



## **Developments in China—implications for Australia's resources industries**

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## **Growth in China's resource use still has some way to go**

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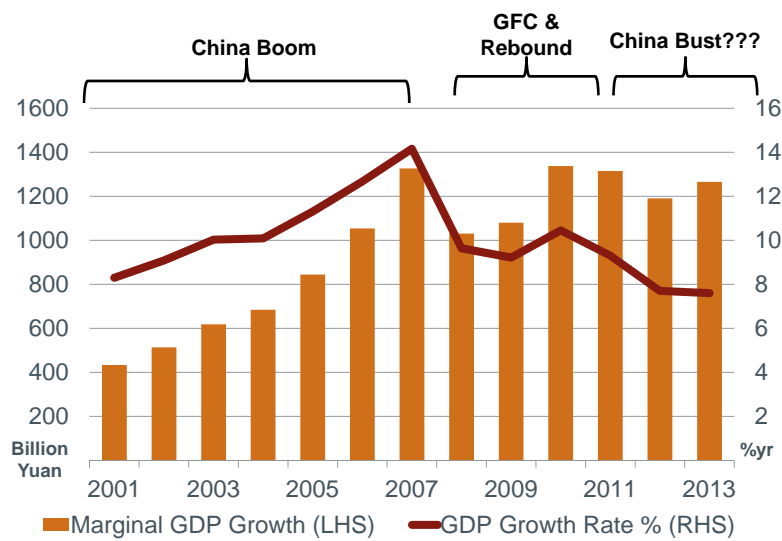
## Several factors will support growth in resource use



- Economic growth
- Urbanisation
- Population
- Rising household incomes

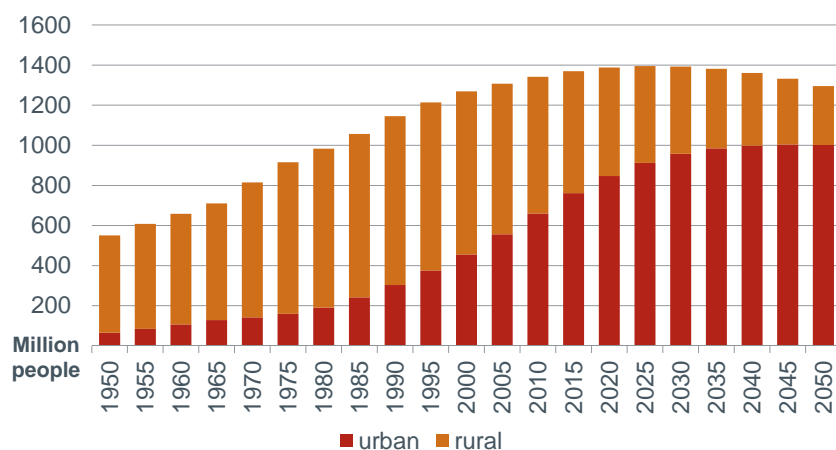
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## Slowing growth, but from a high base



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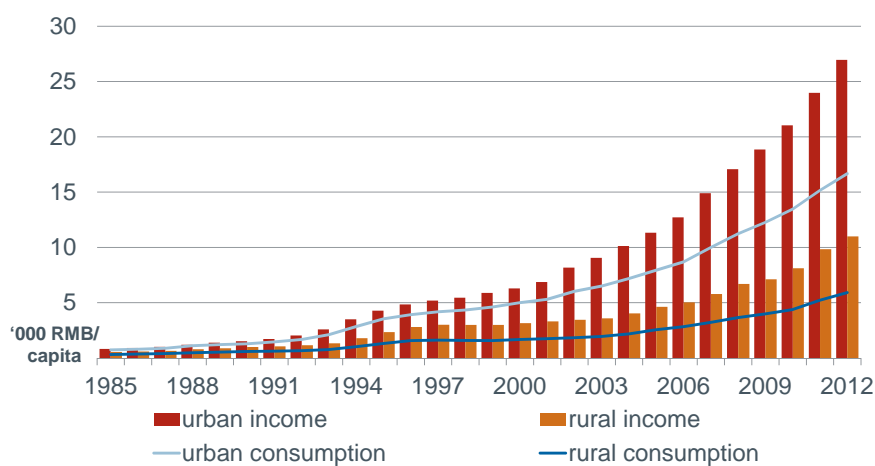
## China will continue to become more urbanised



