

# BUSINESS NEWSLETTER

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## Australia Mining Industry - A snippet

The mineral reserves of Australia are vast, diverse, and of high quality. A spirit of dynamic innovation in the development of new extraction and processing technologies is also ensuring the nation gains the most from this natural wealth. Australia is the world's leading producer of bauxite and iron ore; the second largest producer of alumina, lead and manganese; the third largest producer of brown coal, gold, nickel, zinc and uranium; the fourth largest producer of aluminium, black coal and silver; and the fifth largest producer of tin. The nation not only exports raw materials: it is arguably the world's top supplier of mining technologies and services. At least 60 per cent of the world's mines operate with Australian-made and designed software.

The minerals resources industry is a key pillar of the Australian economy. The minerals resources industry accounts for more than 6 percent of Australia's economy and has invested more than \$125 billion in Australia in the last 10 years.

The mining industry's contribution to the Australian economy is now \$121 billion a year. In terms of export income, it generates \$138 billion per annum, which represents over half (54 per cent) of total goods and services. Across the nation mining employs 187,400 people directly, and a further 599,680 in support industries. In wages and salaries that amounts to \$18 billion; an additional \$21 billion is contributed through company tax and royalty payments. Not least, the industry

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spends \$35.2 billion on new capital investment, \$5.7 billion on exploration, and \$4.2 billion on research and development.

### Australian economy-Outlook

Australian Reserve Bank board member Heather Ridout has said the Australian economy will need "active management" this year to cope with the slowing mining boom and high dollar, as the case for rate cuts was strengthened by a sharp fall in the rate of inflation.

Speaking ahead of the bank's first board meeting of the year on February 5, the former chief executive of the Australian Industry Group said the nation faced "persistent" economic challenges.

The slowing pace of the Australian economy contributed to the quarterly rate of inflation falling from the elevated 1.4 per cent in the September quarter, which reflected the first impact of Labor's carbon tax, to a rise of just 0.2 per cent in the December quarter.

Treasurer Wayne Swan said Australia's weaker-than-expected December quarter consumer price index "confirmed the modest impact of the carbon price on the consumer price" and left the Reserve Bank scope to cut interest rates. The Treasurer said that despite the rate of unemployment remaining low, there were

"sectors in the Australian economy which are impacted by the higher dollar, a cautious consumer and global volatility".

Ms Ridout said the strength of the currency, which remains above \$US1.05, was creating uneven pressures through the economy, which has until now been propelled by the resources sector. "Growth has to be more evident in other parts of the economy and that's very tough with the dollar remaining so persistently high," she said.

"But the big challenge for us is to be able to achieve a diversified growth model and that's the big challenge for economic policy over the next 12 months."

Reserve Bank officials have canvassed their concerns that the tide of resource investment may start to recede before investment elsewhere in the economy has started to pick up.

### **Impact of carbon tax on Australian business**

About half of Australian companies have either seen little impact from the introduction of the carbon tax on their energy costs or are yet to calculate the effects, according to surveys by the Australian Industry Group.

About 49 per cent of businesses in the manufacturing, construction and services sectors reported an immediate increase in prices of at least some of their inputs after the introduction of the carbon price on July 1, the AI Group report found.

Businesses estimate energy costs have increased by an average of 14.5 per cent because of the carbon levy. Some of that estimate, though, may be because firms incorrectly blamed the tax for wider increases in power bills, such as for new poles and wires.

For instance, manufacturers attributed 85 per cent of the total electricity price increases since July on

the carbon prices. "However, other data suggest that for smaller electricity users, network will account for close to one half of the total electricity cost increase from 1 July 2012," the report found. Australian Industry Group chief executive Innes Willox said some of the over-estimation of the carbon price effect was because of "a real sense of apprehension" about its impact.

The AI Group did not estimate the contribution of higher energy prices to total costs, although its findings indicate the increases from the carbon price are in line with Treasury forecasts.

