

Cairns & Mining Conference 2013
12 June 2013



Coal: Prospects for the Future



David Rynne
Director Economics & Infrastructure

Overview

- > Who is the QRC?
- > The global fundamentals
- > What's ailing the QLD the coal sector
- > Advancing the QLD resources sector

Who is the QRC?

Who we are

- > Queensland Resources Council (QRC) is a not-for-profit peak industry association representing the commercial developers of Queensland's minerals and energy resources
- > 91 full members – explorers, miners, mineral processors, site contractors, oil and gas producers, electricity generators
- > 152 service members - providers of goods or services to the sector
- > Peak policy-making instrument: elected 30-member QRC Board covering diversity of members (8 positions for metals mining/mineral processing)
- > Policy developed through specialist Committees eg Infrastructure, Skills, Exploration, Energy & Climate Change, OH&S, Environment, Indigenous

**A multi-commodity peak body
specialising in Queensland-based advocacy.**

Aberdare Collieries
Adani Mining
A.J. Lucas Coal Technologies
Alcyone Resources
Allegiance Coal
Altona Mining
Ambre Energy
Anglo American Exploration
Anglo American
Aquila Resources
Areva Resources Australia
Arrow Energy
Bandanna Energy
BHP Billiton Cannington
BHP Billiton Mitsubishi Alliance
Birla Mt. Gordon
Blackwood Corporation
Caledon Coal
Cape Alumina
Cape Flattery Silica Mines
Carabella Resources
Carbon Energy
Carpentaria Gold

Cement Australia
Civil Mining and Construction
Clean Energy Australasia
Coalbank
Cockatoo Coal
CuDeco
Downer EDI Mining
Eagle Downs Coal Management
Ensham Resources
ERM Power
Evolution Mining
Exco Resources
Golding Contractors
Guildford Coal
Hancock Coal
Investigator Resources
Inova Resources
Jellinbah Resources
Jindal Steel & Power
John Holland
Lagoon Creek Resources

Leighton Contractors
Liberty Resources
Linc Energy
Macmahon Holdings
MacMines Austasia
Mastermyne
Mega Uranium
Metallica Minerals
MetroCoal
Millmerran Power Management
Minerals and Metals Group
Mitsubishi Development
New Hope Group
Norton Gold Fields
Origin Energy
OZ Uranium
Paladin Resources
Peabody Energy
QCoal
QER
QGC
Rio Tinto Alcan

Rio Tinto Coal Australia
Santos/TOGA
Shell Development
(Australia)
Sibelco Australia
Sojitz Coal Mining
Sonoma Mine Management
Stanmore Coal
Summit Resources
Superior Coal
Tata Steel Resources
Australia
Thiess
Vale
Vital Metals
Watpac Civil & Mining
Wesfarmers Resources
Westside Corporation
Whitehaven Coal
Xstrata Coal Australia
Xstrata Copper
Xstrata Zinc Australia
Yancoal Australia

87
full
members

196
service
members

40
associate
members

The global fundamentals

Strength of demand fundamentals

BREE estimates of average annual growth out to 2025

> **Thermal coal (2.6%)**

- 8.8% in India and 3.2% in China
- By 2016, global supply must increase by 30 mtpa (increasing year on year)

