

Industries Assistance Commission

**INQUIRY INTO MINING
AND MINERALS PROCESSING
IN AUSTRALIA**

Background Paper

OCTOBER 1989

Please send 10 copies of your submission by 1 February 1990 to:

The Secretary
Industries Assistance Commission
PO BOX 80
BELCONNEN ACT 2616

Should you have any questions concerning this inquiry please contact:

for administrative matters;

Loren Broadhurst (062) 643149

for other matters;

Gary Henry (062) 643211

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Tentative Inquiry Timetable	
Industry visits	November/December 1989 January 1990
Deadline for initial submissions to be received by the Commission	1 February 1990
Public Hearings	12 - 28 February 1990
Draft report released	September 1990
Draft report hearings	November 1990
Final report completed	28 February 1991

Inquiry into the Mining and Minerals Processing Industries

This paper is intended to assist participants in preparing their submissions to the inquiry. The Commission hopes you will take an active role in identifying key issues which the inquiry should address. Set out below are those matters which, at this stage, have been identified as important for the inquiry. Participants are invited to comment on them and to raise other issues they consider the inquiry should address.

1. THE REFERENCE AND INQUIRY INFORMATION

On 18 October 1989, the Treasurer referred the mining and minerals processing industries, excluding petroleum and petroleum products, to the Commission for inquiry and report by 28 February 1991. The terms of reference are at Attachment 1.

Briefly, the Commission has been asked by the Commonwealth Government to report on any institutional, regulatory or other arrangements subject to influence by governments in Australia which lead to inefficient resource use, and to advise on courses of action to reduce or remove such inefficiencies.

The reference specifically requests that the Commission:

- (a) examine factors affecting minerals exploration and development, including allocation of mineral property rights and construction costs in remote sites;
- (b) examine operating costs such as energy, transport and labour costs (including on-costs) and the availability of these inputs;
- (c) examine other factors such as access to technology and the level of research and development which may be impeding the efficiency, international competitiveness and further development of Australia's mining and minerals processing industries;
- (d) consider the structure and efficiency of Commonwealth and State Government resource taxation and royalty payments;
- (e) have regard to established social and environmental objectives of governments and ongoing processes, including before the Resource Assessment Commission; and
- (f) provide advice on the economic costs of different approaches to those objectives consistent with an appropriate return to the community for the exploitation of public resources.

More generally, the Commission is free to take evidence and make recommendations on any matter it considers relevant to the inquiry.

Scope of the reference

The terms of reference nominate Division B (Mining) of the Australian Standard Industry Classification (ASIC), excluding petroleum and petroleum products, as activities falling within the scope of the inquiry.

Mineral processing activities are not as clearly defined however. The terms of reference specify that the report cover "value added processing of minerals, including coal, to the unwrought refined metal and alloy stage or the equivalent stage of processing of coal and industrial minerals".

A list of ASIC-based activities considered, at this stage of the inquiry, to be under reference is set out in Attachment 2. Participants' attention is drawn to the treatment of minerals processing activities.

The Commission is starting a new two year work program. Some other references (eg on construction costs of major projects, recycling of products, energy generation and distribution, and railways) will encompass issues which will be considered by this inquiry. Participants are asked to ensure that submissions to this inquiry cover all relevant issues.

The Commission's approach

In reviewing activities under reference, the Commission will take into account its general policy guidelines which require it to have regard to the desire of the Commonwealth Government to:

- (a) encourage the development and growth of efficient Australian industries that are internationally competitive, export-oriented and capable of operating over a long period of time with minimum levels of assistance;
- (b) facilitate adjustment to structural changes in the economy by industries and persons affected by those changes, and to minimise social and economic hardships arising from those changes; and
- (c) recognise the interests of other industries, and consumers, likely to be affected by measures proposed by the Commission.

Assessments of impediments to the growth and development of more competitive mining and minerals processing activities and the scope for adopting practical measures to remove or lessen these impediments will be made in the context of these general policy guidelines.

