

A DECADE OF SAREIC

I would like to acknowledge the Premier, the Minister and my SAMPEG colleagues.

Congratulations to Bill Repard and Paydirt on 10 years of SAREIC's, with support from PIRSA's Paul Heithersay (and originally David Blight).

A lot has changed in that time. Ten years ago the minerals industry was seen as "old economy" and further processing dismissed as "rust bucket" nostalgia.

Pre the great China rise, mineral commodities and demand were low, prices mainly less than a quarter of the current for gold, copper, lead iron ore, coal, uranium, etc and had been declining in real terms for a long period. Even taking into account the weak A\$, this was pretty miserable. AS I remember my time as MD of Normandy, the gold price rarely got above \$300 per ounce!

SA mineral and energy exports were almost all from one mine (OD), one gas field (Cooper Basin) and two minerals processing plants (Port Pirie lead smelter and Whyalla steelworks).

Very little exploration for new resources was undertaken, with low confidence in finding much of significance in SA.

Now, minerals are our chief export and exploration in absolute and relative terms is way up, eclipsing the most optimistic forecasts and including new commodities for the state, such as zircon. An apparent slow down last year was the result of the accident, which took the main haulage shaft at OD out of service for a protracted period.

At last, the expansion of the OD operation seems imminent, eventually leading towards the establishment of the world's largest mine and making SA a global scale producer of copper (as in the 19th Century), uranium and gold. And there have been numerous other operations brought on stream with more in prospect.

Large areas of the highly prospective Gawler Craton under the Woomera Prohibited Zone are in the process of being made available for exploration and possible mining, albeit land access challenges still remain for the industry. However, in the main these issues are more easily dealt with in SA than other states; eg through ILUA's.

It has required some up-front leadership by Government to make SA one of the best places to explore and extract minerals and energy resources, especially from the Premier acting at state and

Federal levels. His work to scrap the two mines uranium policy and introduce and persist with PACE are two good examples.

But today it is especially fitting to express our gratitude to the recently retired and much respected Minister for Minerals and Energy, Paul Holloway, who has shown persistence, skill, a deep understanding and personal commitment to the role minerals and energy will play in the future of the state – a true believer.

We now have a new and vigorous Minister in Tom Koutsantonis, who has already shown his colours in championing resource development.

The “Mines Department” under the PIRSA umbrella is widely acknowledged and copied, as the benchmark in Australia and Paul Heithersay and his team are a true competitive advantage for the state.

And there are the many official and unofficial “volunteers” for the state, including SAMPEG, the RIDB and Robert Champion de Crespigny, who have helped differentiate our industry.

But where to in the next decade? Here the challenge is to cope with the success of the industry brought about through successful exploration and the China resource boom.

We are still confronting the lack of appropriate infrastructure (like ports), relevant skills and more efficient land access to fully capitalise on our potential. This will take time and finance and leadership within the industry and government alike.

At last year’s SAREIC we were almost overwhelmed by the unexpected Super Profits Tax proposal, which had just broken upon the industry. The consequences for this state in particular would have been disastrous for further development. The OD copper expansion was genuinely in jeopardy from essentially collateral damage flowing from a scheme to essentially increase taxation on the windfall profits being generated by bulk coal and iron ore exports in other states. The SA government worked effectively behind the scenes with its colleagues in Canberra to help mitigate the damage.

It is unfortunate that, in the hurly-burly of the debate, the community were given the impression that the industry had not paid its way on taxation, when reinvestment on a massive scale was the underlying explanation of apparent reduction in revenues. Broad community support is essential for our key export sector and its erosion of confidence ultimately hurts all Australians.

Nonetheless, the Super Profits tax has in the interim morphed into a more generally acceptable (especially for SA) Resource Rent tax only on significantly profitable producers of coal, petroleum (gas) and iron ore.

The next challenge will be to ensure that this tax does not distort competitiveness in the value-add extensions of the minerals and energy industry. This risk of collateral damage is heightened by the proposal to introduce a carbon tax, which when combined with Renewable Energy targets and

greater use of gas will inevitably increase the real cost of energy to industry in Australia, despite good intentions and elaborate compensation schemes. Consultation with industry and skill in its detailed formulation will be required.

SA is relatively well positioned in that its coal dependence is low and renewable energy (particularly wind) potential high, but we must ensure that our own needs and priorities are not submerged by the various interests in the bigger states. Our two smelting operations, which use carbon as an essential reductant, not just for energy have some special considerations.

The SA Economic Development Board, under its new Chair, Raymond Spencer considers that the sustainable development of the minerals and energy sector is essential for the long term economic growth of the state and is a priority for optimisation. The Upper Spencer Gulf is considered to be especially well placed to benefit from its success.

With two thirds of the state's population residing in Adelaide, the development of a strong and balanced production-based economy in its "hinterland" is vital. We have such a competitive foundation in agriculture, but it is SA's unique geological endowment that is its main comparative advantage for the future and it is the minerals and energy sector that will lever the greatest investment.

Our realistic objective of low carbon energy intensity, in time may well reverse SA's historically higher energy costs compared with the coal-driven eastern states.

How then we should go about optimising the benefits to the community conferred by the economic and social ripple effect of our growing minerals and energy sector. The OD expansion in particular is too big a stone to let skate uselessly across the surface of a smooth economic pond, leaving no enduring trace; we need it to make some big waves for the greater community.

The big splash in the centre of the pond comes from the direct impact of a development project and includes royalties and employment on site in both construction and operational phases. The inner ripple includes provision of essential infrastructure and services, such as catering and rehabilitation on site. The ripples beyond that may be less perceptible, but they have greater outreach into the community. These include training and aboriginal employment, design, commercial, legal, environmental and specialised technical services and support and a boost for our hard pressed manufacturers through realistic local content schemes. Beyond that ripple lies the opportunity to build an untouchable Norwegian-style sovereign wealth fund.

SACOME is a unique example of integration of its mining industry members with other members from diverse service and support industries in SA including many contractors.

At the time of the last SAREIC, the Federal Trade Minister, Dr Craig Emerson made an address (to another forum) about the great importance of these flow on benefits or multipliers . In the case of SA, with some very long life, multi-commodity orebodies in prospect, investment in the sectors on the ripples is a realistic business proposition.

Development at any cost cannot be a socially enduring approach and rigorous, expert and transparent regulatory processes to assess environmental and community impacts are essential. Contemporary state and Federal processes generally measure up pretty well on those criteria.

It seems inevitable that many minerals and energy development projects will bring forward individuals and groups who will not accept the decision of the umpire as delivered by these processes. Sometimes these will be the intending developers, but more often they will be those motivated by single interests, local issues and ideology.

Risk aversion is the new religion for some, and dire, albeit statistically improbable consequences make more interesting reading than steady economic benefits. If we are not to stall at our moment of opportunity, governments will need to demonstrate that their processes for development are fair and soundly based and be prepared to implement their outcomes for the benefit of the wider community.

Dr Ian Gould

Chair - SAMPEG

2 May, 2011