MINERALS COUNCIL OF AUSTRALIA

PRE-BUDGET SUBMISSION 2024-25

25 JANUARY 2024

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1. EXECUTIVE SUMMARY

Australians are facing a cost-of-living crisis, declining living standards and significant threats to their future prosperity. To address these issues, the economy's growth must be lifted.

The global clean energy transition provides Australia with a once in a century opportunity to attract a substantial amount of new investment. However, recent announcements of closures and curtailments in alumina, nickel and lithium operations are symptomatic of the growing international competitive pressures and deteriorating domestic business conditions facing Australian projects.

The problem is Australian mining costs are rising faster than those of competitors. If existing operations are financially unviable, the outlook for new investment is not favourable.

International competition for investment in mining, processing and manufacturing sectors is fierce. Advanced and emerging market economies are implementing comprehensive industrial policies to provide them a competitive edge in attracting investment in supplying clean energy materials and technologies to the world.

Capital investment will flow to projects with the best risk and returns. If these projects do not exist in Australia, capital will flow to where they do. Established and emerging resource-rich countries are taking actions to strengthen and grow their minerals sector. New jurisdictions are opening up in Africa, broader South America, Southeast Asia, India and the Middle East.

Australia's standard of living will be largely determined by the performance of the minerals industry for decades to come. Without the large capital investment in mining over the last two decades, the sector's economic contribution would not have been as strong, and the government would have been unable to achieve the first budget surplus in fifteen years. Higher than forecast iron ore and coal prices substantially contributed to last year's budget surplus and the surplus expected this financial year. The additional company tax from mining has afforded the government more choice in the amount and type of public goods and services it provides.

Australia needs government to deliver comprehensive policy reform to grow the economy, raise productivity and address the serious cost impacts on mining and mineral processing projects from inefficient policy settings. Failure to act will lead to further announcements of shutdowns, curtailments and job losses. And the anticipated flow of new investment in mining, minerals processing and advanced technologies to support the global clean energy transition will not transpire.

The Minerals Council of Australia continues to call on the Australian government to put business growth and investment at the centre of its policymaking. The actions of government over the past year clearly show that this message is falling on deaf ears.

The mining sectors capital stock, which is the largest contributor to the economy's growth, has plateaued at just under one trillion dollars over the last seven years. Growth in the sector's capital stock will not occur unless Australia has the right policy settings. When costs are high policy settings matter. We need to be better than our competitors around the world.

Government's policy settings are imposing unexpected and inefficient costs on business that will only harm investment growth and hamstring the nation's economic potential. Current policy settings are impeding investment in mining projects. Australia's marginal effective tax and royalty rate on mining investment is high and internationally uncompetitive.[1] Workplace relations rules are complex, confusing and productivity destroying. Environmental regulations and project approvals processes are inefficient and unnecessarily costly for proponents. Climate change and energy policies risk putting Australian exporters at a competitive disadvantage. And lack of a well-coordinated national workforce plan for the clean energy transition increases the risk of skills shortages across the economy.

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[1] P. Bazel and J. Mintz, *Corporate tax reform to help address Australia's weak investment performance*, School of Public Policy, University of Calgary, prepared for the MCA, 2022.

The government's changes to industrial relations legislation provides a clear example. Creating rigidities that reduce the ability of businesses and their employees to respond to changing circumstances and increasing the regulatory burden on the industry simply raises costs, lowers productivity and reduces the incentive to make substantial investments. Within 12 months of the first tranche of industrial relations legislation a union has lodged a multiemployer claim to rope in a number of mines in specific companies across a state.[2] The government emphatically denied that there would be such consequences.

The Australian Government must fully consider the consequences of its policies on the minerals industry to ensure its contribution remains strong. The benefits from mining activities extend widely to supplier industries and their workers, as well as the regions and communities where these businesses are located. Across industries, mining has been consistently at the forefront of productivity growth. Because the sector is extensively woven into the fabric of the economy, its productivity gains spill over to other industries.

For the economy to continue benefiting from the industry's contribution, government must ensure that:

- Tax settings remain stable and internationally competitive to deliver adequate returns on investment
- Workplace relations rules do not increase business costs and undermine conditions for improving productivity
- Environmental policy does not impose greater costs on project proponents without improving environmental outcomes and considering the broader social and economic impacts
- Climate change and energy policies put business at the front and centre in delivering emissions reductions and energy security without compromising the economy.

While Australia should always be seeking out new and innovative economic opportunities, we should also seek to strengthen and build on the industries we are good at and have a demonstrated international competitive advantage in. Doing otherwise is simply foregoing opportunity and choosing a path to lower living standards.

The government can stack the odds in favour of Australia catching the next wave of global mining and minerals processing investment with the right policy settings. If it does, the benefits will be widespread and durable. If it does not, there are considerable downside risks to the economy.

Policy settings must enable rather than restrain business investment. Alleviating policy impediments to mining activity is critical to retaining Australia's comparative advantage in mining and mineral exports and expanding activity in minerals processing and mining-related manufacturing.

The MCA has eight recommendations for the 2024-25 Budget that will help government secure the living standards of all Australians by enabling the economy to capture the significant opportunity presented by the global clean energy transition.

[2] Australian Financial Review, 'Miners targeted in historic bid for multi-employer deal', January 24, 2024, viewed January 24 2024.

2. SUMMARY OF POLICY RECOMMENDATIONS

ADVANCE POLICIES THAT SUPPORT COMPETITIVE PROJECT RETURNS

1. Recommit to no new or additional tax imposts on the minerals industry

- Recommit to no new or additional tax imposts on the minerals industry, including retaining the fuel tax credit scheme in its current form.

2. Reverse productivity destroying workplace relations changes

- Reverse changes in the Fair Work Legislation Amendment (Closing Loopholes) Act 2023, that introduced regulated labour hire arrangements (same job, same pay) and increased access to workplaces for union delegates.
- Do not proceed with unnecessary proposed changes in the Fair Work Legislation Amendment (Closing Loopholes No. 2) Bill 2023 especially those impacting casual employment, intractable bargaining declarations and union right of entry.
- Refocus workplace relations policy on reviving productivity, supporting enterprise bargaining, and enabling access to diverse forms of employment to achieve wages growth.

3. Increase core funding for Geoscience Australia to support Exploring for the Future

- Increase Geoscience Australia's core funding by $40 million to support Exploring for the Future.
- Provide Commonwealth leadership to integrate geological data into a seamless, standardised, national system.

REDUCE THE REGULATORY BURDEN TO ATTRACT INVESTMENT

4. Undertake cultural mapping to improve cultural heritage outcomes and the project approvals process

- Fund a cultural mapping project across Australia beginning with a pilot focused on Western Australia, Northern Territory and Queensland.
- Fund and task Geoscience Australia to lead the project with support from the Australian Institute for Aboriginal and Torres Strait Islander Studies and the National Native Title Council working with Traditional Custodians to identify areas of cultural significance.

