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Hon. P.C. Tinley
Chair
Economics and Industry Standing Committee
Parliament House
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West Perth WA 6005
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10 September 2021

Dear Hon. P.C. Tinley, MLA

Committee inquiry into challenges and opportunities for the WA economy

Thank you for the opportunity to provide a written response to The Economics and Industry Standing Committee on its inquiry into the challenges and opportunities for Western Australia's (WA) economy.

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to debate that seeks to develop a strong and prosperous economy and welcome the opportunity to provide a response to this inquiry.

The KPMG *Australia Geopolitics Hub* (AGH) assists clients and provides thought leadership to track and effectively navigate geopolitical complexity and risk. The AGH draws on specialised capabilities across KPMG in Australia and globally to provide tailored and practical roadmaps for success in these uncertain geopolitical times. We recognise that WA is an export-oriented economy, with the State accounting for 51% of the value of Australia's exports of goods in 2020.¹ This letter focuses on addressing one of the Inquiry's terms of reference – '*key factors that will affect demand for WA exports into the future*' and draws from the findings of KPMG's recent report [*Geopolitics and the Australian minerals industry*](#).

Mining and mineral industry critical to Australia's economy

The mining industry accounted for 43% or \$135.3 billion of WA's gross state product (GSP) of \$316.3 billion in 2019-20.¹ Due to the important contribution of the mining industry and mineral sector to the WA economy, this letter will focus on the minerals

¹ <https://www.wa.gov.au/government/publications/western-australias-economy-and-international-trade>



sector and key geopolitical trends that may affect demand for WA mineral exports into the future.

The WA economy demonstrated great resilience during the pandemic, contracting by an estimated 0.2 per cent in the 2020 calendar year – at a time when many advanced economies saw double-digit contractions. With an unemployment rate of less than 5 percent, there is plenty of capacity for the State to grow in 2021 and beyond. Net international exports are expected to be the largest contributor to State growth in 2021 and into the future – driven by growth in commodity export volumes.¹

For decades, demand from China and other key Asian markets has underpinned favourable international trade conditions for WA exports. China has been WA's largest market for goods exports since 2006 and accounted for 55% of WA's goods exports in 2020. Iron ore accounted for 89% of WA's goods exports to China in 2020. Recently, China's investment-led recovery has sent the price of iron ore to decade highs. China's strong recovery has been underpinned by surging activity in heavy industry, namely construction and manufacturing. The value of WA's iron ore sales rose 16.5% to \$116.2 billion in 2020, due to rising sales volumes and average prices. The volume of WA's iron ore sales rose 4.3% to 846 million tonnes in 2020. In addition, the value of WA's gold sales rose 24.7% to \$17.2 billion in 2020, due to rising average prices offsetting falling sales volumes.¹

Geopolitical strategic environment creating dramatic change

The broader strategic environment is undergoing dramatic changes. Geopolitical megatrends such as increased strategic competition, economic nationalism, protectionism, and disruption from climate change are layering complexity on global trade relations. These major global shifts in geopolitics and economics will pose both challenges and opportunities for WA mineral exports into the future.²

KPMG recently released a report [Geopolitics and the Australian minerals industry](https://assets.kpmg/content/dam/kpmg/au/pdf/2021/geopolitics-and-the-australian-minerals-industry.pdf) which found that Australia's bilateral relations with China will have significant implications for some of Australia's key mineral exports, including iron ore. In the case of iron ore, China is actively seeking alternative sources to diversify its supply and reduce its dependency on Australian imports. China is evaluating possible iron ore mines in Africa, including large deposits in Madagascar and Gabon, and is also investing in infrastructure to assist in shipments from Vale, a Brazilian producer that's aiming to regain its title as the world's leading producer.³

While there's still a long way to go before China could realistically substitute Australian iron ore, there are strong signals of intent that should not be ignored.³ This development presents both a strategic challenge and an opportunity for Australian and WA mineral exports to diversify export markets and reduce the strategic risk of over-reliance on a single export market.⁴ For example, challenging bilateral relations have