While there are issues specific to particular activities under reference which will have to be examined, the Commission is equally concerned to address broad issues which extend across a range of activities.

Inquiry procedures

Two rounds of public hearings are proposed - one prior to the preparation of a draft of the Commission's report and one following its release. An initial round of hearings will enable interested parties to present submissions commenting on issues canvassed in this paper and to raise other issues considered relevant to the inquiry.

Submissions relating to the first round of public hearings (scheduled for the latter half of February 1990) should be forwarded to the Commission by 1 February 1990. The times and locations of the hearings will be advised by circular.

In preparing submissions it would assist the Commission if requests, suggestions or issues of relevance to the inquiry were clearly identified, together with supporting arguments and evidence. It would also be appreciated if a brief

summary (one or two pages outlining the main points raised) was included with submissions.

The Commission will also be approaching participants for information and/or statistical data on their activities. This information will enable the Commission to assess the impact on the mining and mineral processing industries, and on the economy generally, of existing government interventions; as well as the likely effects of implementing the Commission's proposals.

. Confidential information

The Commission will accept certain information in confidence. Participants should clearly mark information they require to be kept confidential as **CONFIDENTIAL** and separate it from the remainder of their submission (which will become a public document). Participants are urged to make public as much of their submission as possible. Usually, only detailed financial or otherwise commercially sensitive information will be accepted as confidential. Because this is a public inquiry, the Commission will notify all participants of submissions received, and the non-confidential sections of these submissions will be available to other interested parties.

2. LIKELY INQUIRY ISSUES

The primary focus of this inquiry is on identifying factors which influence the competitiveness and growth of the mining and minerals processing industries in Australia. These include Commonwealth, State and local government interventions as well as other elements of the economic framework in which these industries operate (eg the trading environment for particular commodities).

The following sections outline those issues which, at this stage, appear likely to be central to the Commission's inquiry. The Commission seeks comment on each of these issues. However, participants should not feel constrained to comment only on issues raised in this paper. The Commission is also seeking views on any additional issues which participants consider important.

2.1 Exploration Permits and Mining Leases

The ownership of mineral rights in Australia is constitutionally divided between the States (which control relevant onshore areas), and the Commonwealth (which has jurisdiction over the Territories and over off-shore areas below the high water mark). In the Northern Territory, the Commonwealth has vested responsibility for minerals (except uranium) in the Northern Territory Government. Offshore, except on matters of overriding national or international significance, the Commonwealth has vested property rights out to the 3 mile limit in the States. In some specific areas, land rights legislation has given Aboriginal groups some say over mineral rights.

The reference identifies the allocation of mineral property rights as a factor affecting mineral exploration and development activity and specifically asks the Commission to examine this matter. Accordingly, the Commission seeks information and comment on all aspects of the ways in which exploration permits and mining rights are allocated by governments and the conditions which govern the transfer and exercise of these rights.

The allocation of mineral property rights raises a number of related issues. One on which the Commission seeks comment relates to alternative systems of allocating exploration permits and mining leases (eg "work program bidding"

versus "cash bidding" systems). The Commission also seeks comment on the conditions governing the transfer of these rights and related matters such as the link between the provision of exploration permits and the allocation of mining rights.

Exploration permits and mining leases granted under State Mining Acts or special project agreements often impose conditions such as infrastructure development, venture duration, downstream processing or local market supply obligations. The Commission seeks information on the extent and impact of these or other conditions attaching to the use of mineral property rights.

Governments have used a number of means, such as royalties and excises, to charge for the transfer of mineral rights. The reference requires the Commission to consider the structure and efficiency of Commonwealth and State resource taxation and royalty arrangements. Comment is therefore sought from participants on existing or possible alternative royalty systems and rates in terms of both efficiency and other objectives.

2.2 Multiple Land Use and Environmental Management

There is sometimes conflict between mining interests and those advocating alternative uses for the land - such as for conservation and/or recreation purposes, or to satisfy Aboriginal land claims. The reference specifies that the Commission should "have regard to established social and environmental objectives of governments and ongoing processes, including before the Resource Assessment Commission". The Commission is also required to "provide advice on the economic costs of different approaches to those objectives consistent with an appropriate return to the community for the exploitation of public resources".

