



Pre-Budget Submission 2019-20

Submission to The Hon Rob Lucas MLC,
Treasurer

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1. Introduction

The South Australian Chamber of Mines and Energy (SACOME) is the peak industry body representing companies with interests in the South Australian minerals, energy, extractive, oil and gas sectors and associated service providers.

SACOME's member companies are a cornerstone of the South Australian economy, with their combined activity generating the following key economic outcomes:

- \$5.6 billion in production value.
- 33% of exports from South Australia worth almost \$4 billion, making it the highest value export sector in the State.
- \$1.6 billion in Capital Expenditure investment in new mines and petroleum projects.
- Employment of 12,000 South Australians.
- \$237 million in royalties to the South Australian Government.

(All data sourced from SARIG 2019)

These economic outcomes are the result of a history of bi-partisan support for the resources sector and a stable regulatory framework that has created an environment for low-risk, sustainable investment.

SACOME and its members share the common objectives of economic development and job creation with the South Australian Government.

We recognise that the 2019/20 State Budget will be handed down in an environment of relative austerity.

Accordingly, many of SACOME's Budget calls seek to leverage 'in-kind' investment by government in the form of strategic planning and legislative reform.

SACOME submits a range of initiatives that aim to promote the future economic well-being of the State through:

- driving critical investment in mineral and gas exploration;
- strategically mapping infrastructure requirements for resources province development;
- establishing new battery and photovoltaic panel recycling industries; and

- modernising the *Mining Act 1971* and harmonising State/Federal approvals processes

SACOME and its members remain committed to working collaboratively with the South Australian Government to achieve economic prosperity for the State and its residents.

2. State Economic Development

SACOME members make a major contribution to the South Australian economy through royalties, export revenues, employment and the supply of mineral commodities, oil and gas to domestic and global supply chains.

SACOME calls for funding commitments in the 2019-20 State Budget that encourage growth and investment in the resources sector; facilitate project development; and assist mineral and petroleum resources to be brought to market.

2.1 Mineral Exploration Incentive

Commitment Sought:

SACOME calls for the establishment of a Mineral Exploration Incentive, a co-funded drilling program of \$4 million per annum with grant funding for 75% of total project costs capped at a maximum of \$300,000.

- Funding for a Mineral Exploration Incentive remains a key Budget call for SACOME. All feedback that SACOME has sourced from members on this issue has shown that reinstatement of funding for a South Australian Exploration Incentive continues to be a top-order priority. This is a critical economic development initiative which has near-unanimous support from industry.
- Total mineral exploration expenditure in the State is now sitting at approximately \$49 million, compared to a peak of \$328 million in 2011-12.
- SACOME supports the State Government's investment in the Geological Survey of South Australia (GSSA) and the provision of pre-competitive exploration data to industry, however, we submit that GSSA's work makes up one part of what should be a multi-faceted approach to encouraging exploration in this State.
- Direct support to explorers via co-funded exploration drilling incentives remains critical in supporting the resources sector in the discovery of new deposits and ensuring a continuing pipeline of resource projects.
- Previous exploration incentive programs have been fundamental in South Australia's ability to attract investment in mineral exploration and ultimately contributing to an increase in State mining revenue of \$2.4 billion over the lifetime of the initiative.
- Further, exploration incentive programs previously operating in South Australia were responsible for catalysing an extra \$700 million in mineral exploration investment in between 2002 and 2014.

- All jurisdictions in Australia except South Australia couple their investment in pre-competitive exploration data with co-funded exploration drilling incentives. The need for such incentives is now vital given South Australia has recorded its lowest exploration investment figures in a decade.
- SACOME submits that much of the State’s potentially prospective geology, even in relatively well-explored areas, is subject to deep cover. Exploration Incentives in South Australia have operated to offset the exploration challenges encountered in South Australia, with a proven record of returns to government.