"The AIG report confirms that carbon pricing is a manageable economic and environmental reform – in contrast to Opposition Leader, Tony Abbott's scare campaign that it would be the death of entire industries and regions," a spokesman for federal Climate Change Minister Greg Combet said.

"AIG's survey found the impact of the carbon price on electricity costs for most businesses is an increase of around 2¢ per kilowatt hour – which is exactly what the Treasury modelling predicted," the spokesman said.

According to the Australian Bureau of Statistics, producer price figures show electricity costs rose 6.7 per cent in the September quarter. Some of the increase is in the pipeline, though, as firms assess the full effects, Mr Willox said.

Energy bills are likely to rise further as higher electricity and gas costs flow through, much of which is unrelated to the carbon price.

While painful for many firms, the higher energy costs are not as big an issue for many companies as the higher Australian dollar.

"The No. 1 pressure by far is the impact of the dollar," Mr Willox said. "That is skewing business models" by making it harder to export and sucking in imports, he said.

## Business Opportunities

The ability of firms to pass on higher energy prices, including the carbon tax, varies by industry.

Construction companies, for example, reported the new tax had lifted total energy costs 14.8 per cent but they were also the most able to pass on higher charges to their customers, the AI Group report found.

The food industry is struggling the most, with 90 per cent reporting higher energy costs but only 10 per cent of food-processing firms able to pass the cost along, with the dominance of the big retailers a factor.

### Tasmania struggles to keep up with rest of the economy

The strong Australian dollar has made the Tasmanian exports more expensive to the overseas importers, hurt industries such as horticulture and agriculture including wine and vegetables as well as manufacturing. According to Saul Eslake, Bank of America economist, Tasmania was the only state which had not made good the jobs lost during the financial crisis.

### Budget cuts threaten Education Australia

Education Adelaide which was set up more than 10 years ago to promote the city as a destination for international students, says it will not survive if the State Government goes ahead with planned budget cuts, announced after the mid-year budget review. According to the chairman the organisation depends on the Government for 60 per cent of its budget, with the rest provided by the universities and the Adelaide City Council. The South Australian Government had announced \$3 million worth of cuts to higher education programs. Education Adelaide says it has helped to turn the city into a national hub for higher education. Deputy Opposition Leader Steven Marshall agrees Adelaide benefits from its population of international students.

### Proposal for wind farm in SA

REpower, a developer, has lodged a formal application with the South Australian Government's Development Assessment Commission to build a 199-turbine, \$1.3 billion wind farm on the state's Yorke Peninsula. If approved, the project would occupy 18,000 hectares on the peninsula's east coast and would be one Australia's biggest wind farms. The company says the turbines would have a combined maximum output of 600 megawatts. Electricity would be fed into the Adelaide grid via underwater cables across Gulf St Vincent.

### SA exports mineral sands to China

The first shipment of mineral sands from a mine at Mindarie in South Australia was sent to China. The mining Company, Murray Zircon took over the Mindarie site last year after the previous owner Australian Zircon went into voluntary administration in 2009. The mine started to produce heavy mineral concentrate (HMC) last month.

### Proposal to explore for Oil and gas off Kangaroo island in SA

The Adelaide-based company Bight Petroleum wants to conduct seismic testing about 150 kilometres west of the pristine location and popular tourism destination. The Environment Minister has ordered a full environmental impact assessment of the proposal to explore for oil and gas off the Kangaroo Island coast. The decision comes after strong opposition arising from community, fishing industry and environment groups concerns about the likely impact on endangered marine species. Greens Senator Rachel Siewert wants the Federal Government to block the exploration.

### Griffin Coal signs MoU with Qube Logistics for transport of coal

Lanco's Griffin Coal plans to sign a Memorandum of Understanding with Qube Logistics later this month for transport of coal upto 1.25 million tonnes per annum to Bunbury Port from Collie mine. Negotiations between the two companies are reportedly in advanced stages with Griffin Coal already issuing a Letter of Intent to Qube Logistics for early finalisation of contract.

