

SUBMISSION

Inquiry into the prudential regulation of investment in Australia's export industries

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INTRODUCTION

Resource Industry Network (RIN) welcomes the opportunity to provide a submission to the Joint Standing Committee on Trade and Investment Growth's (the Committee) inquiry into the prudential regulation of investment in Australia's export industries, on behalf of its members and the greater regional industry in the Mackay Isaac Whitsunday region.

Resource Industry Network (RIN) is a peak industry association representing companies actively engaged in the resource sector and those allied to the sector, including the engineering and heavy industrial sectors.

RIN aims to build a prosperous and resilient Mackay-Isaac-Whitsunday community by leveraging the collective capabilities of the region's world-class engineering and heavy industrial sector.

While we are located in Mackay, Queensland on the doorstep of Australia's Bowen and Galilee Basin mining regions, the businesses that RIN represents work across Queensland and Australia, with an ever-growing number of these companies are doing business around the globe.

Businesses in this sector assist the region's 44 operating coal mines to deliver consistently high coal production. The region's diverse range of businesses provide services in project management, engineering and design, maintenance services and manufacturing, and work with mining houses to deliver innovative, cost-effective and production-efficient solutions. Through decades of development and commitment, the region's heavy industrial and engineering sector has grown to be known as a world-class hub of excellence in engineering and heavy industry solutions.

RIN has effectively introduced international mining operators to specific suppliers in this region and aims to connect the right people with the right levels of influence in the resource sector as well as provide a valuable member network. RIN also develops practical pathways to businesses succeeding and assists in developing regional capability. The organisation promotes the area as a region of excellence in the resources services sector, highlighting the innovation and capability of its members and industry as a whole.

Resource Industry Network actively pursues opportunities for its members by continually promoting their strengths to commercial decision makers in the resource sector, as well as to key stakeholders including peak bodies and governments.

RIN welcomes this inquiry in the hope it will shed light on the growing concern around insurance accessibility and affordability for businesses associated with coal mining.

INTRODUCTION (CONTINUED)

As an organisation that represents the interests of businesses in the resources supply chain in the Mackay, Isaac, Whitsunday region, RIN is glad to see government engage in conversations around the practices of banking, insurance and superannuation companies in an effort to introduce policies that support a business' ability to receive insurance and loans in a way that is fair.

The businesses being affected by this issue are legitimate operations contributing enormously to the state and national economies, employing thousands of people. In the Mackay region alone, 2019-2020 data from the Queensland Resources Council suggests more than 97,000 full-time jobs are supported by the resources sector both directly and indirectly.

The ability for the resources supply chain to access insurance or loans based on the sectors they service, needs to be addressed, along with the need for an improvement in transparency of these financial institutions.

As you will read below, there are local businesses being denied insurance for servicing coal industry customers, which has them questioning the feasibility of their operations to continue.

These decisions restrict a business' ability to operate with a number of RIN members believing the limitations for METS businesses is at a threshold where they are asking if it's tenable to continue to operate.

What is obvious to us as an organisation, is that government, insurance companies, financial institutions, and the like, need to be educated on the different types of coal produced in this country. Notably, the fact that the majority of the Bowen Basin's coal is metallurgical coal, not thermal coal.

Representing our members and the broader resources supply chain is part of our charter and we welcome this inquiry so the full extent of the issue can be realised and recommendations for improvements made.

ABOUT THE REGION

The Mackay Isaac Whitsunday (MIW) Region extends across 90,000 square kilometres from Bowen and Abbot Point in the north to St Lawrence in the south and west to the Belyando River beyond Moranbah and Clermont.

The region includes the three local government areas of Mackay, Isaac and Whitsunday and is renowned for its wealth in natural resources, comprehensive infrastructure, unsurpassed quality of life and outstanding beauty and tourism attractions. It has evolved into one of Australia's strongest regional economies, contributing some \$16 billion annually to the nation's GDP and more than \$17 billion in exports.

