Mining Journal

Committee misdirecting government efforts

The Australian government has a blueprint for lifting the country's mining output. It's simple. Just find more tier-one mining properties.

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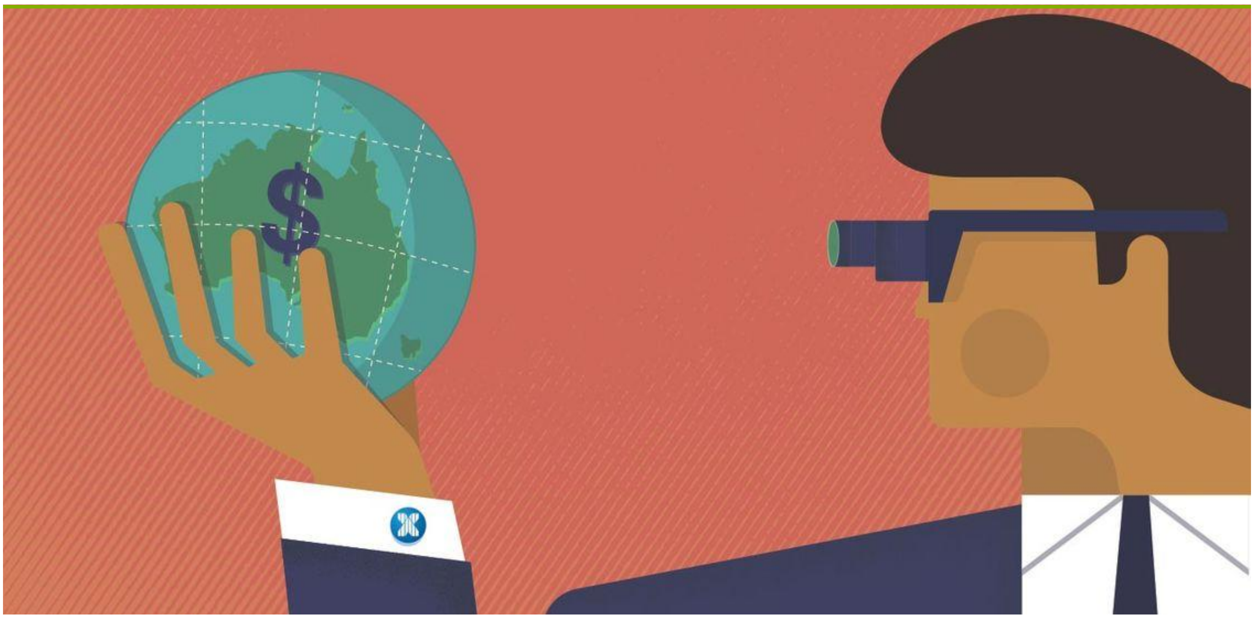

24 January 2019

Australia's minister for resources asked a committee of mining industry stakeholders in March 2018 to "identify bold, attainable reforms that will ensure the sector's competitiveness and sustainability". In submitting its 29 recommendations in September, the Resources 2030 Taskforce observed that "Australia urgently needs to find major new, high-quality, tier-one resource bodies, which can replenish its project pipeline and capitalise on growing global demand".

The minister foreshadowed an early 2019 response to the report's recommendations, after completing consultations with other levels of government, in an address to the Melbourne Mining Club in December.

While national and state governments are heavily involved in aspects of the mining industry, their primary impact comes through export approvals, regulation of foreign investment levels, taxation and oversight of land access.

The overwhelming number of their industry counterparts is intensely entrepreneurial, highly fragmented and disdainful of governmental influence on their priorities. For them, the ebbs and flows of capital, dictated by global macro conditions, drive more strategic and operational outcomes than anything Australian governments might do.

Meanwhile, decisions about future policy will have an eye to an impending May general election in which the government is widely tipped to suffer heavy losses. Any tampering with the prevailing industry culture risks opening a can of worms at a politically inopportune time.

