

## Australia's gold industry: trade, production and outlook

### Overall trade trends

Gold<sup>1</sup> has consistently been one of Australia's major exports since the modern gold rush in the 1970s and 1980s. Gold exports, valued at A\$15.0 billion, were Australia's third ranked export commodity in 2010 after iron ore and coal. This represented 6.5 per cent of Australia's total merchandise exports (see **Table 1**).

In quantity terms, Australia's gold exports have grown by approximately 3.0 per cent per annum over the past ten years. After peaking in 2009 at 437 tonnes, 335 tonnes of gold were exported in 2010<sup>2</sup>.

**Table 1: Australia's top 10 merchandise exports and imports, 2010**

Export Item	A\$m	% of total exports	Import Item	A\$m	% of total imports
<b>Total commodities</b>	<b>231,078</b>		<b>Total commodities</b>	<b>210,070</b>	
Iron ore & concentrates	49,382	21.4	Crude petroleum	16,218	7.7
Coal	42,967	18.6	Passenger motor vehicles	15,917	7.6
Gold (a)	15,005	6.5	Refined petroleum	9,968	4.7
Crude petroleum	10,502	4.5	Medicaments (incl veterinary)	7,896	3.8
Natural gas	9,425	4.1	Telecom equipment & parts	7,534	3.6
Aluminium ores & conc (incl alumina)	5,293	2.3	Computers	6,526	3.1
Copper ores & concentrates	5,032	2.2	Gold (a)	6,520	3.1
Aluminium	4,409	1.9	Goods vehicles	6,019	2.9
Beef	4,369	1.9	Civil engineering equipment & parts	3,049	1.5
Wheat	4,178	1.8	Monitors, projectors & TVs	2,822	1.3

(a) Balance of payments basis.  
Based on ABS trade data on the DFAT STARS database and ABS catalogue 5368.0, March 2011.

The value of Australia's gold exports has also soared (see **Chart 1**). Over the ten years to 2010, the value of gold exports increased by an average of 11.0 per cent per annum. This reflects the increasing strength of the world price of gold, which averaged US\$1,225 an ounce in 2010 - over four times the average price in 2000 of US\$279<sup>3</sup>.

Gold imports, valued at A\$6.5 billion, ranked as Australia's seventh largest import commodity in 2010, comprising 3.1 per cent of total imports (see **Table 1**). Gold imports have nearly tripled since 2001, when gold valued at A\$2.2 billion was ranked tenth in Australia's top merchandise imports. This rise can be largely attributed to the increased capacity and productivity of Australia's gold refinery industry.

### Major markets for Australia's gold exports

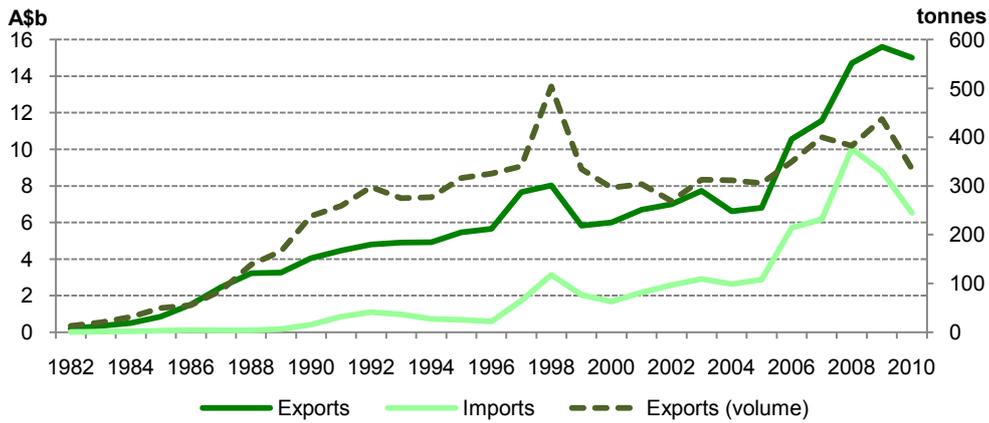
Some countries have strong demand for jewellery (particularly India and other Asian countries), some have demand for gold for financial purposes (such as the United Kingdom and China), and some countries require gold for use in industrial applications.

<sup>1</sup> Gold refers to non-monetary gold throughout this article. 'Non-monetary gold' is the term used for gold in the Australian Bureau of Statistics (ABS) statistics for exports and imports. It includes gold bullion, unrefined gold, and gold coins. Gold held by monetary authorities, such as the Reserve Bank and other central banks, as part of a country's official reserves, is called 'monetary gold'.

<sup>2</sup> Source: ABARES Australian commodities – June qtr 2011.