A summary of Exploration Incentives across State and Territory jurisdictions is provided below:

Exploration Incentives by Jurisdiction

Jurisdiction	Initiative	Details
Western Australia	Exploration Incentive Scheme	<p>\$10 million per annum.</p> <p>Funds up to 50% of direct drilling costs (\$200,000 for a single deep hole, \$150,000 for a multi-hole project, \$30,000 for a prospector’s project).</p>
Queensland	Collaborative Exploration Incentive	<p>\$3.6 million per annum.</p> <p>Grants up to \$200,000 to fund up to 50% of the project’s direct activity costs.</p> <p>Extra incentive of \$100,000 to fund up to 75% of the direct activity costs for projects which meet an earlier completion date.</p> <p>Funding is available to cover both drilling and non-drilling activities, including seismic, airborne and ground geophysics and geochemical surveys.</p>
New South Wales	New Frontiers Cooperative Drilling	<p>\$2 million in 2016/17 provided for targeted commodity drilling.</p> <p>Funds 50%, 75% or 100% of drilling metre-rate costs for individual projects up to a maximum of \$200,000.</p>
Victoria	TARGET Initiative	<p>\$15 million towards exploration in copper, other base materials and gold commencing 2016.</p>

		<p>At October 2018, \$5.7 million in grant funding allocated to eligible projects.</p> <p>Covers up to half the cost of eligible exploration activities including geophysical surveys; drilling and sampling analysis.</p> <p>Companies finance balance of drilling costs.</p>
Tasmania	Exploration Drilling Grant Initiative	\$2 million in 2018-19 State Budget to cover 50% of direct drilling costs
Northern Territory	Geophysics and Drilling Collaborations	<p>Co-funding assistance of up to \$125,000 to for selected exploration programs.</p> <p>Up to \$100,000 for reverse-circulation (RC) drilling and geophysical acquisition projects</p>

- A co-funded drilling program in line with the commitment sought by SACOME will bring South Australia back to relative parity with other States who have adopted Exploration Incentive programs.
- The *Exploration Incentive Scheme Economic Impact Study* prepared for the Western Australian Government by ACIL Allen Consulting in 2015 found that for every \$1 million invested in Western Australia’s Exploration Incentive Scheme, an additional \$23.7m in benefits was returned to the state as a result of the initiative. In addition, the State would enjoy an additional \$10.3m due to additional exploration activity, and \$6.2m resulting from extra taxation and royalties. The scheme was also found to potentially contribute \$3.9m in greater construction activity and \$3.3m in new wealth generated by new project development.
- These findings are in line with reviews of Exploration Incentive programs previously operational in South Australia between 2002 and 2014.
- SACOME notes the continued decline of South Australia’s ranking in the 2018 *Fraser Institute Annual Survey of Mining Companies* on both the Investment Attractiveness and Best Practice Mineral Potential indices, a trend which has continued from 2017.¹
- Given the decline in South Australian exploration investment, the challenges of South Australia’s geology, and the demonstrated track record of Exploration Incentive programs both in South Australia and the rest of the country, SACOME urges the Government to allocate funding to an Exploration Incentive initiative.

¹ <https://www.fraserinstitute.org/sites/default/files/annual-survey-of-mining-companies-2018.pdf>

2.2 Gas Acceleration Program

Commitment Sought:

SACOME calls for the establishment of a Gas Acceleration Program South Australia (GAP SA) which mirrors the Federal Government scheme and incentivises the responsible development of South Australian gas projects.

- Gas generation comprises more than half of all electricity generation in South Australia (50.5%), with this generation reliant upon a secure, economic supply of gas to ensure affordable production of electricity.
- Gas contract prices in 2018 have eased off the peaks recorded in early 2017, however, they remain two to three times above historical levels.
- Mr Rod Sims, Chair of the Australian Competition and Consumer Commission (ACCC) made several pertinent comments on the issue of price and supply at the recent 7th Australian Domestic Gas Outlook Conference:

“What the market needs to bring gas prices down in the longer term is well known. Gas producers need to accelerate investment in gas exploration and development. Pipeline operators and storage operators need to continue to construct and expand key infrastructure. Governments need to allow access to gas resources and encourage development of infrastructure.”

“We continue to urge state governments to adopt policies that consider and manage the risks of individual gas development projects, rather than implementing blanket moratoria and regulatory restrictions.