The Commission seeks comment on the extent to which such multiple land use questions (or other social and environmental objectives of government) impinge on the activities and costs of the mining industry, due either to opportunities foregone or to conditions attaching to mining. The Commission would also welcome the views of all participants on the degree to which the subject of alternative land uses is being adequately addressed.

2.3 Taxation

Company and personal income tax arrangements include some specific provisions covering the mining industry. These include immediate deductibility of exploration expenditure and allowance for the deduction of capital expenditure on infrastructure incurred in developing and operating mines or mineral deposits.

In addition, aspects of taxation arrangements, while not necessarily structured to have any specific impact on the mining industry, nevertheless have features which are particularly significant for a capital intensive industry like mining. These include provisions for depreciation and investment allowances.

The Commission seeks participants' views on the impact of specific taxation measures applying to these industries, as well as the overall influence of these measures in the context of the general objectives underlying the taxation system (essentially the raising of revenue necessary to finance government expenditure within a system which is equitable, efficient and simple).

2.4 Operating Costs

Mining projects tend to be capital and infrastructure intensive. Expenditure on infrastructure associated with resource development is undertaken by developers, as well as government and semi-government bodies. Infrastructure for mining and minerals processing includes a diverse range of requirements. Industrial infrastructure comprises components such as roads, rail, ports, water supplies, waste disposal and a range of plant and equipment. Social infrastructure includes services to mining communities such as housing, health and education. Urban infrastructure covers facilities such as streets, sewage treatment, town water supplies, recreational facilities and community centres.

The infrastructure requirements of resource projects raise a number of issues on which the Commission seeks comment. These include:

- . the appropriate balance between private and public provision of industrial, urban and social infrastructure;
- . the appropriate charges for infrastructure (eg rail freight rates and port handling charges) in terms of recovering costs; and whether such charges include a taxing element for revenue raising purposes (ie operate as an indirect royalty charge);
- . the desirability of governments affording assistance with infrastructure provision;
- . the form such assistance might take (eg direct financial aid, taxation concessions or under-recovery of the cost of public investment); and
- . the possible need for improved co-ordination of investment decisions between the private and public sectors in the provision of infrastructure.

Issues relating to transport extend beyond the provision of road, rail and port facilities to include regulations applying to coastal and international shipping. Such regulations can have a significant impact on the costs of user industries such as the local steel and aluminium industries. The Commission invites comments on aspects of the transport sector which influence the mining and minerals processing industries, including the provision of infrastructure, the pricing of transport services, regulations which influence the cost of transport and on the scope for government action in this area.

Minerals processing is often energy intensive. Thus, for some activities, the pricing of energy inputs can be decisive in determining the extent of processing which is undertaken locally (eg the price of electricity is crucial to the economics of aluminium production).

Also, factors such as tariffs and indirect taxes on inputs (and exemptions from such imposts) will influence material input and capital equipment costs.

The Commission seeks comment on the availability of capital for mining projects and on the effects of the Commonwealth Government's foreign investment policy on the development of mineral resources. Similarly, comment is sought on the effect of government policies on the cost of material inputs to mining and minerals processing.

Labour market factors will also influence operating costs for the mining and minerals processing industries, for example, work practices, health and safety

standards, payroll tax, and workers' compensation. In addition, a number of State and Commonwealth tribunals and commissions (such as the Coal Industry Tribunal) have a role in determining labour costs and work practices.

Participants are invited to comment on labour market issues generally and their influence on operating costs.

2.5 The Trading Environment

Many of the factors which impinge on the trading environment of these industries are the result of government involvement in, or regulation of, the market. Others simply reflect characteristics that companies must adjust to and governments are unable to influence directly.