Source: UN

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## Households have greater income and are spending more



Source: CEIC, China National Bureau of Statistics

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## **This growth is not without risks**

Government policies  
focused on the economy and  
environment may alter  
growth patterns

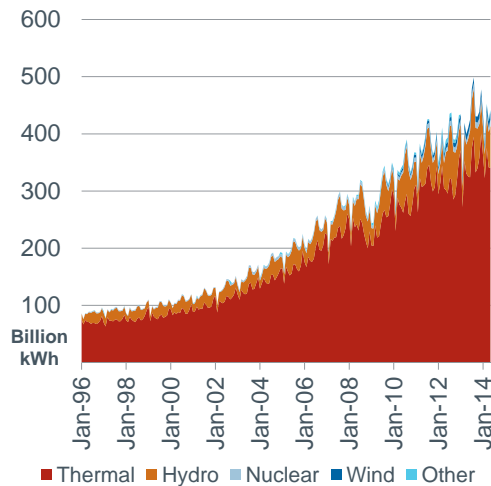


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## **Outlook for key commodity markets largely positive**

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## Electricity generation will continue to grow

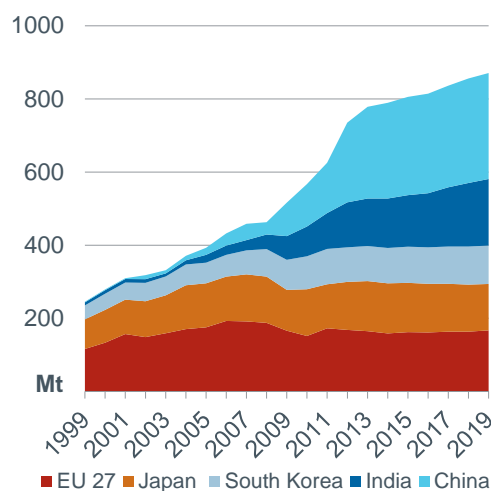


- Electricity generation has been increasing rapidly and will continue to grow
- Thermal (coal and gas) sources account for the bulk of generation
- Inertia in the energy system will prevent any rapid change in generation mix

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## Coal will still play an important role

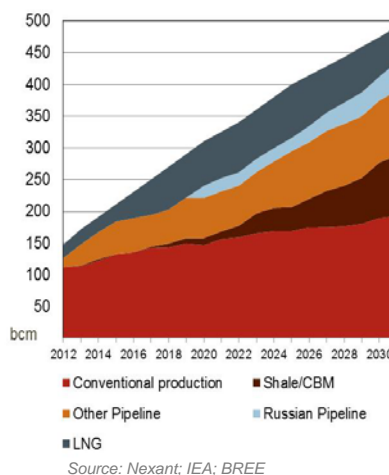
- Existing large fleet with long lives
- Policies banning new plants are not growth areas
- Still plans for substantial new coal-fired capacity
- Coal will be important for ensuring system stability
- Expected to remain a major importer over the medium term



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## Strong growth in gas demand

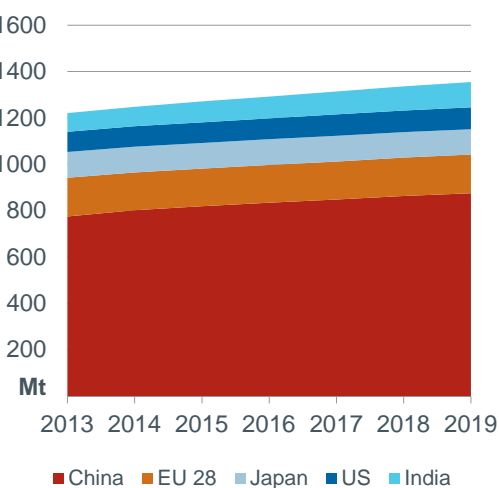
- Growth in gas demand remains strong, particularly up to 2020
- Gas supply continues to compete with coal, renewables, nuclear
- LNG competing with indigenous shale and pipeline imports
- Australia has the credentials to remain a key supplier of LNG, but the supply of new demand depends on it remaining cost competitive



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## Steel production growth to be steady