This is particularly critical for gas users in the southern states, who are likely to become increasingly reliant on gas from interstate or overseas, due to substantially smaller quantities of uncontracted reserves in the south and little prospect of new developments in the near term.

More supply and greater diversity of suppliers are needed in the south to bring domestic gas prices down. The most substantial pricing benefits for domestic gas users will be achieved if additional lower-cost gas is produced in the south, rather than transported from Queensland, the Northern Territory or imported via an LNG import terminal.”²

² Mr Rod Sims, Chair, Australian Competition & Consumer Commission *Future of gas market regulation: Speech to the 7th Australian Domestic Gas Outlook Conference, 5 March 2019*
<https://www.accc.gov.au/speech/future-of-gas-market-regulation>

- Legal restrictions and regulatory hurdles continue to impede onshore gas exploration and development in South Australia, where price and supply remain critical issues for all South Australian consumers. Importantly, the continuing high cost of gas for C&I operators has become a concern that, in some cases, threatens future viability.
- SACOME calls for the acceleration of meritorious gas projects in South Australia and bring forward locally produced natural gas for local electricity generators and industry customers at a reasonable cost.
- In making this call, SACOME supports both the development of pipeline infrastructure to transport available reserves of gas that may presently be stranded to end users; and the funding of exploration activity that can improve supply and price for South Australian users.

2.3 Critical Commodities Strategy

Commitment Sought:

SACOME calls for State Government to expedite the development of a South Australian critical commodities strategy and to align that strategy with the Federal Government's National Resources Statement.

- Emerging technologies require critical commodities and as a result demand for critical minerals such as lithium and rare earths is growing rapidly.
- South Australia hosts 80% of Australia's battery grade graphite resources and has large quantities of lithium and cobalt. South Australia is also highly prospective for manganese and nickel.
- SACOME recognises that critical commodities are becoming increasingly important both economically and strategically and calls upon the State Government to expedite the development of a critical commodities strategy that will aid development of critical minerals projects in South Australia.
- SACOME notes that the Federal Government intends to develop a National Critical Minerals Strategy through the COAG Energy Council and through the seventh Cooperative Research Centres Projects (CRC-P) round. SACOME encourages the South Australian Government to harness these national opportunities.

3. Infrastructure

Road, rail and port infrastructure is critical to enabling the efficient transport of goods along supply chains and maximising export opportunities for South Australia through the development of resource provinces. Similarly, electricity transmission infrastructure is necessary for unlocking major resources projects in regional resources provinces across the State.

SACOME has undertaken significant work across 2018 to better understand the infrastructure challenges for development of South Australian resources provinces on behalf of its member companies.

This has demonstrated the need for a planned approach to resolving infrastructure issues, underpinned by:

- a proper understand of development costs;
- consideration of a staged approach to province development;
- an understanding of paths to market for commodities;
- continued collaboration between industry and government.

3.1 Resource Province Development – South Australian Resources Infrastructure Plan

Commitment Sought:

SACOME calls on the South Australian Government to advance resources province development through:

- ***Development of a South Australian Resources Infrastructure Plan in collaboration with industry;***
- ***Commissioning a cross-departmental province development options analysis as a matter of priority;***
- ***Aligning with the Federal Government's National Resources Statement priority of promoting new greenfield basins and provinces;***
- ***Infrastructure SA to formulate a blueprint coordinating and facilitating resources sector related infrastructure development in South Australia; and***