> **Coking coal (3.6%)**

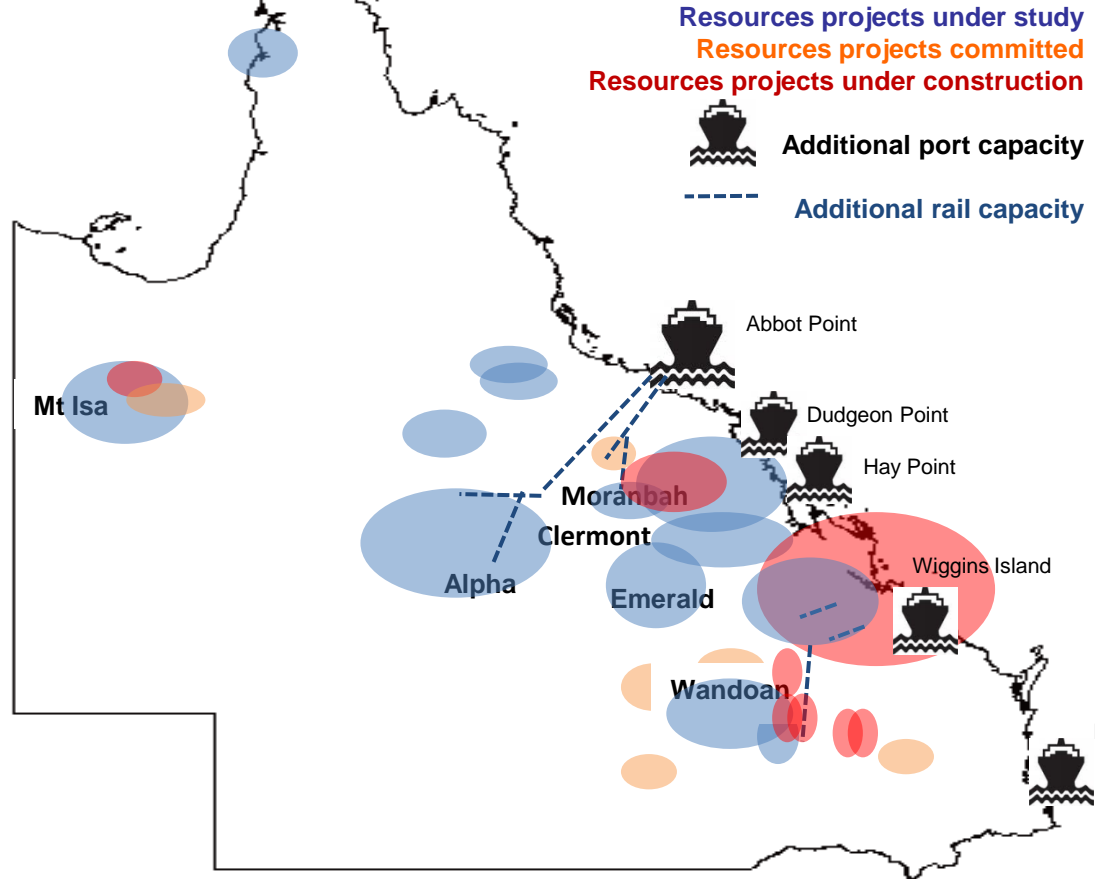
- 8.4% in India, 5.2% in China and 3.8% in South Korea
- By 2016, global supply must increase by 7 mtpa (increasing year on year)

> **Gas (1.4%)**

- 16.0% in China and 3.1% in South Korea
- By 2016, global supply must increase by 10 mtpa (increasing year on year)

Aspirations of the Queensland resources sector and key challenges

Queensland Resources Sector
Significant investment as at August 2012
(all resource projects > AUD \$500m each)

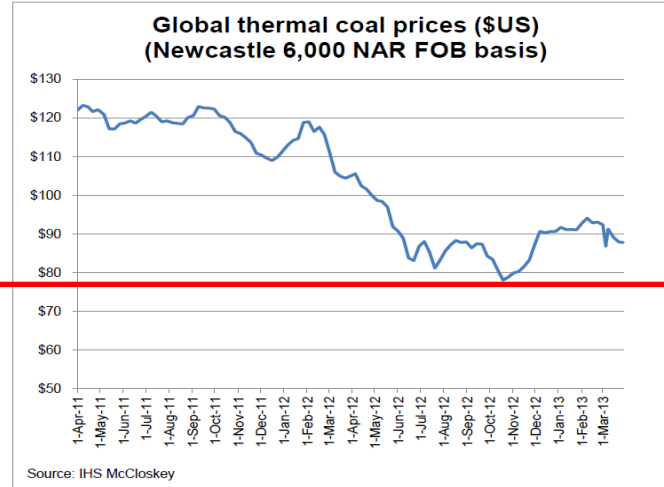
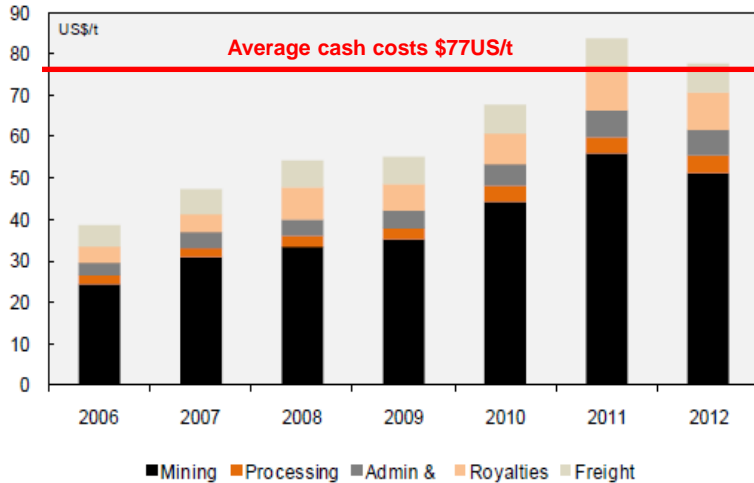