5. Improve the capacity for Traditional Custodians to sustainably manage native title rights and interests, including investment opportunities

- Agree with the National Indigenous Australians Agency on a minimum financial operating standard for sustainable operations of Prescribed Bodies Corporates (PBCs), and funding to those below the standard.
- Provide financial management capacity building for eligible PBCs, and ongoing support and advice.
- Treasury in partnership with Attorney-General's Department establish a way to underwrite commercial lending agreements to PBCs based on Native Title Agreement (NTA) payments.

MAKE SUPPORT FOR MINING A POLITICAL IMPERATIVE

6. Make foreign investment in future facing materials (critical minerals and strategic materials) related projects more efficient

- Streamline the rules and process for investment proposals for future facing materials projects from strategic partner countries under the Foreign Investment Review Board (FIRB) and Foreign Acquisitions and Takeovers Act (FATA).
- Where necessary use production credits to attract investment in mining and minerals processing and integrate them in the supply chains of strategic partners.

DELIVER EFFICIENT PUBLIC INFRASTRUCTURE AND SERVICES

7. Prioritise common user infrastructure planning for resource projects

- National Cabinet should prioritise coordinated zoning policy, infrastructure mapping, and funding agreements across state and territory boundaries for critical minerals and strategic materials.
- Fund a single door project facilitation function in government and a high level (Associate Secretary or Deputy Secretary) directing role to facilitate investment in mineral, mining and processing supply chains.

8. Reduce adjustment costs of meeting near-term emissions targets

- Ensure a well-funded, coordinated whole-of-government approach, including with all states and territories, that considers all low and zero-emissions technologies, delivers reliable electricity supply, the integrity of offset markets and avoids inefficient regulatory burden.
- Reinstate funding for carbon capture, storage and use (CCUS) to support the development of this critical decarbonisation technology.
- Exempt safeguard mechanism covered facilities from additional state-based emissions reduction obligations to avoid duplication and encourage a national least cost approach to achieving Australia’s 2030 target and net zero emissions.

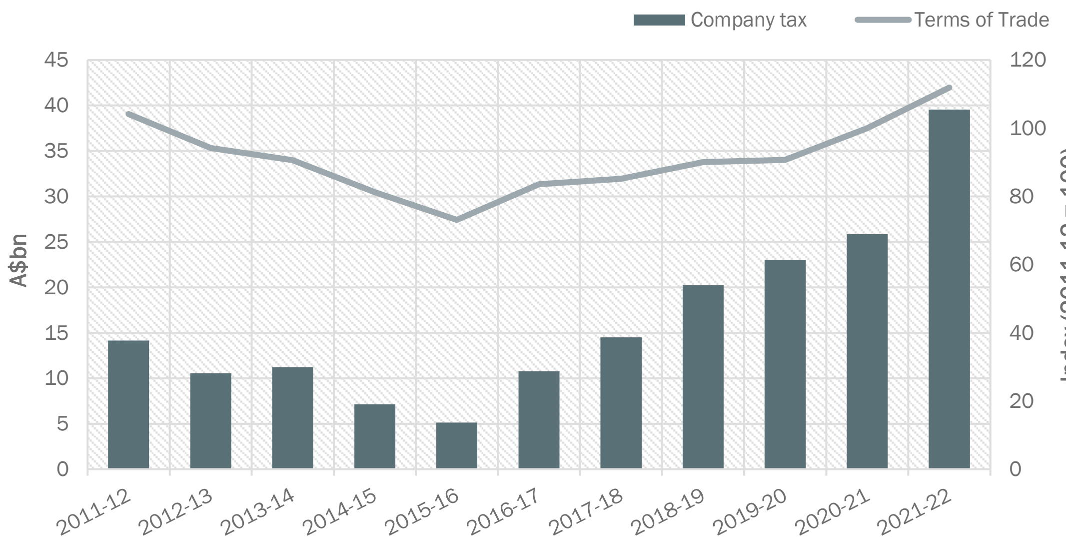
3. MINING INVESTMENT: A CRITICAL ROLE FOR GOVERNMENT

The Australian economy needs mining investment

The mid-year economic and fiscal outlook (MYEFO) brings into stark relief the challenges facing the economy and the government's fiscal position over coming years. There is a structural deficit that is projected to extend beyond the end of this decade and high government debt levels that would have been far worse without the significant tax payments from the minerals industry – $167.9 billion from 2012-13 to 2021-22 (figure 1).

If it was not for the large capital investment made since the start of the mining boom earlier this century, mining would have been unable to capture periods of high commodity prices at scale and the government would now have far less choice in the amount and type of public goods and services it provides.

Figure 1: Australian mining industry company tax payments have doubled in a decade



Source: EY, *Royalty and Company Tax Payments*, Table 3 Royalty and company tax payments, minerals sector, Published May-2023; ABS, *Australian National Accounts*, table 34, Released 7 June 2023.

Elevated inflation, high interest rates, along with a volatile geopolitical environment and an uncertain world economy are creating significant headwinds to economic growth.[3] These conditions pose significant risks to the future living standards of all Australians.

If Australia is to remain a prosperous nation, it will need a strong, growing economy sustained by robust productivity growth to enable it to successfully navigate the future. Growing the nation's productive capital stock – the buildings and structures, equipment, machinery and technology – through increasing business investment is the key to achieving this outcome.

Australia must build on the success of capital-intensive sectors such as mining that are, and can continue to be, internationally competitive. While Australia should always be seeking out new and innovative economic opportunities, we should also seek to strengthen and build on the industries we are good at and in which we have a demonstrated international competitive advantage. Doing otherwise is simply foregoing opportunity and choosing lower living standards.

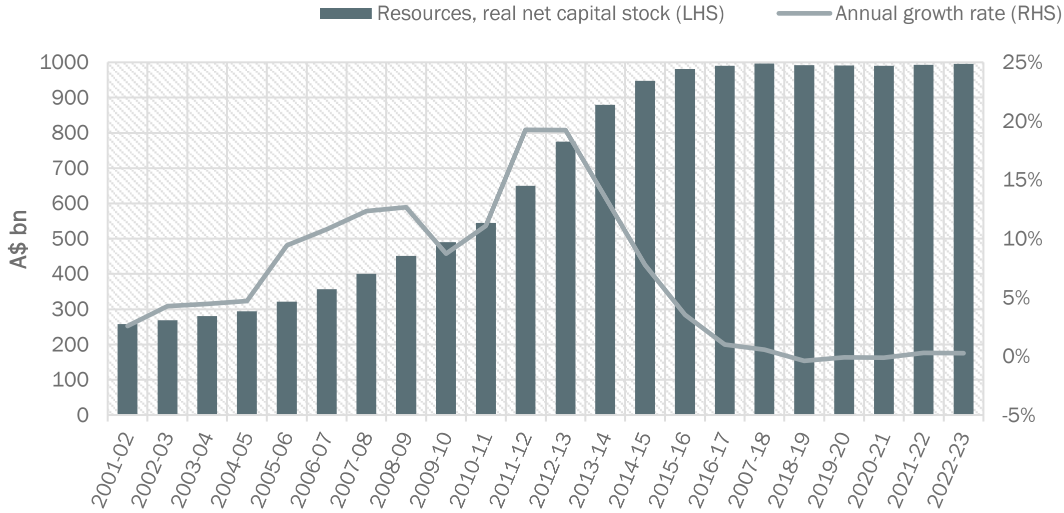
Australia has traditionally relied on foreign capital to fuel its economic growth and will need to do so in the future. It is critical that capital intensive industries remain internationally competitive to attract this

[3] Commonwealth of Australia, *Mid-Year Economic and Fiscal Outlook 2023-24*, 2023, pp.27-29.

investment. If investment flows to projects in other countries, economic growth and productivity growth will remain weak.