- ***Investigating the business case and funding opportunities available under suitable Federal or State programs to assist in developing regional resources provinces.***
- The benefits to South Australia of unlocking regional resources provinces are enormous and only tempered by the significant challenges both the private sector and the State face in facilitating development of prerequisite infrastructure.
- The economic development challenge for regional resources provinces is circular in nature, with infrastructure being required to drive project investment; and investment in projects being necessary to fund required infrastructure. This is particularly acute for greenfield projects in remote parts of the State.
- Access to power and water, rail and port infrastructure is critically important to development of existing and new resources provinces. Strategic planning and coordination of infrastructure development will help to better define the nature of the challenge and better facilitate private and public investment.
- Recent announcements by BHP and OZ Minerals regarding expansion of their Olympic Dam and Carapateena projects will require significant infrastructure upgrades. Consideration should also be given to the infrastructure needs of the Upper Spencer Gulf following announcements by GFG regarding expansion of steel production.
- The opening of the Whyalla Port to third-party access by GFG and development of a transshipping port at Port Augusta by CU River significantly advanced the case for province development by resolving a key step in the export pathway. These developments provide a timely opportunity to strategically reassess resources infrastructure development across the State.
- The *Regional Mining & Infrastructure Plan* released in 2014 provides a useful launching point for developing a South Australian Resources Infrastructure Plan. Much of the work set out in this document provides a basis for progressing province development, however, SACOME calls for the State Government to expand the scope of work to encompass the petroleum sector also.
- Cross-agency involvement is critical to development of a South Australian Resources Plan and SACOME calls for the State Government to pursue a collaborative approach that sees DPTI, DEM and Infrastructure SA all involved in its development.
- SACOME also calls on the State Government to work with the Federal Government within the context of the National Resources Statement to identify how Federal resources can be leveraged to progress both development of South Australian resources provinces.

3.2 Augusta Highway Duplication/Improvements to the Road Network

- SACOME supports the call by the RAA and the SA Freight Council for the duplication of the Augusta Highway. SACOME agrees that the duplication of the Augusta Highway creates economic efficiencies for the resources, agricultural and freight sectors.
- SACOME submits that our membership's priority is to achieve the use of triple-road trains south of Port Augusta and supports mechanisms such as duplication or improvements to the road network that help achieve that goal.
- Port Augusta forms the interstate crossroads for the nation's east-west and central north-south National Land Transport Network and National Rail Network corridors. Given announcements made by major resources operators, freight movement is expected to increase along this major transport route.
- There is a need to implement an infrastructure solution for the Port Augusta Highway that anticipates future freight movement and improves national productivity and efficiency across multiple industry sectors; and remedies community safety and access issues.

4. Energy

The National Electricity Market (NEM) has undergone a period of significant change, resulting in unprecedented impacts on the generation, transmission and consumption of power across South Australia.

South Australia faces a unique challenge in bringing greater reliability of supply to the South Australian market, and in addressing the price shocks that occur when renewable generation is not enough to meet demand. Access to affordable, secure and reliable sources of energy is vital for the resources sector, with high energy prices a key threat to operational viability.

South Australia has the highest penetration of renewable generation in Australia and as such experiences increased volatility and higher wholesale and retail electricity prices.

The retirement of baseload generation in South Australia has prompted a reduction of synchronous generation traditionally responsible for frequency control and ancillary services critical to the stability and reliability of the network.

Integrating measures to improve the reliability of renewable generation is fundamental to ensuring reliability of supply, with electricity storage playing an important role in this regard.

SACOME acknowledges the efforts made by the South Australian Government through initiatives such as the Home Battery Scheme and the Grid Scale Storage Fund.

Changes in generation technology also provides an opportunity to develop new industries based on the recycling of batteries and photo-voltaic (PV) solar panels. SACOME encourages the South Australian Government to explore the economic potential of these industries for the State.

4.1 Energy Storage Funding

SACOME calls on the State Government to increase funding to the Grid Scale Storage Fund (GSSF) to facilitate the development of new storage technologies capable of addressing the intermittency of South Australia's electricity system.

- SACOME welcomes this State Government's GSSF initiative that assists in stabilising the provision of renewable energy.
- South Australia has the highest penetration of renewable wind and solar generation in the country, with 50% of our electricity generation capacity coming from renewables.
- The power system now needs to accommodate more dynamic and technologically diverse plant, including embedded resources that are geographically dispersed, to meet varying energy usage patterns that are vastly different to previous decades.

- Electricity storage technology compatible with our generation mix will reduce the price and volatility of electricity supply, increase system security, and boost industry confidence.