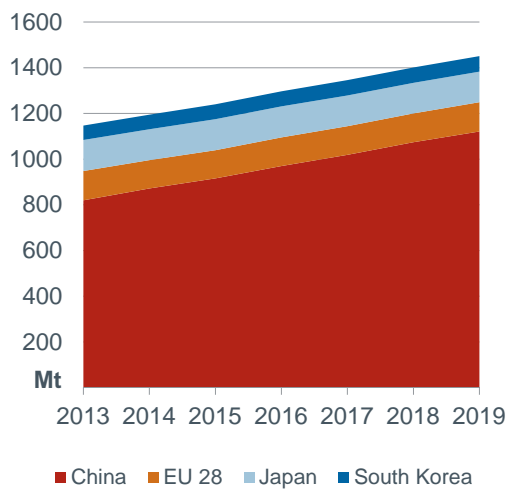
- Consumption will be supported by investment in rail and construction but will moderate
- The capacity being close in 2014 is small proportion of total capacity
- Closures are expected to be offset by new, more efficient capacity being developed in the Western regions



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## Will rely more on iron ore imports

- Higher steel production will necessitate more iron ore
- Many Chinese producers are loss-making at less than US\$100/tonne
- Chinese producers expected to increase their reliance on imported iron ore
- Use of scrap will increase but unlikely to have any major effect in medium term



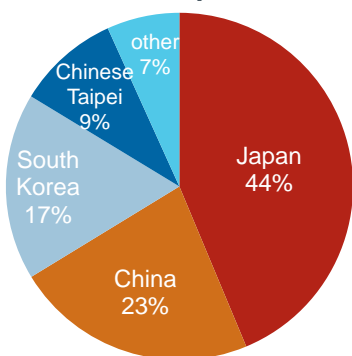
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**Australia has and will continue  
to benefit from China's  
expansion**

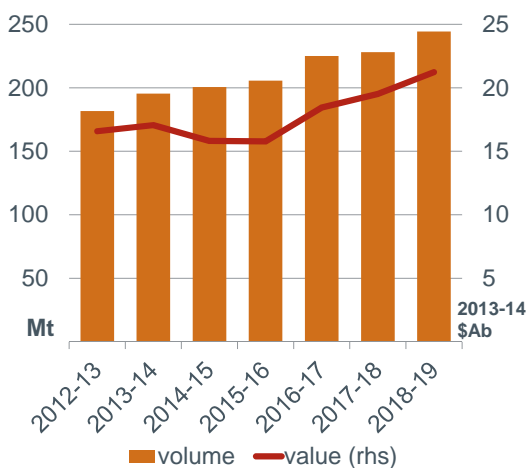
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## Thermal coal: China price dependent

Share of exports 2013



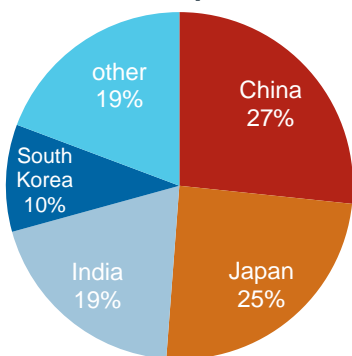
Australia's thermal coal exports



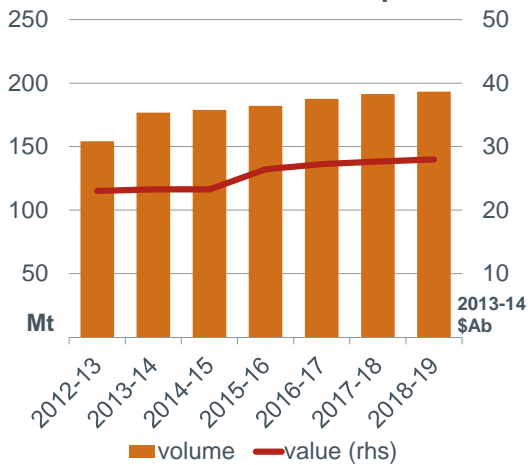
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## Metallurgical coal: China a large market