About one-third of Australia's long-term growth in income per person since the early 1900s was from increases in the amount and efficiency of the capital available to each worker.[4] Australians should therefore be concerned that business investment as a share of the economy is in long-term decline and that the mining sector's net capital stock of almost a trillion dollars has barely changed over the last seven years (figure 2).[5]

Figure 2: The mining industry's net capital stock is plateauing



Source: ABS, *Australian System of National Accounts*, Table 58. Capital Stock, by Industry, Released 27-Oct-2023.

The minerals industry is a cornerstone of the economy

The minerals industry's substantial investment this century has established it as a cornerstone of the Australian economy. The Australian mining sector's share of private sector capital stock (14 per cent) is significantly larger than that of any other industry owing to the capital intensity of its operations.[6]

Over the last 20 years the sector was either the first or second largest contributor to Australia's economic growth.[7] In the last financial year, spending on domestic goods and services by mining companies accounted for 5 per cent of the total intermediate use by all industries.[8] And for every additional job created in mining, just over six new jobs are generated across all industries.[9]

The industry's strong linkages across the economy draw in domestically provided goods from a range of manufacturers in the chemical, metal and petroleum industries and makes large purchases from electricity suppliers, construction, railway freight and transport, and wholesale trade industries. The industry also extensively utilises the professional services of the finance and business industries.

Theses linkages explain why the minerals industry's activity is so important to governments, businesses, and individuals and families in regions and communities across Australia. It is estimated that Australia's economic growth would have been 13 per cent lower in 2020 – the first year of the COVID-19 pandemic – had there not been a permanent increase in the size of the mining industry

[4] Productivity Commission, PC Productivity Insights: Australia's long term productivity experience, No. 3/2020, 2020, p. 35.

[5] Australian Bureau of Statistics, Resources net capital stock, GFCF, and consumption of capital, Australian System of National Accounts, Table 58. Capital Stock, by Industry, cat. No.5204, Released 27-Oct-2023.

[6] Ibid, table 68, released 28 October 2022.

[7] Ibid, table 5, released 28 October 2022.

[8] Minerals Council of Australia analysis of ABS, Australian System of National Accounts: Input-Output Tables, March 2023.

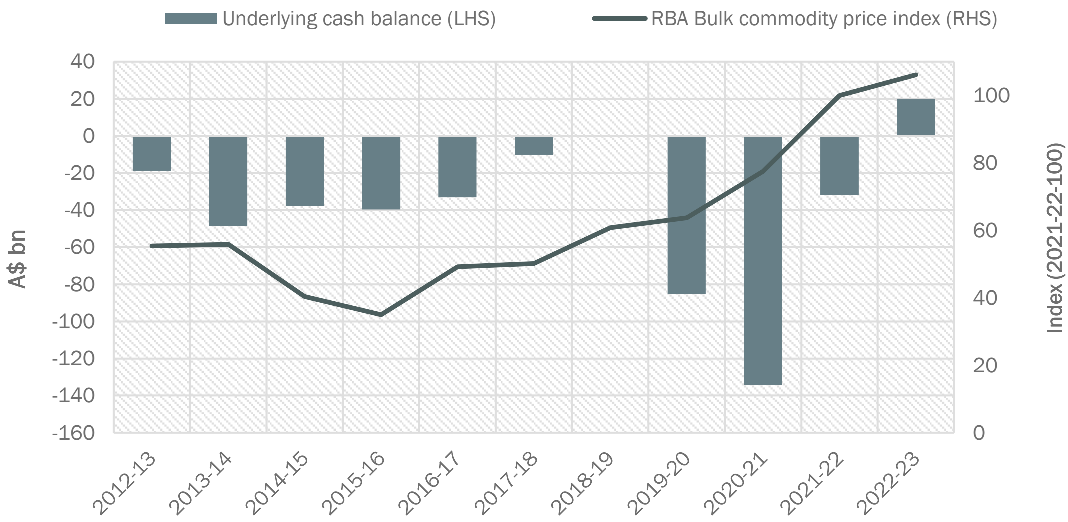
[9] Ibid.

from 2005.[10] Furthermore, if a major expansion of mining similar to the last one was repeated and generated the same economic benefits, households could be $11,700 better off, real wages 9.4 per cent higher, or $130 a week higher per worker, the economy $290 billion larger, and real GDP per person $9,900 higher.[11]

The Australian government's budget position is strongly linked to the industry's financial performance (figure 3). Variation in mining company profits leads to variations in company tax and royalty payments, which along with the relatively large size of the industry exposes the government's fiscal position to the profitability of mining.

Figure 3: The federal government's fiscal position is linked to the mining sector's performance

Underlying cash balance and bulk commodity price index (2021-22 = 100)



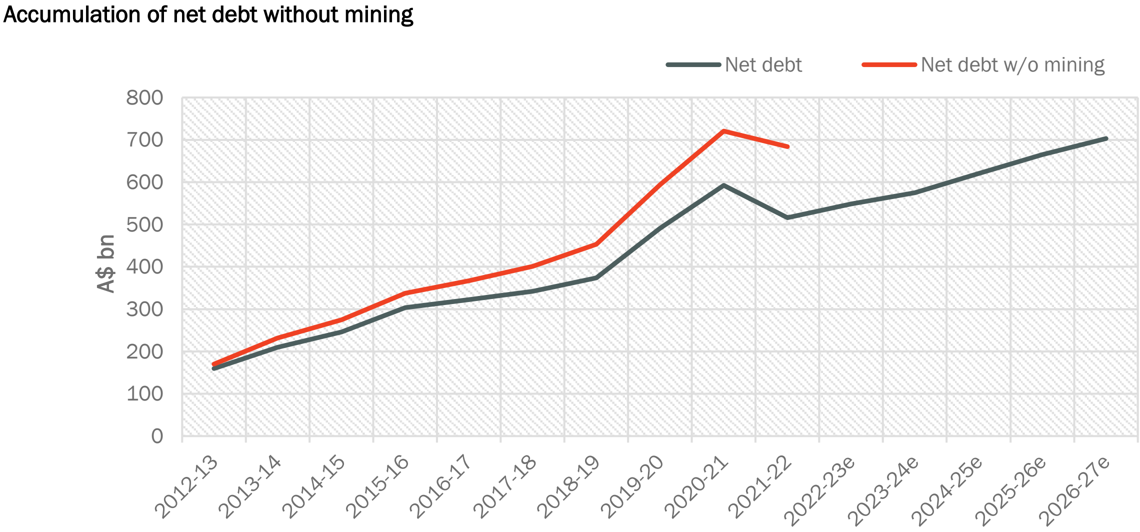
Source: Commonwealth of Australia, Budget paper 1, Budget 2023-24; RBA Index of Commodity Prices, July 2023.