The Commonwealth Government has intervened in export marketing. It has done so by virtue of its constitutional powers over exports, for example, by imposing conditions on exports, such as regulating the types of products that may be exported and the terms and conditions of export contracts (such as those applying to uranium), or through intervention during the negotiation of contracts (as in the coal industry).

The Commission seeks comment on the nature of international markets for the products of the mining and minerals processing industries and their impact on local operations. The Commission also seeks comment on the influence of government involvement in the marketing of mineral products. Relevant issues include: areas of opportunity for increased sales of mineral products and key factors influencing the capacity to exploit new, or retain existing, markets; the market power in contract negotiations of overseas buyers; the degree, if any, of Australian market power; the role of international trading agreements; import restrictions in overseas markets; and the effect of interventions by governments in international trade in mineral products.

While exporting is particularly significant for the mining and minerals processing industries as a group, conditions in the local market are important for some mining and minerals processing operations. For example, some lease and development arrangements may include conditions governing the supply of the local market, or may include a requirement to undertake a certain degree of processing. Some mining activities are largely or wholly geared to the local market - activities such as brown coal mining or some sand and gravel mining are examples. The Commission also seeks information and comment on the local market for mineral products.

2.6 Other Measures

Governments provide some assistance for industry research and development through the provision of technical and support services by bodies such as the Bureau of Mineral Resources, CSIRO and State Departments of Mines and via taxation incentives for research and development.

The Commission invites comments on the impact of these types of measures and seeks information on other factors such as licensing agreements providing access to technology which influence the performance and operation of the mining and minerals processing industries.

TERMS OF REFERENCE

I, PAUL JOHN KEATING, in pursuance of Section 23 of the Industries Assistance Commission Act 1973 hereby:

- (1) refer the mining industry (as defined by Division B of the Australian Standard Industry Classification), excluding petroleum and petroleum products, and minerals processing for inquiry and report by 28 February 1991.
- (2) specify that in respect of (1) above, the Commission's inquiry and report cover value added processing of minerals, including coal, to the unwrought refined metal and alloy stage or the equivalent stage of processing of coal and industrial minerals.
- (3) specify that the Commission report on any institutional, regulatory or other arrangements subject to influence by governments in Australia which lead to inefficient resource use, and advise on courses of action to reduce or remove such inefficiencies.
- (4) without limiting the generality of this reference, request that the Commission examine:
 - (a) factors affecting minerals exploration and development, including allocation of mineral property rights and construction costs in remote sites;
 - (b) operating costs such as energy, transport and labour costs (including on-costs) and the availability of these inputs;
 - (c) other factors such as access to technology and the level of research and development which may be impeding the efficiency, international competitiveness and further development of Australia's mining and minerals processing industry.
- (5) Specify that the Commission: (a) have regard to established social and environmental objectives of governments and ongoing processes, including before the Resource Assessment Commission, (b) consider the structure and efficiency of Commonwealth and State Government resource taxation and royalty arrangements, (c) and provide advice on the economic costs of different approaches to those objectives consistent with an appropriate return to the community for the exploitation of public resources.
- (6) specify that the Commission is free to hold public hearings in advance of releasing a draft report and to take evidence and make recommendations on any matters relevant to its inquiry under this reference.

P. J. KEATING

18 October 1989

ACTIVITIES COVERED BY THE REFERENCE

Division B: MINING

Subdivision	Group	Class	Industry
11			METALLIC MINERALS
	111	1111 1112	<i>Ferrous Metal ores</i> Iron ores Iron ore pelletising
	112	1121 1122 1123 1124 1125 1126 1127 1128 1129	<i>Non-Ferrous Metal ores</i> Bauxite Copper ores Gold ores Mineral sands Nickel ores Silver-lead-zinc ores Tin ores Uranium ores Non-ferrous metal ores nec
12	120	1201 1202	COAL Black Coal Brown Coal
13	130		OIL AND GAS (NOT UNDER REFERENCE)
14	140	1401 1404	CONSTRUCTION MATERIALS Sand and gravel Construction materials nec
15	150	1501 1502 1504 1505	OTHER NON-METALLIC MINERALS Limestone Clays Salt Non-metallic minerals nec

