Future critical: meeting the minerals investment challenge

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Michael Brennan, Chair, Productivity Commission

Thank you for having me here. It's a great pleasure to be a part of Minerals Week.

I would like to acknowledge the Ngunnawal people as the traditional custodians of this land and pay respects to elders past and present.

By any measure it has been an extraordinary two decades for the Australian mining and resources sector.

Twenty-five years ago, at the zenith of the dot-com boom, with the Australian dollar trading lower than it is today, we were in the midst of an almost existential debate about the 'new economy' and whether mining had much of a role to play in it.

There was active debate about attracting investment in ICT manufacturing. As it turned out, we were on the cusp of an historic and transformational mining boom.

When I reflect on that debate, it is fair to say we didn't see the boom coming. It was, in the true sense, a terms of trade shock, albeit a positive one.

For all that, our policy and institutional settings meant that we handled it remarkably well. A flexible exchange rate eased the adjustment and spread the income increase beyond the mining sector. Company tax receipts had a similar impact. We tapped the international labour market to attract skilled workers to expand our production and export capacity, aided by our openness to foreign capital.

Our decentralized system of firm-based bargaining allowed mining wages to grow, without an automatic link to pay rates in other sectors in the economy.

There are similarities with today but one difference, evidenced by the Mineral Council of Australia's *Future critical* report and the latest intergenerational report: this time, we can foresee some of the opportunities for our resources sector, particularly as the penny starts to drop about how material-intensive the global net zero transition will be.

The question is: how do we position ourselves to grasp them?

We start with many advantages – some natural, some accumulated over time. There is no single 'magic bullet' for improving the investment climate for resources projects.

As usual, it is the consistent application of many small things, as well as doing no harm. The *Future critical* report lists the key areas: fit for purpose regulatory settings, including up-front

approval processes; the absence of ad hoc policy ‘surprises’; continued access to skilled labour; a competitive tax structure; and co-ordinated infrastructure investment.

The Productivity Commission’s own work on resources regulation suggests that approval time frames could be getting longer.

Under the EPBC Act, the average time between project referral and the granting of approvals is around three years. For about 75% of that time, the proponent has carriage of the application – doing surveys, preparing documentation or responding to requests from the regulator. But we found the time taken for approval itself was around 235 days, and it had increased by about four months when comparing the five years to 2019 with the 14 years prior.

Nearly all projects get approved under the EPBC Act, but delay can cost. In the past the PC has modelled the impact of a one-year delay and found that it could reduce the NPV of a project by between 7 and 18%, depending on discount rate and the stage of the project at which the delay occurs.

Some of the issues that can contribute to lengthy delays include: a lack of co-ordination between tiers of government, even when the same issues are relevant to state and federal approval; excessive breadth of scope in assessment processes, rather than focusing on the most salient risks; consultants with incentives to prepare lengthy reports; and an incentive for regulators to ask for more information, regardless of its value, with the costs borne by the project proponent.

Assessment – particularly environmental assessment – will always be a delicate balance, but even some government agencies conceded to us that impact assessments were getting longer and more complex without conveying better quality information or improving the decision-making process.

Much of this is about regulator culture and capability, rather than the letter of the regulation itself. Good processes supported by appropriate use of statutory timelines, limited use of ‘stop the clock’ provisions, deemed decisions and co-ordination within jurisdictions (via major project facilitation and lead agency arrangements) will all be part of the mix.

The point is: we cannot simply assume that investment will flow to meet the opportunities that the *Future critical* report identifies.

For example, our *Advancing prosperity* report (released in March) raises the question as to whether corporate investors have become more risk averse in the last decade.

There seems to be some evidence of that in the widening gap between the risk-free interest rate and the required return on project investment, as though a higher risk premium is being imputed to projects.

If that is true, it could be felt more acutely in mining because of the variability of project returns which is part and parcel of a mining project.

Hence getting these small things right is important, so as to avoid placing undue barriers in the way of new investment.

At a broader level, Australia should be immensely proud of its resources sector.

Over the last two decades it has grasped big opportunities and created substantial wealth, which has been shared across the community.

As policy makers, we should understand that Australia has an atypical economic model – being a developed economy that is a resource exporter.

In this respect, we are unlike many other OECD economies, which lack mining sectors but tend to have correspondingly larger manufacturing sectors.

There is nothing inherently wrong with Australia's economic structure. And there is no reason to believe we would be richer today if we had a smaller mining sector and more of something else. Quite the contrary.

Mining is easily mis-characterised. It is sometimes implied that resource exports are somehow at odds with being an advanced, technically sophisticated economy.

In fact, mining in Australia has all the hallmarks of a sector at the productivity frontier – significant links with scientific research, high levels of automation, global networks of highly skilled labour and sophisticated capital markets.

In many ways, it is the model for other sectors (though noting that each sector will innovate in its own distinct way).

Nowhere is this more apparent than the use of 'economic complexity' measures to convey a sense that Australia has a low level of economic sophistication.

The Harvard Economic Complexity ranking places Australia at number 93 – wedged between Uganda and Pakistan.

We should not see this as a reflection on Australia – or on Uganda or Pakistan. It is a reflection on the measure. While it might be of some idle interest, we should not attribute any policy significance to it.

Needless to say, the Australian economy has very little in common with that of Pakistan or Uganda.

Australia has materially higher average incomes than the vast majority of economies ranked ahead of us, including Turkey, Egypt, El Salvador, Uzbekistan, the Philippines, Kenya and Laos.

Nor is it clear that these rankings are a good guide to future growth prospects.

Since 1995, Australia slid from a ranking of 55 to our current ranking of 93.

In that time, the Australian economy outperformed all of the G7 in real GDP per capita growth (although some of that took the form of higher participation and employment).

Perhaps predictably, Japan has ranked first for the entire period since 1995.

Japan is a rich country, but not as rich as Australia in per capita terms – either in nominal GDP or purchasing power parity.

Australian living standards and productivity have grown by more over the period since 1995 than those of Japan.

Despite our apparently poor (and falling) ranking on the measure of 'economic complexity' in the last 25 years, Australia did not get 'overtaken' by other economies. Though to some extent Japan did.

More so Italy (ranked 16th), where average incomes are still below 2008 levels.

There are macro-economic circumstances at play in Japan and in Italy, but the point stands: while there is scope for improvement, Australia's fiscal, monetary and trade policy frameworks; credible regulation; openness to capital and relatively flexible labour markets have served us pretty well over the last 30 years.

And so too has our status as a resource exporter; the very thing that marks us down on the economic complexity rankings. Those rankings do not convey any policy relevant information and we should not be beguiled into thinking otherwise.

When it comes to productivity policy and the structure of our economy, our ambition should be to become the best version of ourselves – not wish we were someone else.