The company tax paid by the mining industry, which in 2021-22 was about half of all company tax paid, provides the Australian government with greater choice in the amount and type of public goods and services it provides. For example, the extra billions of dollars in company tax payments from mining during the pandemic reduced the budget deficit, thereby enabling the government to avoid much more difficult spending decisions.

Mining's contribution to federal government revenue also reduces the accumulation of national debt when the budget is in deficit. To illustrate this point simply, without mining's company tax payments the level of the government's net debt that is forecast for 2026-27 would have been reached last year in 2021-22 (figure 4).

[10] Centre for International Economics, *Estimating the economic benefits of mining expansion and further productivity reforms*, report prepared for the Minerals Council of Australia, Canberra, 31 May 2021, p. 3.
[11] Ibid.

Figure 4: Accumulation of net debt without mining



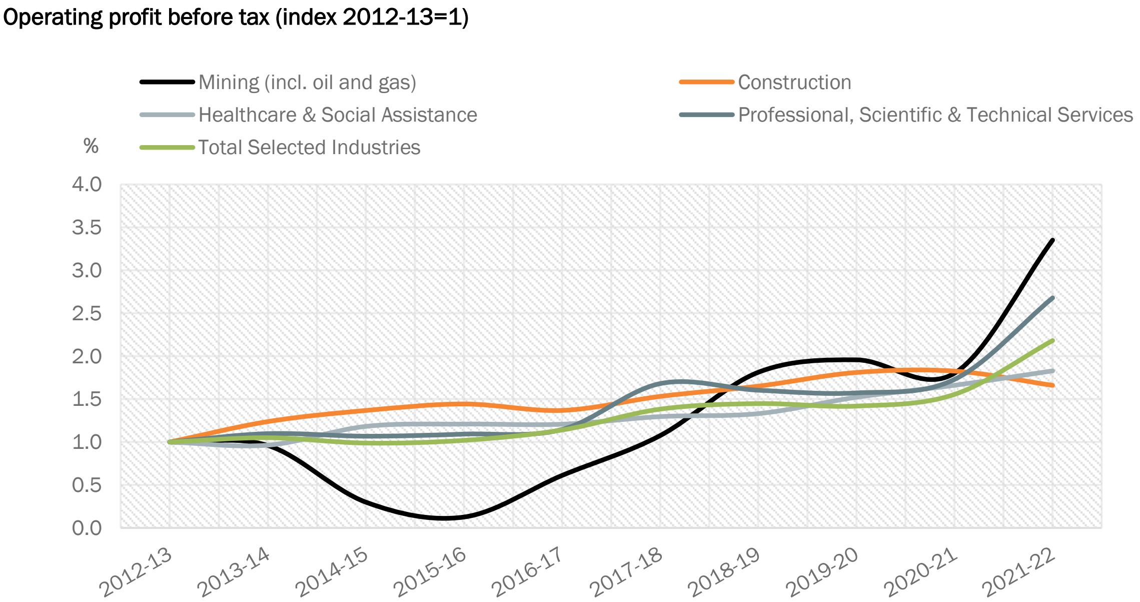
Source: Commonwealth of Australia, Budget Paper 1, Budget 2023-24; EY, *Royalty and Company Tax Payment*s, report prepared for the MCA, May 2023.

While all Australians benefit either directly or indirectly from the activities of mining though wages, superannuation, dividends, and tax and royalty payments, it is mining companies that effectively manage the risks in delivering these outcomes.

Mining investment is sensitive to project profitability

Mining is by its very nature a risky business. The characteristics of mining investment – irreversibility, highly uncertain future returns, and the ability to delay decisions until there is better information about future conditions – distinguishes the industry from capital investment in most other industries. Investments made in mining projects are mostly irreversible – they are chiefly location specific and have little productive use outside of the industry. This raises the required rate of return that investors need in order to commit such large amounts of capital to projects.

Figure 5: Mining profits are more variable compared to those in other industries



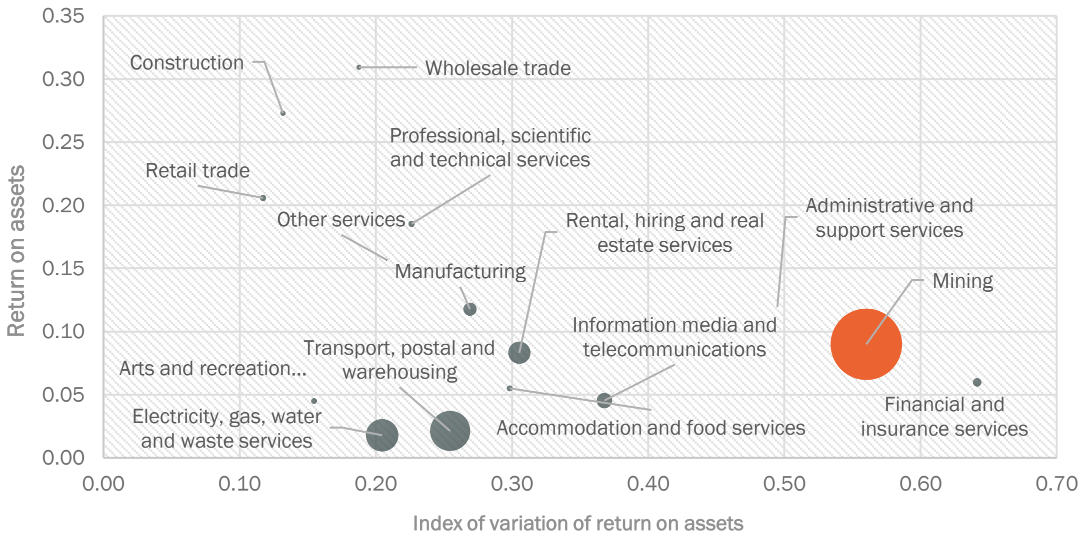
Source: Australian Bureau of Statistics, *Australian Industry*, 2021-22, table 1, released 26 May 2023.

Mining is also exposed to the largest variation in profits compared to all other industries (figure 5). This is partly because mining has the greatest amount of assets at risk and subject to volatile and cyclical commodity prices. The price of lithium shows how volatile prices can be, falling to a low of US$15,500 a tonne after reaching a high of US$72,000 over the last year.

The characteristics of commodity markets along with the capital intensity of projects expose the industry's investors to significantly more variation in the returns on assets relative to other industries. When mining profits are compared to the size of the industry's capital investment, return on assets has averaged 9 per cent over the last ten years (figure 6). This compares to a 12 per cent average return on assets across all other industries.

Figure 6: Mining is among the riskiest of all sectors for return on assets

Return on assets and risk (size = relative industry share of net capital stock)



Source: ABS, *Business Indicators*, table 9, released 5 June 2023; and ABS, *Australian System of National Accounts*, table 58, released 28 Oct 2023.