<sup>3</sup> Source: IHS Global Insight, World Gold Council.

**Chart 1: Australia's trade in gold, value & volume**



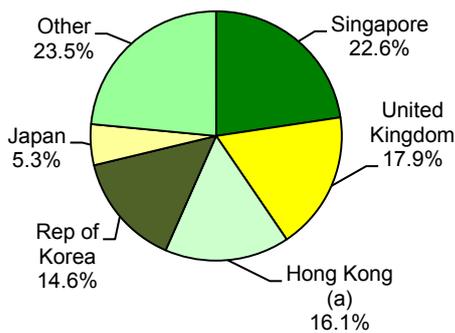
Based on ABS trade data on the DFAT STARS database, ABS catalogue 5368.0, April 2011 (Balance of payments basis) and ABARES Australian commodities – June qtr 2011.

Demand for Australian gold was largely dominated by India and the United Kingdom in 2010, accounting for 36.8 per cent and 35.9 per cent of total gold exports respectively. India is a fast-growing market for Australian gold, as the country's increasing wealth means more Indians can afford gold jewellery. The United Kingdom plays an important role in the global market as an intermediary gold trader. Other important destinations for Australia's gold in 2010 included Thailand, with an 11.2 per cent share of our export market, followed by Singapore with 4.9 per cent and Hong Kong (SAR of China) with 3.5 per cent (see **Charts 2 and 3**).

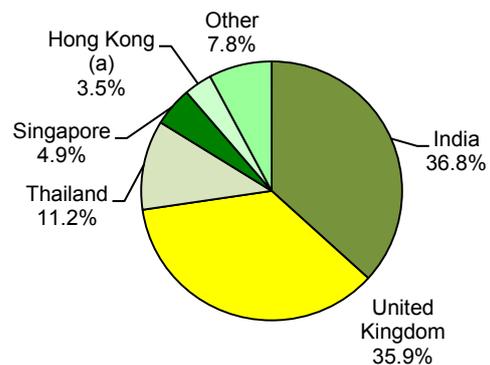
**Chart 4** illustrates the rise of India as a gold consumer over the past ten years, having overtaken the two traditional markets of Singapore and the United Kingdom as Australia's number one export destination from 2004.

China is an emerging market for Australia's gold. Exports of gold to China amounted to A\$413.2 million for the March 2011 quarter, according to ABS trade data. This figure is nearly double the A\$219.8 million worth of gold that was exported to China over the entire 2010 calendar year period.

**Chart 2: Gold exports by destination, 2001**



**Chart 3: Gold exports by destination, 2010**



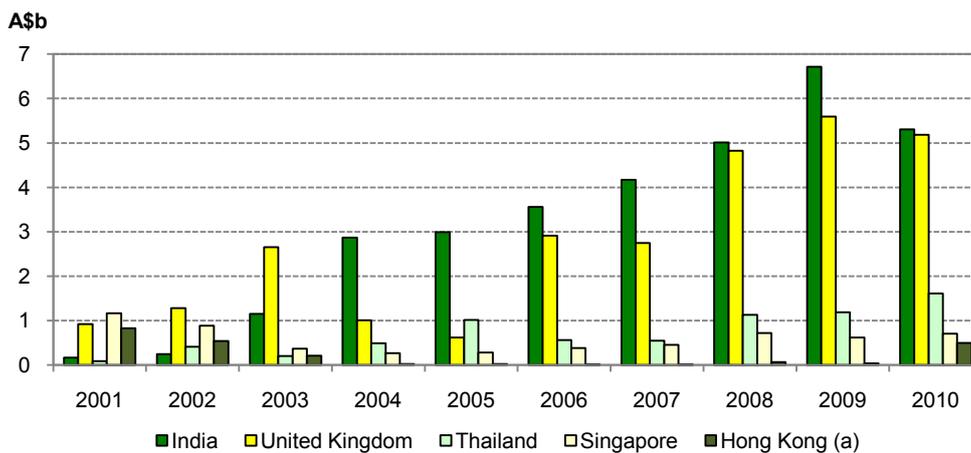
(a) Special Administrative Region of China.

Based on ABS trade data on DFAT STARS database and ABS catalogue 5368.0, April 2011.

## World consumption of gold

Demand for gold encompasses consumption components (gold used in the manufacture of jewellery, electronics, dentistry, coins and other industrial applications), and investment components (gold purchased for financial purposes). Factors that influence global consumption of gold include fluctuations in economic conditions in customer countries, changes to household incomes, changes in taste for jewellery and gold dentistry, and demand for electronics. Factors that influence investment demand for gold include developments in the outlook for the global economy, shifts in the value of major currencies and changes in the riskiness of other assets.

