

Canberra Observed



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Resources Minister Frydenberg sees a bright future for the resource industries

There were no surprises in Josh Frydenberg's first address to the National Press Club on 16 February 2016. He outlined the importance of the resource industries to Australia, argued that the future would be bright and indicated what reforms the government was planning.

His talk had three main themes.

First he outlined the essential role resources and energy plays in our economy, something we all know. In his words:

'By tracing the history of mining and energy development in this country one can see how we turned from a series of struggling, underpopulated colonies in the early 19th century to a prosperous, cohesive Commonwealth that has continued to successfully navigate its way through choppy international economic waters in this century and the last.'

According to the Minister: 'In September 2011 our terms of trade reached its highest level in 140 years and the prices of iron ore and coal, our two largest exports, more than doubled in the decade to 2014. In the same period, investment in the resources sector topped \$400 billion and the contribution of the sector to the Australian economy jumped from eight to 13 per cent of GDP. Australia is now the number one exporter of iron ore and coal in the world and by 2020 the number one exporter of LNG. We have the largest known reserves of uranium in

the world and are in the top five for copper, gold, bauxite, lead, zinc, nickel and lithium.'

Addressing the **second theme** he argued that: 'There will be growing sources of demand for our exports in the future' and 'the reality is that over the decades ahead hundreds of billions of dollars will flow to Australia as both demand and supply increases'.

The extent of this demand is difficult to estimate, because of the recent falls in commodity prices. According to the Minister, despite price falls of between 43 per cent and 57 per cent for coal and iron ore between 2011–12 and 2014–15, our export earnings from these commodities fell by only 16 per cent. This reflects the lower Australian dollar, a 30 per cent increase in coal export volumes and a 60 per cent increase in iron ore export volumes.

In other words, we had to produce more to try and maintain a similar level of income. And, the question remains; how long can we keep doing this, given what has happened to coal, iron ore and oil prices in the last year?

We are now a net importer of oil, but I don't think anyone would argue that the oil price will rebound in the short to medium term. An International Energy Agency (IEA) report released in February 2016 (<https://www.iea.org>) concluded that:

'Only in 2017 will we finally see oil supply and demand aligned and the enormous stocks being accumulated will act as a dampener on the pace of recovery in oil prices.'

The IEA is forecasting an increase in oil demand to 2021 at an annual average growth of 1.2 Mb/d or 1.2% per annum and that the global oil demand will break through the 100 Mb/d barrier at some point in 2019 or 2020. This analysis does not allow for more chaos in the Middle East but it does suggest that we will have some breathing space to deal with our import bill for petroleum. It also sends a message to the Australian Government about continuing to encourage investment in oil exploration.

There will always be a demand for iron ore and coking coal, but given the current excess capacity in China it may be a few more years before the market recovers.

Furthermore, according to the IEA, China is now investing more in renewables than the US and the EU combined, and half of all new capital invested in the energy sector in 2014 was in renewables.

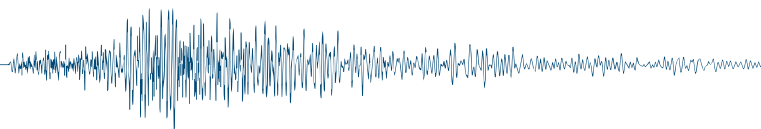
According to Wood Mackenzie (<http://www.woodmac.com/reports/coal-global-thermal-coal-short-term-outlook-november-2015-34606065>), 'Chinese thermal coal imports were down 26% in October (2015) to a paltry 10 Mt. That puts total year-end imports at around 145 Mt, down 61 Mt compared to 206 Mt in 2014.'

The Minister pointed to India and Vietnam as growth markets for our coal exports to counterbalance the slowdown in China. Clearly, there will always be a market for good quality coal and iron ore, but it seems that in future it's going to be just a little harder for our exporters of these commodities.

Third, Minister Frydenberg highlighted the importance of geoscience technology to exploration and development and the need for greater labour market flexibility. He complimented the companies now using automation to operate drilling equipment, trucks and trains, and emphasised the value of pre-competitive geoscience data. He quoted the situation in Western Australia where it was estimated that the rate of return for every dollar invested in pre-competitive programs has a multiplier of more than 20 times. Another example quoted was from Geoscience Australia, which undertook \$3 million worth of work to obtain new information on the Browse Basin. This facilitated the discovery of the Ichthys Field and will lead to more than \$70 billion in export earnings over the next forty years.

The Minister also mentioned the work being done by Geoscience Australia to undertake geological mapping of mineral deposits both near the surface and to depths down hundreds of metres. In addition he said that 'I'm currently consulting with the industry on a range of new measures that could help de-risk exploration in Australia and enhance our competitiveness.' Very encouraging words.