What's ailing Queensland coal?

- High construction and operating costs compared with global competitors
- Global macroeconomic uncertainty and stalled recovery – knock-on from Euro debt, patchy US growth, lower output from China and India coupled with oversupply – leading to commodity price downturn
- Take or pay contracts alone are keeping some mines open
- Persistently high \$AU to \$US – squeezes margins regardless of how the company reports
- Capital – more attractive global and Australian investment options
- Increasing global competition – 6% coking coal lost to USA during floods, unrecovered
- IR rigidities – unsustainable wage growth expectations, Fair Work Act, productivity sapping OH&S laws
- Mounting regulatory and tax imposts eg carbon tax (extra \$200m pa), Qld royalties (extra \$300m pa), EPBC water trigger etc
- Well organised, well-funded NGO anti-coal campaign

Current thermal mines loss making

Figure 6 Estimated Australian average export thermal coal FOB cash costs (2006-2012)



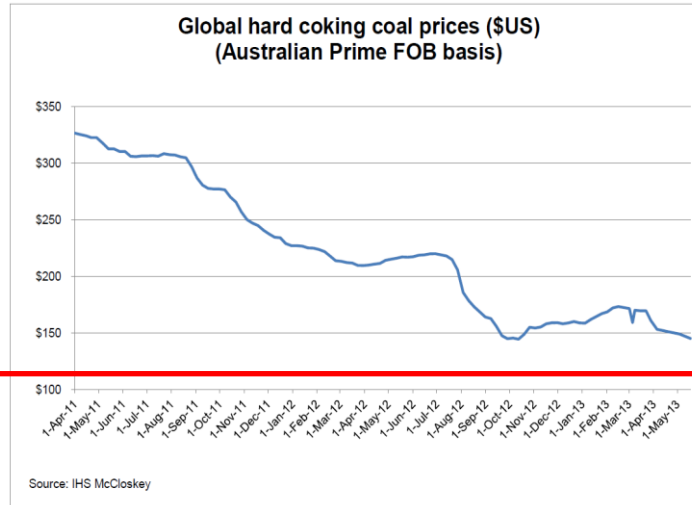
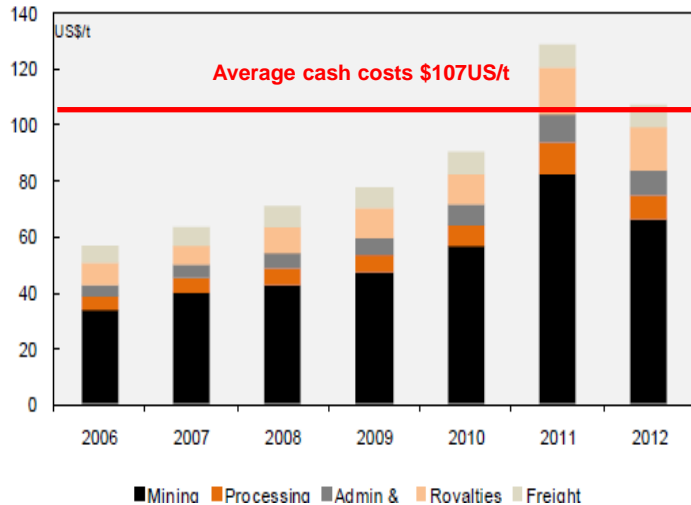
- + 30% company income tax
 - + capital replacement costs (pay back original investment)
 - + carbon tax
 - + replace depreciated assets
- Bracket not proportional to the aggregate of these costs