Subdivision	Group	Class	Industry
16			SERVICES TO MINING NEC
	161	1611	<i>Mineral exploration (own account)</i> ^a Petroleum Exploration (own Account) (NOT UNDER REFERENCE)
		1612	Mineral exploration nec (own account)
	162	1620	<i>Mining and Exploration Services nec</i> Mining and exploration services nec

Division C: MANUFACTURING

29			BASIC IRON AND STEEL
	294	2941	<i>Iron and Steel Basic Products</i> Iron and steel basic products
		2942 ^b	Iron casting
		2943 ^b	Steel casting
		2944 ^b	Iron and steel forging
		2945 ^b	Steel pipes and tubes
	295	2951	<i>Basic Non-Ferrous Metals</i> Copper Smelting, refining
		2952	Silver, lead, zinc smelting, refining
		2953	Alumina
		2954	Aluminium Smelting
		2955	Nickel Smelting, refining
		2956	Non-ferrous metals nec smelting, refining
		2957	Secondary recovery and alloying of non-ferrous metals nec
	296	2961 ^b	<i>Non-Ferrous Metal Basic Products</i> Aluminium rolling, drawing, extruding
		2962 ^b	Non-ferrous metals nec rolling, drawing, extruding
		2963 ^b	Non-ferrous metal casting

nec - not elsewhere classified.

a This group consists of establishments mainly engaged in exploration on their own account (ie not mainly on a fee or contract basis for other establishments).

b One interpretation of the reference would indicate that these activities are not under reference.

SOURCE: Australian Bureau of Statistics, Australian Standard Industrial Classification, Volume 1: The Classification, 1983, Catalogue No. 1201.0, 1985.

MINING AND MINERALS PROCESSING

NUMBER: 34/89

23 October 1989

The Treasurer has referred the mining and minerals processing industries, excluding petroleum and petroleum products, to the IAC (soon to become the Industries Commission) for inquiry and report by 28 February 1991.

A Background Paper, intended to assist those interested in participating in the inquiry, is included with this circular. The Background Paper includes a copy of the terms of reference for the inquiry and outlines those issues which, at this stage, appear central to the inquiry.

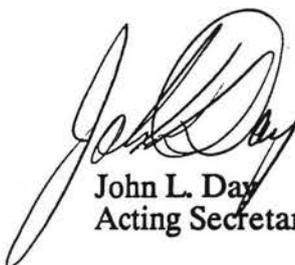
If you are interested in this inquiry, please complete and return Attachment 1 as soon as possible.

CONDUCT OF THE INQUIRY

The Commission will conduct two rounds of public hearings. The first will be held in the latter half of February 1990 following receipt of initial submissions. The Commission will then prepare a draft report for public release. This will be based on written submissions, discussions with inquiry participants, views expressed at the first round of public hearings and the Commission's own investigations.

A second round of public hearings will be held after release of the draft report to provide the opportunity for comment on its content and proposed courses of action. The Commission will then finalise its report by 28 February 1991.

Inquiry participants will be informed by circular of those who have made submissions to the inquiry. Submissions (except those parts accepted as confidential) will be available for public perusal, and copies of the public parts of submissions may also be purchased.



John L. Day
Acting Secretary

**PLEASE SEND ALL CORRESPONDENCE TO:
SECRETARY
INDUSTRIES ASSISTANCE COMMISSION
PO BOX 80
BELCONNEN ACT 2616**

**TELEPHONE INQUIRIES:
ADMINISTRATIVE MATTERS:
L. BROADHURST (062) 643149
OTHER MATTERS:
GARY HENRY (062) 643211
FAX:(062) 53 1999**

MINING AND MINERALS PROCESSING

Please complete and return this form immediately to:

The Secretary
Industry Assistance Commission
PO Box 80
BELCONNEN ACT 2616

Tick one box

- 1 I intend to make a written submission to this inquiry —
—
- OR 2 At this stage, I do not intend to make a submission but wish to be kept informed of the progress of the inquiry —
—
- OR 3 I have no interest in this inquiry (and wish to be removed from the mailing list). —
—

Name of Individual or Organisation

Street/PO Box

Suburb/Town

State/Postcode

Fax No.