For the minerals industry to sustain its large contribution to the economy, including to government revenues, companies must be willing to keep taking risks on investment in exploration, new projects, and the operation and extension of existing mines. Favourable investment decisions depend on expected financial returns.

Australia's world class minerals industry is ideally placed to contribute in a substantial way to global clean energy supply chains as the world transitions to net zero emissions. Australia has a once-in-a-century opportunity if it has the right business and regulatory environment to attract the significant investment required in the mining and downstream processing needed to delivery clean energy technologies and systems.[12,13]

Given the potential scale of mining and processing required, the opportunity for Australia could be large and durable, and build on our last major expansion of mining. However, in contrast to bulk commodities, such as iron ore and coal, mines for battery and magnet minerals and metals face different economic considerations owing to their often smaller operations, different cost profiles and ability to access mature, efficient market pricing.

[12] S&P Global, *Metal producers will need to double capex to meet net zero by 2050: BofA*, 30 November 2020, viewed 29 November 2023.

[13] IEA, *The role of critical minerals in clean energy transitions*, viewed 29 November 2023

Recent closure and curtailment announcements by mining and processing companies highlight the sensitivity of operational and investment decisions to current financial conditions.[14] With the exception of lithium and nickel prices that are trading at their lows for the year, commodity prices are at high levels.

The problem is that Australian mining costs are rising faster than those of competitors in other mining jurisdictions.

Government policies that impose high costs on industry threaten capital investment

Investment conditions in Australia for mining and minerals processing are becoming more challenging. Market pressures, higher interest rates along with rising costs, and government policy settings unresponsive to deteriorating investment conditions are threatening Australia remaining a favourable destination for capital investment in mining and minerals processing.

Australia's reputation as an attractive destination for mining investment can no longer be taken for granted. Competition for investment is increasing from established and emerging resource-rich countries taking action to strengthen and grow their minerals sector. New jurisdictions are opening up in Africa, broader South America, Southeast Asia, India and the Middle East. Competition will only increase into the future as more countries seek to maximise the economic contribution from their mineral resources. For example, Saudi Arabia is looking to mining as the third pillar of its industrial growth.

Furthermore, advanced and emerging market economies including China, the United States, Europe, Japan, Canada, the United Kingdom the Republic of Korea, India and Indonesia are implementing comprehensive industrial policies to provide them a competitive edge in attracting investment in supplying clean energy materials and technologies to the world. To date, the incentives provided in the US Inflation Reduction Act for domestic content in the clean energy, electric vehicle and batteries sectors have had the most substantive effect on attracting investment in key green energy technologies.

Australia risks dealing itself out of trillion-dollar critical minerals markets and playing a major role in assisting the world transition to clean energy technologies unless government gets serious about addressing rising costs, weak productivity growth and increased policy risks that are threatening investment.

Government policy settings must support growth in private sector capital investment. The mining boom earlier this century showed that it is growth in the stock of capital investment that delivers the innovation and economic activity that produces a long-term flow of economic benefits to households and businesses across the nation.

To give Australia the best chance of catching the wave of global mining investment to supply the minerals and metals for the clean energy transition, government policies must reduce the distortions and disincentives that are limiting the economy's ability to attract investment in mining and downstream processing.

Australia's minerals industry is continually seeking to increase the efficiency of operations by improving processes and adopting innovations on a range of fronts. Actions include investing in specialist mining skills and developing flexible workforces, sourcing higher quality capital inputs, and developing and deploying new exploration, mining and environmental management technologies and systems.

However, recent announcements of closures and curtailments in alumina, nickel and lithium operations are symptomatic of the growing international competitive pressures and deteriorating

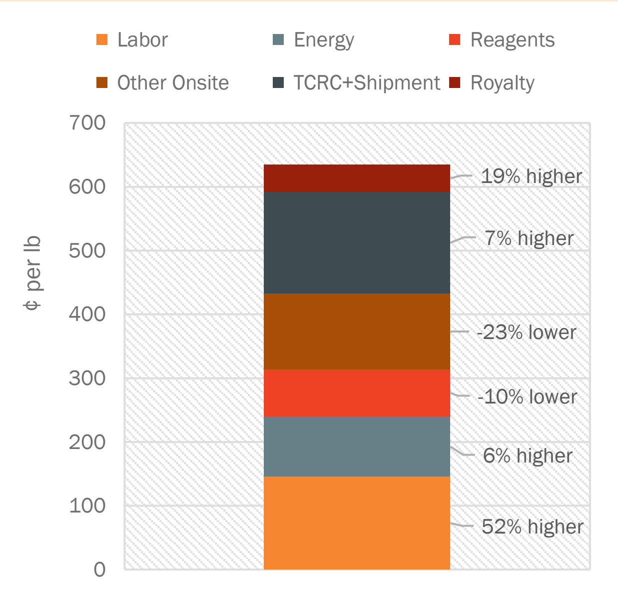
[14] Australian Financial Review, 'The eight mines most at risk of closure amid a battery metals slump', 9 January 2024, viewed 9 January 2024.

domestic business conditions making investment in Australian projects less attractive. Australian nickel production provides a good example (box 1).

Government should be concerned about rising mining costs. Capital investment will flow to projects with the best risk and returns. If these projects do not exist in Australia, capital will flow to countries where they do.

Box 1: Pressure on Australian nickel production costs amidst increasing competition

Total nickel cash costs for Australian production, 2023 (¢ per lb)



- Policy settings that create additional costs on producers erode Australia's international competitiveness
- Australian nickel producers are facing lower commodity prices due to increased global competition
- Australia's high labour, energy and processing costs put mining projects at a distinct competitive disadvantage compared with other jurisdictions
- Producers run extremely efficient on-site operations to compensate for uncompetitive policy settings
- Closures and curtailments could be avoided with more competitive policy settings

Source: S&P Global Market Intelligence, 2023. Note: costs are weighted by production across producing mines in each country for each component. Comparison is made with respect to a production weighted average of all international producing mines.

Government policy settings must immediately remove barriers to mining investment

Given the distinct characteristics of mining investment, the minerals industry's economic contribution cannot be taken for granted. Government must fully consider the consequences of policies on the industry to ensure its economic contribution remains strong.

The minerals industry currently faces five major types of policy impediments to investment:

1. Restrictive policies that impact project returns and therefore affect decisions about whether to explore for new reserves, change production plans, and expand or develop new mines.
2. Regulations that seek to address environmental, heritage, culture or safety issues but create excess regulatory burden without benefits.
3. Under-provision of public goods and services, such as transport infrastructure, national security and cyber security, that impair the mining industry's ability to operate.
4. Political factors that present difficulties in gaining community support for projects, as well as the political process delaying or preventing investment.
5. Fiscal policy settings, along with monetary policy, that adversely affect the mining industry's ability to bring new projects to final investment decision through their impact on the cost of capital.