He then went on to the reforms he said were needed in the 'industrial relations space', where there 'needs to be better productivity to encourage greater



investment.’ ‘The reestablishment of the Australian Building and Construction Commission is vitally important to the resources sector and so too are reforms to union right of entry rules and Greenfield agreements.’ The Greenfield issue relates to being able to extend the duration of Greenfield agreements to the duration of the construction period of any particular project. ‘Otherwise you have a situation like we’ve seen at the \$70 billion Gorgon LNG project where the completion of billions of dollars’ worth of investment can be delayed while protracted and difficult negotiations take place. This is an additional and unnecessary risk that companies have to factor in to their investment decisions which deserves further consideration.’

He **concluded** with the positive message that the ‘resources sector in Australia has the economies of scale, innovative practices, highly skilled workforce, and proximity and access to markets that give us the resilience we need at this time.

There is no room, however, for complacency. We are operating in a fiercely competitive global market.

We need the right domestic policy settings if we are going to seize the investment needed to meet the next wave of demand which is coming out of our region.

For these reasons and more, there’s never been a more exciting time to be the Minister for Resources, Energy and Northern Australia!’

Who is Josh Frydenberg?

Well, he is a lawyer. He graduated from Monash University with Law and Economics degrees and developed his political interests there, where he was elected President of the Law Students Society. After Monash he went to Oxford University to complete a Master of Philosophy degree in International Relations.

When he returned to Melbourne he worked in a law firm and was admitted as a barrister and solicitor of the Supreme Court of Victoria. He then went to Canberra where he worked as a ministerial adviser from 1999–2004, before taking time off to complete a Masters of Public Administration at Harvard University.

In 2010 he was elected as the member for the blue ribbon seat of Kooyong and was re-elected in 2013. Tony Abbott appointed him to his ministry as Assistant Treasurer and in September 2015, Malcolm Turnbull appointed him the Minister for Resources, Energy and Northern Australia.

So now you know!

CSIRO cuts environmental science

We now know why the CEO of CSIRO (Larry Marshall) is axing 100 scientists from the Oceans and Climate Dynamics and Earth Systems Assessment programs and re-deploying resources to other parts of the organisation. It was all revealed by the Chairman of the CSIRO Board, David Thodey. He said that ‘CSIRO has decided to put greater emphasis on delivering technology-enabled innovation that will re-invigorate existing industries and create new ones.’ He also said, in reply to the letter of protest sent to the CSIRO and signed by over 2800 people from close to 60 countries, that: ‘The overall aim of the strategy is to significantly lift Australia’s technology-enabled innovation and in order to meet our national challenges including improving our prosperity and sustainability.’ Beautifully crafted words full of meaning and wisdom!

In practice I suspect it means get out there and use the brains nurtured by humble taxpayers to help industry make a good profit.

Specifically the Ocean and Atmosphere and the Land and Water units will be down sized. In other words, short-term profit will take preference over national public-good strategic research, which will be drastically reduced. ‘We will be losing expertise in climate research, urban liveability and sustainability, biodiversity and in environmental social and economic sciences,’ according to a respected ex-CSIRO source.

I would have thought that, as the number of people on the planet increases at the same time as it is warming, we should be putting more resources into how to forecast the climate, and manage our resources so that we can use food, clean water and clean air on a sustainable basis. Instead of this, we seem to be focusing on short term economic performance.

As Michael Asten implies in his article in *The Australian* on 16 February 2016

(<http://www.theaustralian.com.au/opinion/climate-change-csiro-realigns-after-groupthink-fails/news-story/f5e57f67234a11f3c963abb508346dac>), a huge amount of work needs to be done before the changes in the Earth’s climate can be reliably forecast in periods greater than a few weeks. At present the Government puts a much higher value on buying new defence equipment than in managing our environment. The \$28 million allocated to spruik innovation might also have been useful for undertaking research.

I am told that Larry Marshall did not advise the Chief Scientist (Alan Finkel), the Minister for Innovation and Science (Christopher Pyne), or the Minister for Environment (Greg Hunt) that he was going to make these changes. There is also some doubt as to whether or not the CSIRO Board was consulted before the announcement was made.

The big question for the Government now is how is long-term strategic research going to be managed in the future? The universities can’t do it. They live from hand to mouth on short-term grants; it can’t be done by agencies such as Geoscience Australia and the Bureau of Meteorology because, despite carrying out some research, the core business of these agencies is to deliver data and information. So the Government had better move quickly to correct the situation. As the President of the Australian Academy of Science Andrew Holmes said: ‘Why would you want to throw away something that we’re good at and that’s useful?’ It just doesn’t make sense.

Maybe the CSIRO should be split in two. One part funded wholly by the Government for public good strategic research and the other apart able to undertake short-term projects with industry. Clearly the present situation is not working.

Addendum to the piece on the Government’s National Innovation and Science Agenda in the last issue of *Preview*

Readers may be interested to know that in the 2001 Federal Budget \$159 million was allocated to implement the Prime Minister’s Innovation Action Plan. John Howard was ahead of his time and there is now no escape from innovation, it is ubiquitous.