Source: Internal workings using forecasts provided by Macquarie, Credit Suisse, Goldman Sachs, Merrill Lynch, ANZ, Citigroup, UBS, AME, Wood Mac and CRU

Source: Analysis by AME Group(2012) for a speech by Mr Peter Johnston, Chairman, Minerals Council of Australia, Chief Executive Officer and Managing Director, Minara Resources Limited at MCA Minerals week 2012

Current coking mines slightly better off

Figure 7 Estimated Australian average export hard coking coal FOB cash costs (2006-2012)



Source: Internal workings using forecasts provided by Macquarie, Credit Suisse, Goldman Sachs, Merrill Lynch, ANZ, Citigroup, UBS, AME, Wood Mac and CRU

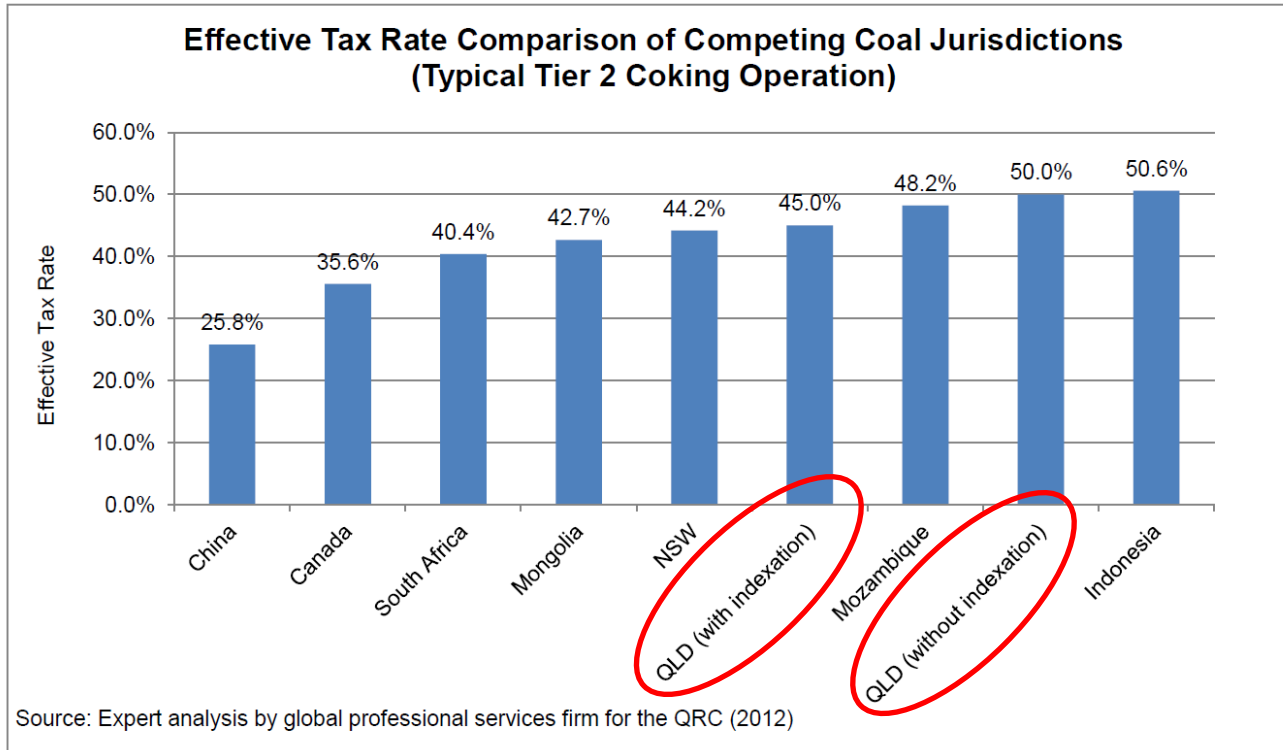
- + 30% company income tax
- + capital replacement costs (pay back original investment)
- + carbon tax
- + replace depreciated assets

