

Beware of critical minerals trap

Resources

Australia relies too much on the next big thing in commodities, while penalising its huge conventional mining sector.



Patrick Gibbons

With lithium and nickel operations again being challenged by significant price falls, it's a timely reminder the political and policy focus on critical minerals risks ignoring the commodities that have underpinned our economic fortunes for more than 150 years.

Whether it was the gold rush of the 1850s, the surge in iron ore exports in the 1960s, or the recent mining boom, mining has been the largest contributor to Australia's economic growth, allowing it to weather global economic storms that have caused havoc.

However, national accounts data shows that for seven years mining industry capital stock has stopped growing. This isn't due to falling commodity demand. A series of regulatory, tax, and IR policy changes has eroded our reputation as an investment destination. Investment has flowed to our competitors.

But rather than focus on restoring our competitive advantage, successive governments have instead looked for the next big thing – critical minerals and downstream processing, especially in lithium.

While it provides good political sound bites, the reality is different. Critical minerals are valuable but niche, and very unlikely to match the export numbers of iron ore and coal that last year generated revenues of more than \$250 billion. Lithium exports in the 2023-24 financial year were valued at \$20 billion, but the collapse in lithium prices means this could drop by 50 per cent this year.

A number of signs point to continuing challenge. Last year, the World Economic Forum noted the global energy transition is plateauing, in part because governments are loath to impose the costs of the energy transition on voters.

Or take electric vehicles, whose accelerated deployment remains the basis for bullish views on critical minerals. EVs are a China story with its dominance of supply chains and lithium battery technologies. Chinese EV maker BYD became the world's largest producer last quarter.

In the world's second-largest automotive market – the US – consumers are not doing what they're supposed to, despite significant subsidies. Ford, GM and Tesla have reduced EV production plans, with Ford reporting major losses and GM backtracking on stated plans. Hertz is reducing its fleet of EVs.

A recent report from the Energy Institute at the Haas Business School highlighted that EV demand in the US is highly correlated to political outlook and income levels; about half of all sales went to the 10 per cent most Democratic counties. This hasn't changed in a decade, suggesting the EV market has yet to move beyond political allegiances. A change

in the US administration this year could further slow the EV rollout.

And finally, the various predictions about the demise of fossil fuels continue to embarrass those making them. The world is burning more coal, gas and oil than ever.

With mounting geopolitical and security concerns about China's domination of renewable energy, storage and now auto production, what happens if the energy transition does not occur at the widely assumed pace? What minerals should Australia focus on?

The answer should be those with the biggest international markets and which deliver the greatest economic returns – iron ore, gold, aluminium and copper. Coal, gas and uranium should also be on the list.

Maximising the national economic benefit means building on existing downstream processing, especially in aluminium and copper. Add in green steel, for which there will be a significant international market.

Every day, the Pilbara iron ore mines dig up and transport the volumetric equivalent of about one MCG. Yet 40 per cent of this is effectively waste. As the world's largest iron ore miner, **Australia should be encouraging the development of new green steel**

technologies like Element Zero. Consider the emissions reduction from reduced exports of unprocessed iron ore. Uranium could also deliver significant benefits. With a third of the world's deposits, Australia should be the producer of choice as the rest of world rediscovers nuclear energy.

None of this underestimates the three issues consistently raised as to why mining investment is being challenged – uncertainty around environmental approvals, rising energy costs and industrial relations.

PwC has estimated it takes more than 10 years to develop a mine in Australia. Mooted changes to the environmental laws are adding to concerns. Add in the type of green lawfare seen with the EDO case against Santos' Barossa project.

Given grid demand for mining and mineral processing, electricity is a major challenge. We should not ignore the potential for small modular reactors to meet energy demand around Olympic Dam and north of Kalgoorlie.

Australia's reliance on the mining sector is not about to end, and nor should it. It is the only one in which Australia can claim global leadership. But focusing on a small group of commodities that are politically attractive threatens that.

Patrick Gibbons is a partner at corporate advisory firm Orizontas.