### Sembawang bids for Macmahon Holdings

Sembawang Engineers and Constructors Pty Ltd, a wholly owned subsidiary of New Delhi-based Punj Lloyd, has made an offer to acquire construction businesses of Macmahon Holdings Ltd, a Perth-based contract mining and construction company,

for \$25 million. The offer was made with two options, namely Sembawang to purchase the construction business (i) as a going concern or (ii) as a counter proposal to Leighton's \$20 million offer plus an additional \$5 million. Both these offers are subject to satisfactory due diligence and approval of Sembawang board by 31 January 2013. Sembawang has subsequently raised its offer to \$38 million to include purchase of rail business. However, Macmahon denied access to due diligence because of its existing agreement with Leighton. Leighton had last month executed an agreement to buy a majority of Macmahon's construction business for around \$20 million. Leighton holds a 24% interest in Macmahon.

### NSL Consolidated obtains approval to mine in AP

NSL Consolidated Ltd, a Perth-based iron ore mining company with iron ore production in India and thermal coal exploration in Australia, has secured AP State Government's approval for its mining lease application (AP14). This would be NSL's third iron ore mine in Andhra Pradesh. According to NSL, 290-acre AP14 project is located at Karimnagar 200 km north east of Hyderabad and has an exploration target of 62 million – 125 million tonnes of magnetite, at grades of 20% – 50% at depths up to 20 to 25m across the slopes. NSL currently has mining projects in Kurnool district of Andhra Pradesh.

### Alinta Energy to float tender for transmission line

Alinta Energy Company plans to issue tender notification to build a 120 km 220kV-high voltage transmission line from its power station in Newman to Roy Hill mine in WA's Pilbara region.

### Survey shows businesses losing confidence in WA economy

A survey of business expectations conducted by WA Chamber of Commerce and Industry shows a drop in confidence in the economy to its lowest point since 2009 because of poor global economic conditions and rising business costs in WA. Political

parties have been urged to address the burgeoning cost of doing business in WA in the lead-up to the March State elections. WA Treasurer Troy Buswell, on the contrary, claimed that a 38% rise in business investment in 2011-12 was a sign of growing confidence in WA economy.

#### Iron ore prices shore up mining companies in WA

As iron ore prices return to US \$145 a tonne from a three-year low of US \$87 a tonne in September 2012, iron ore miners in WA, including Fortescue Metals Group, have restarted projects that were earlier shelved. Iron ore exports to China from WA's Port Hedland increased by 25% in December. BHP Billiton and Fortescue Metals Group are the biggest users of the Port Headland facility, while Rio Tinto uses nearby ports.

#### Retail businesses performing better in WA

According to the Australian Bureau of Statistics and the Australian Retailers Association, spending on retail sector and retail sales in Perth & WA grew by 9.73% & 10% respectively in 2012, compared to the previous year. WA Premier Mr Colin Barnett noted that WA economy was growing at twice the rate of the national economy which testified the difference between the WA economy and the other states of Australia.

#### Upcoming Events in Australia:

##### **Australasian Quilt Convention & Expo (18-21 April 2013)**

The exposition is designed to bring together quilters, from all over Australia as well as attract quilters from overseas.

**Venue:** Royal Exhibition Building

**Website:** <http://www.aqc.com.au/Melbourne2013/>

**Organizer:** Expertise Events

To view the list of all Australian

Government Tenders, visit

<https://www.tenders.gov.au/>

#### Useful Links

These are links to procurement policy documents, guidelines and general information that will assist in understanding the Australian Government procurement environment.

##### **Selling to the Australian Government – A guide for business**

<http://www.finance.gov.au/publications/selling-to-the-australian-government/index.html>

##### **Australian Government Procurement Policies**

<http://www.finance.gov.au/procurement/>

##### **Commonwealth Procurement Rules**

<http://www.finance.gov.au/procurement/procurement-policy-and-guidance/commonwealth-procurement-rules/index.html>

##### **Commonwealth Procurement Circulars**

<http://www.finance.gov.au/publications/finance-circulars/procurement.html>