4.2 Battery Circular Economy and PV Solar Panel Recycling

SACOME calls upon the State Government to promote development of the Battery Circular Economy and investigate establishing a state program to recycle PV solar panels.

Battery Circular Economy

- Australia currently has low battery recycling rates. 95% of cobalt, lithium and graphite in batteries can be reused.
- This provides South Australia with the opportunity to establish an economy in the re-use and recycling of batteries.
- SACOME submits the value to South Australia can be three-fold. South Australia could draw additional value from existing materials, minimise impact on the environment and establish a new industry in re-use and recycling.

PV Solar Panel Recycling

- In 2018 Commonwealth, State and Territory Environment Minister's agreed to fast-track new recycling schemes to manage solar panels across their entire life cycle.
- SACOME calls on the State Government to investigate establishing a scheme that provides South Australian households and small businesses with access to free industry-funded collection and recycling services for solar panels.
- Such a scheme could reduce waste to landfill, especially hazardous materials found in e-waste; increase recovery of reusable materials in a safe, scientific and environmentally sound manner; and provide access for households and small businesses across Australia to an industry-funded recycling service.
- SACOME submits that this could create a new industry and further employment opportunities within the recycling sector.

5. Legislation & Regulation

SACOME calls upon the South Australian Government to implement regulatory reform that will reduce time and cost pressures for the resources sector and better promote resources sector investment in South Australia.

SACOME reiterates the importance of continuing the comprehensive reform of the *Mining Act 1971* to streamline approvals, clarify land access concerns and drive greater levels of investment in South Australia.

SACOME recognises that even though South Australia's investment attractiveness has declined over recent years, it still ranks highly relative to the many other jurisdictions. Nonetheless, SACOME notes the following comment made in relation to South Australia in the 2018 *Fraser Institute Annual Survey of Mining Companies*:

Poor and flawed legislation relating to the Mining Act (1971) is a major concern for investors. Although the legislation has been acknowledged as flawed by the government, no attempt is being made to address its deficiencies in the latest amendments.

— *An exploration company, Company president*³

Comments such as these in a prominent global survey, combined with data showing continuing decline of South Australia's investment attractiveness should be a call to action.

Comprehensive reform of the Mining Act is a formidable task, but it is one that SACOME believes will yield long-term benefits for the State and the sector. Mining approvals under the Act are long overdue for reform, with SACOME having already committed possible solutions to the public record.

SACOME remains committed to working with the South Australian Government and the Department for Energy & Mining to undertake further reform

5.1 Mining Act Approvals

Commitment sought:

SACOME calls for reform of Mining Act approvals having regard to processes in other States and Territories.

- SACOME reiterates that, despite the work undertaken in 2017 and 2018 there are still structural issues with the Mining Act that require comprehensive reform.

³ <https://www.fraserinstitute.org/sites/default/files/annual-survey-of-mining-companies-2018.pdf> p.35

These issues are set out in SACOME's 2017 Leading Practice Mining Acts Review submission.

- In its submission to the Mining Acts Review process in 2017, SACOME recommended that the South Australian Government consider redesigning the mining approvals process in South Australia to include a scoping document at the beginning of the process to assist DEM in developing Terms of Reference to guide the Mining Lease Application (MLA) process.

5.2 Federal/State Approvals

Commitment sought:

SACOME calls on the State Government to prioritise and provide requisite funding for the alignment of State and Commonwealth environmental approval processes.

- SACOME reiterates its call that the *Environment Protection and Biodiversity Conservation Amendment (Bilateral Agreement Implementation) Bill 2014* ('the Bill') was intended to give legislative effect to draft bilateral agreements between the Commonwealth and the South Australian Government for streamlining approvals under the EPBC Act and creating a single, State-based approval mechanism. This process remains split between State and Commonwealth regulators.
- In a 2014 red-tape review of the EPBC Act, the Commonwealth Government calculated that a 'one-stop-shop' for environmental assessment and approvals would produce a benefit of \$426 million in regulatory and business costs.
- SACOME calls for the South Australian Government to prioritise funding for approval processes that provide efficiency gains and cost saving for resources operators.