The region is home to more than 170,000 residents across three regional council areas. Importantly, one of the key features of the region is its accessibility.

The expanding construction and development industry is underpinned by world-class port facilities, rail and air infrastructure.

Mackay region's comprehensive industry base and its depth of population services provide a base from which to further diversify, to grow the regional economy and to capitalise on its many strategic regional industry opportunities.

The Mackay region is home to an incredibly diverse arrange of industries, all of which contribute to world-leading solutions. Whether it's mining, agriculture, tourism, defence, or renewables, we are leading the way.

As a result, the region consistently has more than 1500 jobs on offer in a broad range of industries. Career opportunities are plentiful in this region and are combined with the affordability of a regional centre, as well as an enviable lifestyle. All of which contributes to our significant economic contributions to the regional and state economies. See infographic below.

THRIVE IN THE MACKAY REGION

MORE THAN 1500 JOBS ON OFFER

- Fitters
- HSE Specialists
- Boilermakers
- Painters
- Electricians
- Blasters
- Riggers
- Leading Hands
- Trade Assistants
- Transport
- Scaffolders
- Logistics
- Crane Operators
- Supervisors
- Project Managers
- IT professions
- Superintendents
- Health & medical
- Engineers
- Admin & retail

INCREDIBLY DIVERSE INDUSTRY BASE

INDUSTRY POWERHOUSE

MORE THAN 480 PROJECTS IN:

- MINING
- CONSTRUCTION
- INFRASTRUCTURE
- UTILITIES

WORTH ALMOST **\$40 BILLION**

MACKAY

Voted best tasting tap water in Australia in 2019!

MACKAY IS WORKING AT THE CUTTING EDGE OF MANY INDUSTRIES

WORLD LEADERS IN THE METS INNOVATION

AT THE FOREFRONT OF TECHNOLOGY & INNOVATION

RENOWNED CREATIVE, PROBLEM-SOLVING COMMUNITY

More than 30 uncrowded beaches to explore

PRISTINE BEACHES

AVERAGE HOUSE SALE PRICE* **\$360,000**

261 DAYS OF SUNSHINE PER YEAR

ACCESS TO A NET FREE ZONE & FOUR BIG BARRA DAMS

BUILD A CAREER AND A LIFE IN MACKAY

- ✓ Thriving cultural scene
- ✓ Exceptional choice of dining
- ✓ Sport & recreation mecca
- ✓ Plethora of retail destinations
- ✓ More than 65 flights per week between Mackay & Brisbane
- ✓ Great Barrier Reef on your doorstep
- ✓ 2018 Wotif Town of the Year
- ✓ Career development opportunities

* Real Estate Institute of QLD April-June 2020 quarter data.

www.rin.org.au/Thrive-in-Mackay
www.mackayregionjoblink.com.au

RESOURCE
industry network

Infographic demonstrating the Mackay region's career opportunities, liveability and affordability.

THE ISSUES

The resources services sector in the Mackay Isaac Whitsunday region is an extremely resilient one and the businesses operating in this space have endured many challenges in recent years, whether it is cyclical mining fluctuations, extreme weather events, a rise in global climate change activism, international trade impacts, supply chain issues, and unexpected challenges such as Covid-19.

To their credit, these businesses have continued to operate through extremely difficult periods, however the matter of insurance accessibility and affordability is reaching a point where the financial viability of businesses supporting Queensland's biggest export industry is being questioned.

The businesses being affected are legal entities operating under the laws and regulations of Australia making the issue of access to insurance one that is unfair and un-Australian.

Many of these small to medium size businesses are reporting substantial increases in the cost of insurance based on the commodities that their customers sell, which we believe is a direct result of global activism around climate change.

RIN believes strong and practical climate action means reducing emissions in a meaningful, innovative and commercially responsible manner, however it is also our belief that more education is required around the differing types of coal and its use.