Share of exports 2013



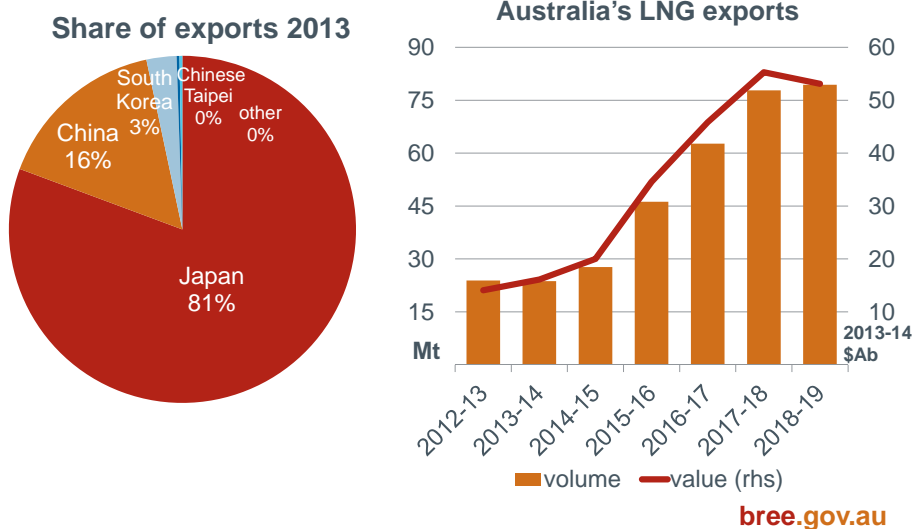
Australia's met coal exports



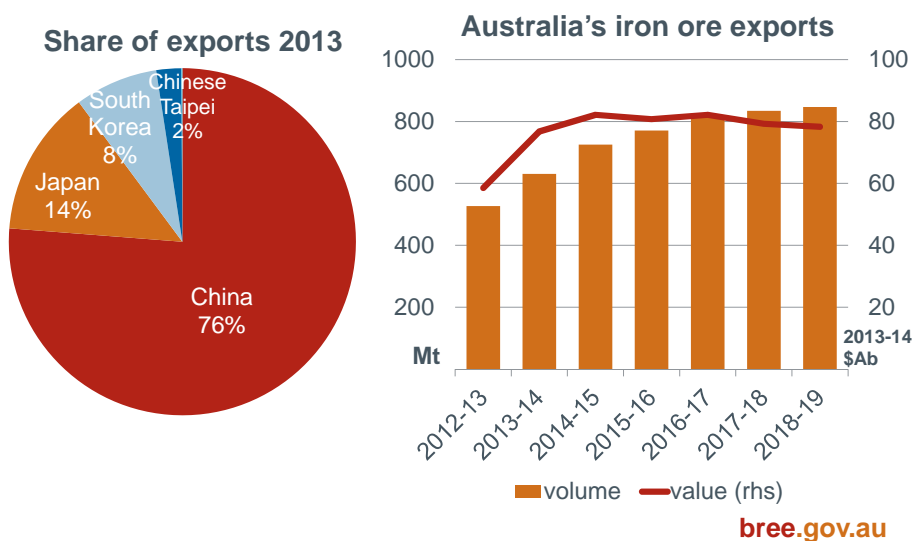
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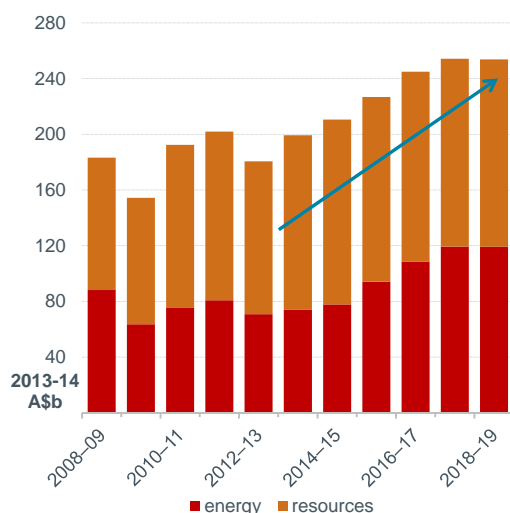
## LNG: China small but growing



## Iron ore: China is a major market



## The production phase to increase export earnings



- Growth in export values.
- Forecasts revised down due to lower prices.
- Forecast total value of exports in 2018-19 = \$254 billion (in real terms).

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## Conclusions

- There is still some steam left in China's commodity demand supported by economic growth and urbanisation prospects
- Government policies will have an affect on China's growth path and commodity consumption patterns but will take some time to make the adjustment
- China is a major market for Australia's resources and energy commodity exports and will continue to be a driving force for export growth

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