The MCA's policy roadmap 'Future Critical: Meeting the Minerals Investment Challenge' sets out a comprehensive suite of policy recommendations aimed at reducing the investment-deterring effects of these five policy impediments.[15]

The government can stack the odds in favour of the Australian minerals industry catching the next wave of global investment with the right policy settings. If it does, the benefits will be widespread and durable. If it does not, there are considerable downside risks to the economy.

Alleviating key policy impediments to mining activity are critical to retaining Australia's comparative advantage in mining and minerals exports and expanding in minerals processing and mining-related manufacturing. The eight recommendations for the 2024-25 Budget that follow provide measures that can be implemented in the short-term to assist in achieving this outcome.

[15] Minerals Council of Australia, *Future Critical: Meeting the Minerals Investment Challenge*, September 2023.

4. ADVANCE POLICIES THAT SUPPORT COMPETITIVE PROJECT RETURNS

Recommendation 1: Commit to no new or additional tax imposts on the minerals industry

- Stable and internationally competitive tax settings are essential to attracting investment. But Australia's effective tax rates on mining investment are among the highest compared to other mining jurisdictions. Even the threat of new taxes is enough to deter investment.
- The right tax settings could accelerate the expansion of mining, continue to put the Federal budget on a sustainable budget path, and further grow Australia's regional economies.

Proposed actions

- Recommit to no new or additional tax imposts on the minerals industry, including retaining the fuel tax credit scheme in its current form.

Outcomes

Long-term: A shift by policy makers toward identifying reforms which generate revenues by growing a productive minerals industry, by encouraging investment in exploration and investment in new mines and expanding mines, and minerals processing, rather than deterring investment.

Medium-term: Improved outlook for Australian mining investment conditions through commitment to a stable tax regime that fosters productivity and growth and provides confidence to both domestic and international investors.

Short-term: Current tax settings are quarantined against any further erosion of Australia's international investment competitiveness against other resource exporting nations.

Policy rationale

Internationally competitive tax settings are essential to deliver Australia's future prosperity. With the right tax settings, Australia could accelerate the expansion of mining to supply the growing global consumption of commodities and enhance the industry's significant contribution to the economy.

Australia's effective tax rates on mining investment are among the highest compared to other mining jurisdictions around the world.[16] As a result, the industry's international competitiveness for investment is threatened by increases in taxes or royalties. Exploration and mining investment depends on companies' expectations of future financial returns, so any opportunistic increase in tax and royalty settings will deter future investment and lower economic activity, household consumption and wages.

Sustainably repairing the structural budget deficit requires a comprehensive and coordinated policy agenda to encourage trade, investment and productivity growth. Tax reform is the heart of such an agenda. Piecemeal approaches to revenue raising levied on the minerals industry such as reducing or removing the fuel tax credit (FTC) would increase taxation on regional and remote Australian businesses and result in lost output and reduced international competitiveness for the minerals industry. The FTC must be retained in its current form. It is not a "subsidy", it simply removes fuel excise as an impost on a critical business input. The scheme is based on the fundamental tax policy principle that business inputs should not be taxed – the same principle that underpins the goods and services tax – and the fuel excise is essentially imposed to fund the cost and maintenance of public roads.

[16] P. Bazel and J. Mintz, *Corporate tax reform to help address Australia's weak investment performance*, School of Public Policy, University of Calgary, prepared for the MCA, 2022.

Recommendation 2: Reverse productivity destroying workplace relations changes

- The government's 'Closing Loopholes' legislation will close opportunities for Australian businesses, limiting productivity, operational flexibility and investment by adding more layers of complexity and uncertainty to workplace relations.
- To prevent business confidence from eroding further, government must put a stop to further productivity-destroying workplace relations changes.

Proposed actions

- Reverse changes in the Fair Work Legislation Amendment (Closing Loopholes) Act 2023, that introduced regulated labour hire arrangements (same job, same pay) and increased access to workplaces for union delegates.
- Do not proceed with unnecessary proposed changes in the Fair Work Legislation Amendment (Closing Loopholes No. 2) Bill 2023 especially those impacting casual employment, intractable bargaining declarations and union right of entry.
- Refocus workplace relations policy on reviving productivity, supporting enterprise bargaining, and enabling access to diverse forms of employment to achieve wages growth.

Outcomes

Long-term: A modern and adaptable workplace system that attracts investment, drives sustainable wage growth, supports communities and contributes to national prosperity.

Medium-term: Reform of workplace relations law that fosters productivity by providing more flexibility to employers to achieve operational efficiencies, and certainty to those employees that require it.

Short-term: Preserve further erosion of labour market efficiency and loss of Australia's international competitiveness to other mining jurisdictions.

Policy rationale

Australia needs a modern and adaptable workplace system that attracts investment, drives sustainable wage growth, supports communities and contributes to national prosperity. The recent workplace changes introduced by government will impose constraints on business that work against these outcomes. By serving a narrow set of interests, the Australian government has exposed the entire economy to additional risks.

The minerals industry and most other industries in the Australian economy are facing multiple challenges with high inflation, high interest rates, flagging productivity and increasing overseas competition for investment. The government's workplace relations changes do nothing to meet these challenges and will exacerbate the consequences of them for working Australians.

Reducing labour market efficiency by arbitrarily increasing the risks and costs associated with routine commercial arrangements (not just labour hire) will have a sustained negative impact on Australia's international competitiveness.

By removing the incentive to bargain and upending commercial arrangements, the 'Closing Loopholes' Bill will create unsustainable cost pressures and uncertainty for many businesses, while reducing Australia's competitiveness as an investment destination. The legislation will create devastating complexity for businesses and workers that will threaten jobs, businesses and ultimately, drive up the cost-of-living. It is a direct attack on the effectiveness of Australia's mining and resources industries.

Without a credible commitment to reversing workplace relations changes that will only increase complexity and red tape, increase uncertainty for business, and reduce flexibility in operations, Australia is likely to fall further behind competitor economies.

Recommendation 3: Increase funding for Geoscience Australia's Exploring for the Future

- Public pre-competitive geoscience information is an indispensable input into exploration activities and mining decisions.
- Ongoing efficient provision of the information is necessary to improve Australia's international competitiveness in attracting new mining investment.

Proposed actions

- Increase Geoscience Australia's core funding by $40 million to support Exploring for the Future.
- Provide Commonwealth leadership to integrate geological data into a seamless, standardised, national system.

Outcomes

Long-term: Sustained public access to a richer set of nationally consistent pre-competitive data will uncover new opportunities for minerals development and incentivise investment in further exploration, particularly in remote areas that have not been commercially explored.

Medium-term**:** Retention of high-quality expertise within Geoscience Australia (GA) will underpin activities to maintain, develop and enable access to pre-competitive geoscience datasets and value-added products necessary to attract investment in exploration.

Short-term: More efficient and targeted commercial exploration efforts in anticipation of continued future public provision of pre-competitive information, and improved planning and sequencing of future private investment in the minerals industry**.**

Policy rationale

By expanding and permanently funding GA's Exploring for the Future activities, and building on existing partnerships, integrating the state geological data into a seamless, standardised, national system will enable Australia to capture greater value from its mineral endowment.

