in the Asia Infrastructure Investment Bank (AIIB), but only after China agreed to comply with best practice governance and transparency; and China has complied.

Such an approach shows that neither Australia nor any other sovereign nation for that matter needs to tug the forelock to any demand by the super-powers, but a combination of strength, and a preparedness for constructive and genuine co-operation can deliver sensible and improved outcomes.

Already the USA's blanket opposition to the AIIB, along with the recent US relinquishment of leadership in freeing up global trade has alarmed many countries, especially some of the small, exposed countries within the ASEAN group who feel that they now have no one looking after their backs in dealings with China, as its influence grows.

The strong but respectful diplomacy displayed by Australia regarding China's AIIB initiative will be the approach needed time and again by Australia, and by all countries for that matter, if we are to secure a peaceful and effective transition to power sharing in the Indo-Pacific during the 21st century. We will need a balance of power sharing and a sensible transition to that end.

The resources industry is the most exposed Australian industry to this rapidly changing geopolitical environment. It is real for all involved in this industry. It is in the best interest of the mining and energy sector to help Australia more broadly navigate this increasingly tense power struggle.

The alternative of leaving two bulls in a paddock to fight it out is no answer.