Principal Contact

Position

Phone No. ()

(STD)

Please indicate the nature of your business/organisation.

Mining Company —
—

Minerals Processing Company —
—

Environmental Group —
—

Aboriginal Group —
—

Government (Commonwealth/
State/Local) —
—

Trade Union —
—

Other (please specify) —
—

.....



No. 33/89	Subject CONSTRUCTION COSTS FOR MAJOR PROJECTS
Date 26 October 1989	

The IAC (soon to become the Industry Commission) has commenced an inquiry into factors which lead to excessive construction costs for major mining, manufacturing and public utility projects. The terms of reference are overleaf.

CONDUCT OF THE INQUIRY

Early in the inquiry, the IAC will be seeking help from interested parties in identifying the issues which are likely to be important. The Commission will seek information for a number of case studies on projects previously completed, postponed or abandoned.

At this stage, a first round of public hearings is planned to commence in April 1990. The Commission will then prepare and release a draft report in advance of a second round of hearings in October-November 1990.

The proposed timetable for the inquiry is:

Consultations with industry	Nov 89-March 90
Due date for submissions	6 April 90
Public hearings (dates and locations to be notified)	April-May 90
Release draft report	Aug 90
Draft report hearings (dates and locations to be notified)	Oct-Nov 90
Final report to Government	18 April 91

REGISTRATION OF INTEREST

If you are interested in this inquiry and would like to be placed on the Commission's mailing list, please complete the attached form and return it to the Commission.

For further information about this circular or about the inquiry generally please telephone:

- . ANNETTE WILKE (062) 642520
 - . STEWART PLAIN (062) 643204
- Facsimile: (062) 531999

TERMS OF REFERENCE

CONSTRUCTION COSTS FOR MAJOR PROJECTS

INDUSTRIES ASSISTANCE COMMISSION ACT 1973

I, PAUL JOHN KEATING, in pursuance of my powers under Section 23 of the Industries Assistance Commission Act 1973 hereby:

1. refer the construction costs of major plant and equipment for inquiry and report within eighteen months of the date of receipt of this reference
2. specify that the Commission report on any institutional, regulatory or other arrangements subject to the influence of governments in Australia which lead to excessive construction costs for major projects or impede the efficient use of resources
3. specify that the Commission advise on courses of action to reduce or remove these costs and inefficiencies
4. specify the Commission have regard to the established social and environmental objectives of governments
5. without limiting the generality of this reference, specify that the Commission have regard to and report on
 - (a) construction costs for a representative range of major projects as they compare to cost levels for similar projects in competitor countries overseas
 - (b) the relative importance of construction costs in relation to other establishment costs (eg. equipment, land) of major plant
6. specify that the Commission is free to hold public hearings in advance of releasing a draft report and to take evidence and make recommendations on any matters relevant to its inquiry under this reference.

P.J. KEATING

18 October 1989

REF NO.: 89/07

CONSTRUCTION COSTS FOR MAJOR PROJECTS

Please complete and return this form immediately to:

Secretary
Industries Assistance Commission
PO Box 80
BELCONNEN ACT 2616

Tick one box

- 1 I intend to make a written submission to this inquiry
- OR 2 At this stage, I do not intend to make a submission but wish to be kept informed of the progress of the inquiry.
- OR 3 I have no interest in this inquiry (and wish to be removed from the mailing list).

.....

Name of Individual or Organisation

Street/PO Box

Suburb/Town

State/Postcode

Fax No.

Principal Contact

Position

Phone No. (.....).....
(STD)

- Please indicate the nature of your business/organisation.
- Project Owner/Manager
 - Project Contractor
 - Industry Organisation
 - Government (Commonwealth State/Local)
 - Trade Union
 - Other (please specify)
 -