Bracket not necessarily proportional to the aggregate of these costs

Note - These are premium brand hard coking prices. Average prices for semi-hard and semi-soft brands can be \$20-\$40/t less in value

Source: Analysis by AME Group(2012) for a speech by Mr Peter Johnston, Chairman, Minerals Council of Australia, Chief Executive Officer and Managing Director, Minara Resources Limited at MCA Minerals week 2012

Queensland coal's high effective tax rate



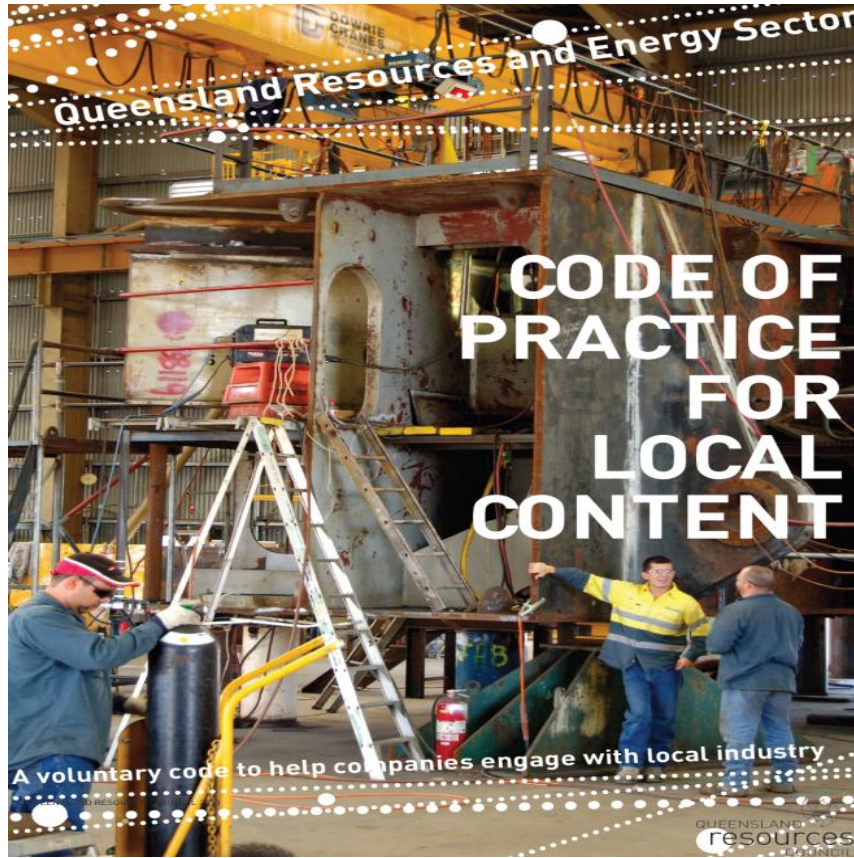
Advancing the QLD resources sector

Companies are cost cutting to stay competitive

- > Transport costs
- > Blasting/explosives costs
- > Corporate overheads
- > Direct labour costs
- > Reduced contract mining costs/shifting to in-house mining
- > Reduced maintenance
- > General contractor prices

Policy and regulatory reform

- > Taxation and regulatory reform
- > Slashing # and costs of project conditions
- > Restoring productivity losses as a result of *QLD Coal Mining Safety Act*
- > Overhaul of the Qleave scheme
- > Re-direction of the proposed Statutory Regional Planning laws
- > Greater contestability in hard infrastructure supply and more realistic regulatory determinations
- > Outcomes based regulation (eg the Code of Practice for Local Content)



Queensland Resources and Energy Sector

CODE OF PRACTICE FOR LOCAL CONTENT

A voluntary code to help companies engage with local industry

QUEENSLAND resources COUNCIL

Thank-you