**Chart 4: Australia's gold exports, by top 5 destinations**



(a) Special Administrative Region of China.

Based on ABS trade data on the DFAT STARS database and ABS catalogue 5368.0, April 2011.

Consumption demand for gold comprises around three quarters of world demand. Consumption in Asian countries and the Middle East has driven demand in recent years. While demand weakened in the wake of the global financial crisis in late 2008, global gold consumption has since grown to 2,779 tonnes in 2010<sup>4</sup> and is expected to grow steadily over the coming five years.

Demand for gold as a monetary investment has also increased in recent years. Gold is seen as a relatively secure 'defensive' investment when used as a store of wealth. Investors traditionally turn to gold as a more dependable asset if economic conditions in major countries are uncertain.

More recently, investment demand for gold has been driven by European debt concerns, unrest across North Africa and the Middle East, and unease in China regarding rising inflation. China is likely to become a significant driver of worldwide gold production and consumption in the coming years after China's Central Bank, in August 2010, allowed Chinese commercial banks to import and export gold abroad. The Shanghai Gold Exchange released statistics showing that China's gold imports had increased almost fivefold from the previous year in 2010<sup>5</sup>.

## World production of gold

Australia is the world's third largest gold producer, after China (which also ranks as the second-largest consumer of gold) and the United States. Until 2007, South Africa was the industry leader dating back to the 1880s, but production plummeted in 2008 due to labour and technical issues. World mine production of gold has grown progressively over the past few years, with over 2,600 tonnes estimated to have been produced globally in 2010<sup>4</sup>. Australian-sourced gold accounted for 240 tonnes<sup>4</sup>, or approximately 9.0 per cent, of this global mine production in 2010.

## The Western Australia gold refinery industry

Western Australia not only leads the country in terms of gold mining activity, but also gold refining. Western Australia exported 98.7 per cent of Australia's gold in 2010. Around half of this was gold produced from Western Australian ores. The remainder was gold sourced from other Australian states and territories, and gold imported from overseas (mainly from Thailand, Papua New Guinea and the United States). Gold imported from the United States is treated differently in ABS trade statistics – refer to **Box A**.

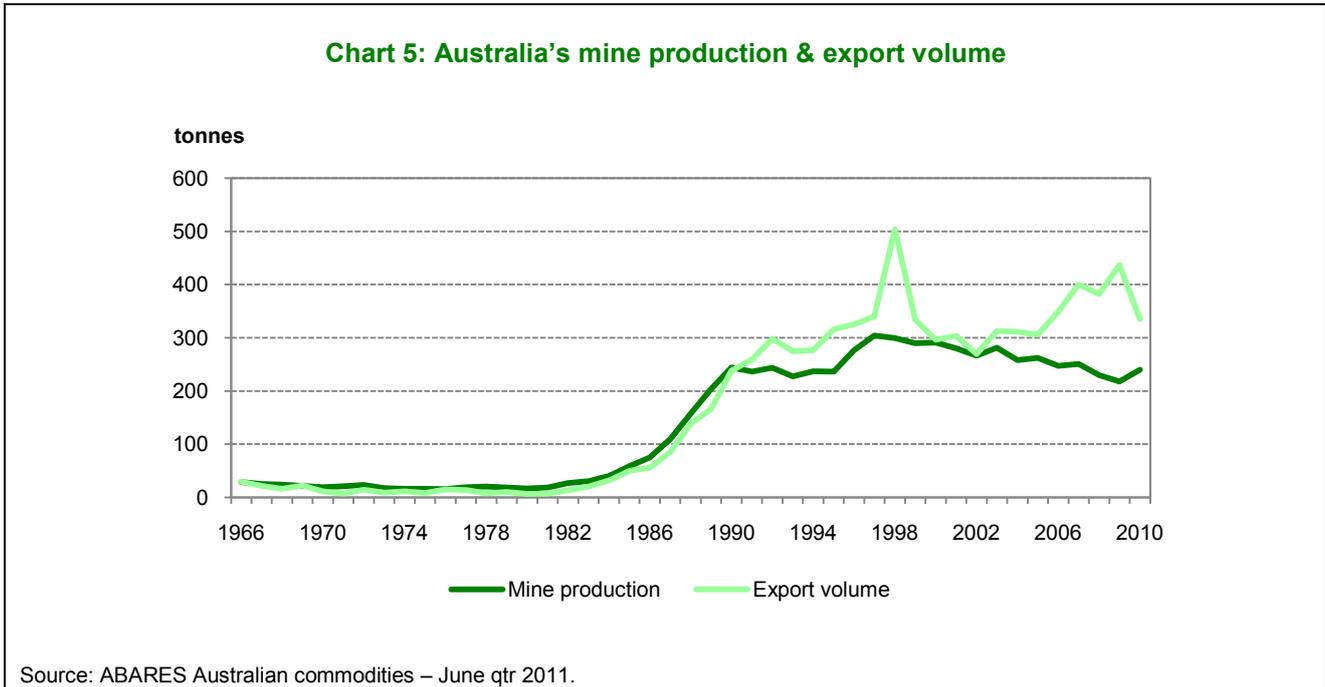
Prior to 1998, three major companies dominated the Australian gold refinery and manufacturing industry. These were the Western Australian Mint, Johnson Matthey (Aust) Limited and Golden West (Australasia) Limited. The industry was consolidated in 2002 when operations in Melbourne ceased. The Perth Mint assumed responsibility for all future gold refining<sup>6</sup> and was expanded to allow a significant increase in its gold refining capacity.