The success of Australian mining depends on exploration and in particular, the discovery of large deposits. Exploration is risky and pre-competitive geoscience data is critical to maximising the economic returns to Australia from its resource endowment. Australia remains under-explored, particularly at greater depths. But programs generating pre-competitive data are playing a key role in narrowing down the search space for commercial exploration programs.

Precompetitive data produced under successive phases of the Exploring for the Future program drawing on the deep expertise of GA's scientists and engineers have demonstrated significant benefits for the Australian minerals industry and broader economy. Precompetitive geoscience data and analysis supported 3.5 percent of Australia's GDP – about $76 billion – in 2021-22.[17]

As the Exploring for the Future program enters the final year of Phase 2 funding, continued production of public pre-competitive geoscience data has never been more critical. The next generation of mineral, energy, and groundwater discoveries in Australia will underpin Australia's path to net zero, attract investment, generate jobs and secure the resources we need into the future.

Providing an additional $40 million to GA's core funding will (i) maintain the geoscience expertise required to produce precompetitive data, (ii) speed up the rate of discovery of new regions, (iii) and provide the private sector with greater confidence to invest in greenfield exploration investment.

[17] Deloitte Access Economics, *The Economic Value of Government Precompetitive Geoscience Data and Analysis for Australia's Resources Industry*, commissioned by Geoscience Australia, August 2023.

5. REDUCE THE REGULATORY BURDEN TO ATTRACT INVESTMENT

Recommendation 4: Undertake cultural mapping to improve cultural heritage outcomes and the project approvals process

- Cultural mapping is crucial for preserving cultural heritage. The absence of such information can lead to poor cultural heritage outcomes of Traditional Custodians.
- Improving the correlation between cultural heritage and known mineral deposits ensures better agreements and greater confidence in investments so that Traditional Custodians and industry can co-develop plans to create intergenerational wealth outcomes.

Proposed actions

- Fund a cultural mapping project across Australia beginning with a pilot focused on Western Australia, Northern Territory and Queensland.
- Fund and task Geoscience Australia to lead the project with support from the Australian Institute for Aboriginal and Torres Strait Islander Studies and the National Native Title Council working with Traditional Custodians to identify areas of cultural significance.

Outcomes

Long-term: Cultural heritage is available for future generations to understand their history, their songlines and their connection to Country.

Medium-term: Better outcomes and relationship building opportunities when negotiating future agreements between Traditional Custodians and industry. Enhanced opportunities that promote transparent governance of free, prior and informed consent principles and identify areas where Traditional Custodians may wish to invest in projects on their Country.

Short-term: Greater certainty about the path to modernising cultural heritage regulation by providing a codesign process and a roadmap for understanding of how the process will evolve.

Policy rationale

Traditional Custodians, governments and industry require an accurate understanding of tangible and intangible cultural heritage areas to fully benefit from future minerals developments. In the absence of such information there is the potential for poor cultural heritage outcomes of Traditional Custodians, including the co-opting of songlines and cultural stories by independent third parties to intervene causing risks of delays and disruptions in the project approval processes.

A complication to this decision-making environment is that there is not always clarity about who is responsible to speak for Country, therefore creating an atmosphere where there are questions and doubts over the integrity of the cultural heritage process with Traditional Custodians, industry and decision makers often faced with a divergence of views.

Cultural mapping would assist in improving the identification, preservation and promotion of Aboriginal and Torres Strait Islander cultural heritage, while understanding the overlay of mineral deposits. This would enable community led co-design of government investment in cultural heritage at prospective minerals developments, informed by hearing from the recognised Traditional Custodians about their Country and their sites rather than a theoretical design by third party consultants or anthropologists. It would also provide Traditional Custodians, the minerals industry and decision makers with additional data for mine planning and possible future minerals expansion projects.

The cultural mapping should be a joint project involving Geoscience Australia, Australian Institute for Aboriginal and Torres Strait Islander Studies (AIATSIS) and the National Native Title Council (NNTC).

Recommendation 5: Improve the capacity for Traditional Custodians to sustainably manage native title rights and interests, including investment opportunities

- Prescribed Bodies Corporates (PBCs) are the key means for Traditional Custodians to negotiate agreements, but there is a lot of variation across PBCs in terms of their financial arrangements and their ability to operate which impede better outcomes.
- A shift toward a sustainable funding model and equipping staff with financial management skills will enable PBCs to deliver improved longer-term outcomes for the communities they represent.

Proposed actions

- Agree with the National Indigenous Australians Agency on a minimum financial operating standard for sustainable operations of PBC's, and funding to those below the standard.
- Provide financial management capacity building for eligible PBCs, and ongoing support and advice.
- Treasury in partnership with Attorney-General's Department establish a way to underwrite commercial lending agreements to PBCs based on Native Title Agreement (NTA) payments.

Outcomes

Long-term: PBCs spending decisions match longer-term community development priorities, thereby leveraging the social outcomes from mining, and improve the effectiveness of initiatives targeted at Closing the Gap.

Medium-term: PBCs have greater capacity to undertake agreement making responsibilities, removing the potential for doubt arising over free, prior and informed consent and reducing risks to investment and mining operations.

Short-term: Improved planning by PBCs, greater capacity for management of capital and risk, and reduced mining investment uncertainty.

Policy rationale

Australia must improve the capacity for Traditional Custodians to sustainably manage native title rights and interests and provide more flexibility in leveraging income streams into finance for investments in economic advancement of mining communities.

PBCs are the key means for Traditional Custodians to negotiate land access agreements and cultural heritage agreements. PBCs require certainty in funding and an ongoing increase in funding to ensure Traditional Custodians are able to negotiate effectively and reduce the reliance on independent third-party consultants in managing the engagement between PBCs and industry.

The Native Title Act 1993 provides for certain types of Native Title Agreements (NTA) regarding the use and management of areas of land and/or waters. NTA's can also outline a compensation (royalty) element with regards to land and/or water use. As a result of a 2013 taxation law change, native title 'benefits' are now considered non-assessable non-exempt income and are therefore not subject to income tax.

Lenders generally prefer stable and regular income that can be verified and used to assess ability to repay. The non-assessable non-exempt income NTA payments create difficulties for Traditional Custodians to obtain commercial financing options that are necessary to finance longer term projects, such as mining, that have intergenerational benefits.

Improving the capacity for Traditional Custodians to sustainably manage native title rights and interests must be seen as a high priority to delivering better outcomes for their communities and creating sustainable intergenerational wealth outcomes.

6. MAKE SUPPORT FOR MINING A POLITICAL IMPERATIVE

Recommendation 6: Make foreign investment in future facing materials (critical minerals and strategic materials) and related projects more efficient

- Australia's foreign investment framework has in-built rigidities which create risks and impediments to investment in mining and downstream processing projects.
- Resolving policy impediments to foreign investment and providing well-targeted incentives aligned with strategic partner countries policies are required to attract investment in mining and downstream processing projects for future facing minerals.

Proposed actions

- Streamline the rules and process for investment proposals for future facing materials projects from strategic partner countries under the Foreign Investment Review Board (FIRB) and Foreign Acquisitions and Takeovers Act (FATA).
- Where necessary use production credits to attract investment in mining and minerals processing and integrate them in the supply chains of strategic partners.