To the extent the government wishes to appear active and supportive, it will probably commit to doing no more than performing existing tasks more efficiently. Given the electoral calendar, piecemeal announcements targeting sensitive regional constituencies could be expected, using the report as cover.

> **In chasing unicorns, government experts have failed to address more practical impediments to growth**

In any event, to more effectively work with the industry to build mine output, the government would first need to clarify for itself the important distinction between discovery and development, blurred by the authors of the 2030 report.

Exploration success is a necessary ingredient, but no guarantee, for future output growth. Many projects are trapped in the no man's land between an initial resource estimate and accessing the needed capital to get development underway. Disappointingly long delays result from plans having to be rejigged, perhaps repeatedly over many years, to attract funding.

The Resources 2030 Taskforce report has not addressed the impact of funding constraints on the frequency or quality of development outcomes, making it unlikely that the government will tackle this impediment to development either.

Including a few case studies in the task force report might have helped cultivate an improved understanding of what, if anything, the government could do to foster a speedier trip along the development path. The December issue of ‘Resources and Energy Quarterly' published by the Department of Industry identifies 167 from which to choose.

Two examples, both with an agricultural flavour, highlight the challenges. Parkway Minerals and Reward Minerals have phosphate and potash resources in Western Australia. Their development would be consistent with the government's often expressed desire to tap into the value chain created by a burgeoning regional population with evolving diets requiring greatly improved agricultural productivity.

Parkway, a company with a market capitalisation of A$3 million (US$2.13 million), has produced a feasibility study on a phosphate resource that indicates a $1.56 billion return over 40 years on a $205 million investment. Associated potash assets add further scale to a potential development hub. Reward, with a slightly higher market value of $18 million, says it needs to spend $519 million to generate $2.23 billion over 25 years.

On paper, both projects are viable, multi-decade development opportunities but, in practice, both need partners, probably with established positions in the fertiliser industry, to kick them off. According to Parkway chief executive Pat McManus, potential joint venturers are more likely to commit capital nearer development, or even after, and at the expense of a lower return.

Projects based on endowments of iron ore, coal, natural gas, and, more recently, lithium - where Australia has an outsized role - have all needed supportive partners. Government has been a second or third order contributor to the industry's development efforts.

Australian government policies have also indirectly played a role in constraining development by channelling a growing proportion of national savings into compulsory superannuation structures, which have proved inimical to the funding of the mining industry and led to a heavier reliance on offshore funding than might have otherwise been the case.

The Resources 2030 Taskforce concurs with favourable forecasts of demand growth. It also highlights Australia's "vast areas of highly prospective geology under relatively shallow cover" and expresses optimism that "more strategic collaborations across the industry and with governments can ensure the sector continues to grow".

The committee members have appeared reluctant to move beyond identification of these broad enabling factors to discuss whether governments can play a role in getting development underway in circumstances such as those confronted by Parkway and Reward.

The experiences of both companies foster strong incentives to shy away from larger-scale efforts, however great the eventual investment gains and contributions to national welfare, in favour of activities attracting near-term capital support.

The task force solution to redirecting exploration efforts is "to collect, integrate and make available additional pre-competitive geoscience data". No doubt, explorers would tap such datasets but the tendency to go after the easiest and most obvious targets, in a capital constrained world, will persist as potentially suboptimal development strategies are dictated by popular acclaim.

A naive simplicity underpins the committee's solution to the funding conundrum as it concludes that "adding to this resources base with new tier-one resources is critical for attracting investment". In deciding to chase unicorns, the government's experts have failed to address more practical impediments to industry growth.

The government should ask its advisers how it should react to a more likely scenario in which tier-one assets remain frustratingly elusive but an entrepreneurial industry, responding to commercial incentives, builds a pipeline of unspectacular but solid second-tier discoveries.

On this question, no thoughts have been forthcoming.

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