<sup>4</sup> Source: ABARES Australian commodities – June qtr 2011.

<sup>5</sup> Source: Bloomberg News – 2010.

<sup>6</sup> Source: The Perth Mint – Refinery History, 2010.

The increased capacity and productivity of the Perth Mint's refinery operations has contributed to the growth in Australia's gold imports and exports. Australia's gold exports now exceed the annual level of mine production due to the processing and re-export of gold imports (see **Chart 5**).



### Future outlook

ABARES forecasts indicate that the outlook for Australia's gold production and export market for the period to 2016 is strong.

During 2010, the price of gold in 2010 averaged US\$1,225 an ounce. ABARES forecasts the price of gold to rise to an average of US\$1,500 during 2011 and 2012, underpinned by strong global investment demand and jewellery demand in developing countries.

Supported by high prices and increased mine production, the value of Australia's gold exports in 2011 is expected to remain steady at A\$15.0 billion. 268 tonnes of gold are forecast to be produced and 312 tonnes exported, as the productivity of Australia's mines and refinery industry continues to strengthen. World gold mine production is forecast to increase by 2.0 per cent to 2,734 tonnes.

From a global perspective, it is anticipated that China's gold market will expand considerably over the next decade as its demand for gold grows in line with increasing disposable income levels. Forecasts indicate that China will soon surpass India as the world's biggest bullion consumer. This will likely have a flow-on effect for Australia's gold exports, which will be sustained by strong demand from these developing countries over the next decade.

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This article has also benefited from analysis undertaken in 2004 by a DFAT staff member, Paul Murphy, in an article on *Australia's gold industry and trade*, and from comments and suggestions made by Frank Bingham, Brent Perkins and Andrew Hodges in the Trade and Economic Policy Division.

## Box A – Technical Note

### Gold re-exported from Australia after industrial processing without change of ownership

In ABS merchandise trade statistics *Gold* that is imported into Australia for processing and then re-exported without change of ownership is treated differently from other *Gold* exports.

All *Gold* imported into Australia for processing is treated as *Gold* imports in ABS merchandise trade statistics. However when the *Gold* is re-exported the treatment is different depending on whether the *Gold* has changed ownership.

For *Gold* that has changed ownership, the re-exported *Gold* is recorded as *Gold* exports in ABS merchandise trade statistics. For *Gold* that has not changed ownership the export is classified as *Goods re-exported from Australia after industrial processing* (Australian Harmonized Export Commodity Classification (AHECC) code 9805.00 included in the Standard International Trade Classification (SITC) code 931).

It is not possible to identify the actual value of these *Gold* exports classified to *Goods re-exported from Australia after industrial processing* and therefore these exports have not be included in the analysis in this article. However the data in **Table A** below indicates that gold makes up the majority of the value in this code.

In 2010, Australia imported \$614 million of *Gold* for processing (without change of ownership). This *Gold* was all imported from the United States. *Goods re-exported from Australia after industrial processing* was valued at \$763 million in 2010. Nearly 100 per cent of these exports were to the United States. The service fee for processing this gold in Australia is recorded as a service export under the item *Manufacturing services on physical inputs owned by others*.

**Table A** shows imports of *Gold* for processing in Australia and *Goods re-exported from Australia after industrial processing* to the United States for the time period 2008 to 2010. This table clearly shows the relationship between these two series.

**Table A – Gold imported into Australia for processing and then exported back to the United States without change of ownership**

	2008 A\$m	2009 A\$m	2010 A\$m
Imports of gold from the United States (a)	422	1,126	614
Export of goods after industrial processing to the United States	419	1,089	752

(a) ABS Treatment code 721 - Goods for repair, alteration, processing for export. Based on ABS trade and clearances data on the DFAT STARS database.