Outcomes

Long-term: Australia's foreign investment policy framework is viewed favourably by investors in future facing minerals projects than those in competitor economies.

Medium-term: Better public understanding of the minerals industry and government's policy alignment with strategic government partners on future facing minerals.

Short-term: Streamlined foreign investment review processes improve investment in future facing commodity projects, providing industry with greater access to capital for upstream expansion.

Policy rationale

Proponents of investment in Australian mining and processing of future facing materials, and related infrastructure, are at a competitive disadvantage compared to projects benefiting from clean energy policy incentives in other countries. The layers of government and regulatory approvals facing proponents add to the financial cost and regulatory complexity of projects, which can adversely affect final investment decisions.

This is particularly the case where the project is a smaller, complex, high-risk deposit being developed by a small or mid cap company, and dependent on significant infrastructure and logistics for its commercial viability. Integrating these projects into global supply chains adds to the complexity.

Complex rules imposed by FATA and FIRB add significant risk to foreign investment into Australia – including investment from Australia's strategic partners. Australia's foreign investment framework must explicitly streamline and de-risk proposals in future facing materials projects.

Australian mining and mineral processing projects are at risk of being uncompetitive to those benefiting from clean energy policy incentives in other countries. Targeting incentives to mining and processing projects that are aligned with the critical minerals requirements of strategic partners will integrate Australian mining into strategic partner clean energy value chains. Government should explore the use of production credits to achieve this outcome.

It is critical that government prioritise actions to ensure mining and mineral processing projects can fully access benefits from initiatives aimed at integrating Australin and US supply chains. Similar agreements to integrate mining and minerals processing into the clean energy supply chains with other strategic partners should be explored.

7. DELIVER EFFICIENT PUBLIC INFRASTRUCTURE AND SERVICES

Recommendation 7: Prioritise common user infrastructure for reource projects

- Australia has an opportunity to be a first mover in the next mining investment cycle, but the pace of mining investment and project development needs to happen quickly.
- Accelerating the development of critical minerals mining and processing needs concerted actions across government to deliver common infrastructure and common user precincts.

Proposed actions

- National Cabinet should prioritise coordinated zoning policy, infrastructure mapping, and funding agreements across state and territory boundaries for critical minerals and strategic materials.
- Fund a single door project facilitation function in government and a high level (Associate Secretary or Deputy Secretary) directing role to facilitate investment in mineral, mining and processing supply chains.

Outcomes

Long-term: Australia is a leading supplier of the future-facing minerals, metals and chemicals necessary to support the global net zero transition.

Medium-term: New partnerships between up- and down-stream companies along the critical minerals supply chain result in joint ventures outside of traditional offtake agreements.

Short-term: Agreement on the location of strategic common user infrastructure through a federal-State zoning process, and long-term funding agreements in place to secure private investment, including through strategic national government alliances.

Policy rationale

Compared to bulk commodities, investment in critical minerals and strategic materials projects present a different set of challenges. In many instances, deposits are smaller, and sub-economic, particularly where each deposit is required to build its own infrastructure. However, collectively they have the capacity to support common infrastructure and processing capacity at scale with an extended economic life for the entire operation region.

They may also generate scope economies through generation of by-products which can be captured where industry linkages exist across and along supply chains. There is an added national security imperative to shore up the supply chains of strategically important technologies including for defence.

Accelerated development of critical minerals mining and processing will need the planning and development of common user infrastructure at scale from deposit through to port. This will require both Commonwealth and state governments to coordinate on the provision of common user infrastructure projects. Timely agreement to the necessary actions would be best facilitated through a national-level mechanism such as a National Cabinet Ministerial Council on Critical Minerals.

A specialist project facilitation unit (similar to the UK Office for investment) with a mandate to facilitate strategically important projects would support the work of the National Cabinet to support investment in critical minerals and strategic materials projects.[18] Facilitated by strategic alliances with foreign governments, collaboration on supply chain security, and common user infrastructure investment, the proposed national approach to common user infrastructure will enable earlier development of mining and processing of deposits that would otherwise have remained subeconomic.

[18] https://www.gov.uk/government/organisations/office-for-investment

Recommendation 8: Reduce adjustment costs of meeting near-term emissions targets

- Mining is focused on reducing direct emissions from operations and indirect emissions from energy use. Greater efficiency in the safeguard mechanism, energy generation and carbon offset markets is needed to encourage investment in abatement technologies.
- A technology neutral policy for electricity generation, combined with transparency requirements and improved governance in carbon markets will enable the mining industry to meet their near-term emissions targets at least-cost to the economy.

Proposed actions

- Ensure a well-funded, coordinated whole-of-government approach, including with all states and territories, that considers all low and zero-emissions technologies, delivers reliable electricity supply, the integrity of offset markets and avoids inefficient regulatory burden.
- Reinstate funding for carbon capture, storage and use (CCUS) to support the development of this critical decarbonisation technology.
- Exempt safeguard mechanism covered facilities from additional state-based emissions reduction obligations to avoid duplication and encourage a national least cost approach to achieving Australia's 2030 target and net zero emissions.

Outcomes

Long-term: Australia has a reliable, competitively priced, zero emissions energy system.

Medium-term: A well-coordinated national approach to emissions reduction is adopted by governments that considers all fuels and technologies and achieves targets at least cost.

Short-term: Improved policy development and implementation in government to deliver sustainable emission reductions in mining without impairing its ability to contribute to economic growth.

Policy rationale

Cost effective decarbonisation of mining and minerals processing is crucial for investment. Mining operations are exploring ways to reduce direct emissions. However, deployable abatement options at mine sites, such as electric haulage, are currently limited and unlikely to be at scale before the end of this decade. To achieve their near-term emissions targets, operations are focusing on reducing indirect emissions from energy use where possible, and through the purchase of carbon offsets.

Indirect emissions can be reduced through electricity use – a key input for Australia's minerals industry. Access to affordable, low emission and reliable electricity is critical to the industry's ability to decarbonise to meet 2030 and 2050 emission targets and remain internationally competitive.

Australia's coal, gas, and uranium could assist in cost-effectively transitioning the electricity sector to net zero emissions. But all fuels and technologies, including carbon capture, utilisation and storage (CCUS) and currently prohibited advanced nuclear technologies, will need to play a part facilitating an effective transformation to reliable, competitively priced, zero emissions energy.

Purchase of carbon offsets will be essential for mining industry emissions reduction. Facilities covered by the safeguard mechanism must have access to efficiently priced carbon offsets to avoid unintended reductions in output or premature closure. Covered facilities need confidence in the integrity of the market through transparency requirements and the rules governing its operation, and clarity on the future supply of carbon offsets to ensure they are not penalised by excessive costs.

To enable least-cost abatement of greenhouse gas emissions and avoid adverse unintended consequences, a coordinated whole-of-government approach, including with all states and territories, is needed that considers all low and zero-emissions technologies, and ensures the reliability of electricity supply and the integrity of offset markets.