² <https://assets.kpmg/content/dam/kpmg/au/pdf/2021/geopolitical-megatrends-business-resilience.pdf>

³ <https://assets.kpmg/content/dam/kpmg/au/pdf/2021/kpmg-geopolitics-and-the-australian-minerals-industry.pdf>

⁴ <https://assets.kpmg/content/dam/kpmg/au/pdf/2020/australia-trade-investment-assessing-new-opportunities.pdf>

already been played out in Australia's coal exports, when from September last year, ships carrying Australian coal were barred from offloading their cargo at Chinese ports. Another challenge for the future of WA minerals exports explained in KPMG's report [Geopolitics and the Australian minerals industry](#) comes from climate change. For the Australian minerals industry, the impacts of climate change are also affecting infrastructure and equipment, practices around environmental protection and site closures, the health and safety of employees, and — importantly — the stability and reliability of supply chains and transportation routes.³

Additionally, Industrial Revolution 4.0, decarbonisation and demand for more sustainable living practices raise strategic considerations for the Australian minerals sector.² While China has the majority market share of rare earth elements (REEs) and critical minerals, which are vital to the transition to carbon neutral economies, Australia is estimated to have the world's sixth-largest resource. WA has some of the largest deposits of REEs. Metals such as arsenic, gallium and indium, and the rare earth elements cerium, europium, gadolinium, lanthanum, terbium, and yttrium, are used in semiconductor technology. REEs are used in everything from iPhones to F-35 fighter jets. As greener technologies such as hybrid and electric vehicles (EVs) increase in popularity, there will be increasing global demand for REEs and critical minerals, including lithium.³

This global trend presents a strategic opportunity for WA exports of REEs and critical minerals in an era of environmental change. This trend is driving current investment assessments for developing existing REE deposits together with downstream processing opportunities more broadly across critical minerals.⁵ The US and Canada have already committed to establishing a North American supply chain for REEs and critical minerals to reduce reliance on overseas imports. There is a strategic opportunity for WA to export more REEs and critical minerals in the future via the North American supply chains.⁶

The rise of economic nationalism and protectionism is another geopolitical megatrend that will have an impact on demand for WA exports in the future set out in KPMG's report [Geopolitics and the Australian minerals industry](#). This trend is having a negative impact on free trade and open markets in the global economy. There is a trend towards some countries seeking to secure their global supply chains for strategic commodities and resources deemed important to national security rather than relying on free trade and global markets.² Authoritarian leaders can have strong tendencies towards nationalism and protectionism, and this could bring risks and opportunities for the WA economy and more broadly the Australian minerals sector. Of course, nationalising and protecting mineral resources is nothing new. In 2011, all Venezuelan gold mines were nationalised by the President at the time, Hugo Chavez. However, in this era of increased instability, this trend looks set to grow.

⁵ <https://www.ga.gov.au/data-pubs/data-and-publications-search/publications/australian-minerals-resource-assessment/rare-earths>

⁶ <https://www.mining-technology.com/features/australia-and-the-us-a-rare-rare-earth-partnership/>



For each of these geopolitical trends, COVID-19 has led to an acceleration of changes already underway in the international landscape before the pandemic started.

KPMG Recommendation:

The WA government in consultation with the mining and mineral industry should seek to be on the front foot, with strategic foresight vital to navigating geopolitical risk and making the most of opportunities arising from disruption and broader structural shifts in the international system. Comprehending the volatile geopolitical landscape puts the sector in a stronger position to be resilient and responsive to global strategic risks and opportunities and how they may affect WA exports into the future. We recommend that the WA government examine opportunities for investment in research and development relating to new and emerging technologies and possibilities to increase value-added processes in the production chain. We recommend that the WA government undertake a strategic review of demand and supply dynamics for minerals in the global economy out to 2050. We recommend that this strategic review incorporates geopolitical risk.

We hope these insights have been valuable and we would be happy to discuss this letter and KPMG's report [Geopolitics and the Australian minerals industry](#) further at any stage.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TH', written in a cursive style.

Trevor Hart
KPMG
Chairman of Partners WA
Global Mining Leader