Thermal coal is widely used as the principle means of generating electricity in much of the world. Metallurgical coal, or coking coal, is a grade of coal that can be used to produce good-quality coke. Coke is an essential fuel and reactant in the blast furnace process for primary steelmaking. Metallurgical coal is the primary coal type produced in this region.

As a foundation of Australia's METS capability, the resources sector is one of our best nurseries of new technologies, practices and innovations to address climate change, and we are proud of our members' efforts to lower emissions in their own operations by improving energy efficiency and adopting renewable energy where possible.

The development of technology is critical in reducing emissions and to that end, our members and the resources services sector are actively pursuing, creating, and deploying solutions across the resources value chain to address this need.

To deny these businesses access to affordable insurance does little to mitigate climate change, to which they are trying to offer solutions. It is perplexing and reinforces the need for education on coal types, uses, and effects.

The resources services sector is simply asking to be treated fairly so they can continue to deliver world-class engineering and technology solutions to Australia and the world, and at the same time, continuing to be a main driver of economic contribution to the regional, state, and national economies.

WHAT BUSINESSES ARE SAYING

RIN sought to understand the issue more thoroughly and reached out to businesses in the Mackay Isaac Whitsunday region. What is clear is that there is a reluctance to offer lending and insurance services to the resources services sector. This is what they said:

Our business has experienced a 300% increase in professional indemnity insurance during the past four years. The current insurer has stipulated the business cannot have more than 40 per cent of its revenue come from thermal coal mining clients. This is despite the fact that our business also does work for the renewable power sector.

"Insurance is our single biggest spend on a single item each year. We spend more on insurance than we do on diesel."

In the past two years, our lender has openly stated they cannot fund thermal coal projects. There is a reluctance to lend into resources space due to commodity price volatility. Because we happen to work in the coal sector, the increased premiums and deductibles we are exposed to affect our operations in other sectors. We do work in the Coal Seam Gas Sector and the Renewables Sector through our Solar business. As a result of the work we do in coal, we become less incentivised to offer our skills to the Renewable sector.

Changes being properly explained to you by your bank or lender - they have been quite clear with where the decisions are coming from.

In the past two years, our lender has openly stated their desire to exit the coal sector.

Accessing banking or lending services since the changes - delegations of authority have shifted to much more senior personnel in the organisation which removes relationships, makes them more risk adverse and slows approvals down.

Changes being properly explained to you by your bank or lender - the behaviour is to offer us stunning silence. They are not interested in even responding to enquiries. It feels like they just want us to go away.

Accessing banking or lending services since the changes - we cannot get our bank to discuss loaning us money, because we provide services to the coal industry. In our NZ branch, Westpac will not allow us to open a bank account.

They need to understand the difference between met coal and thermal coal. They need to understand the importance of resources to the Australian economy and align with those industries and not a noisy minority wanting to close these industries.

Please stop discriminating against our business. We have been in business for over 25 years in a legitimate occupation, and we are treated differently to every other business I know. Its un-Australian.

In the past two years, we have found there is a much smaller pool of underwriters willing to insure coal mine operations. Premiums and deductibles have increased substantially.

Predominantly the industry has been negatively affected by insurers exiting off the risk, leaving less insurers to cover risk and forcing premiums upward.

Australian insurers are refusing to quote because we are part of the coal industry.

WHAT BUSINESSES ARE SAYING (CONTINUED)

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Explanations have been generic.
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There was no explanation, it was like, take it as read that if you are in coal mining, you no longer have a social licence to operate.
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Get to know the insured and the true risks of an operation.
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.....
I think legislative change is required. Insurers cannot be left to hold major percentages of risk without requiring a profit in return. The increase in competition in lower risk markets has seen profits erode and the less likelihood of insurers to offer cover in high-risk areas. I believe that insurers should not be able to offer insurance to one location and not another as it is discriminatory based on locality and profits are being cherry picked in southern states which affects insurers in Northern markets.
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.....
Australian insurers refusing to quote on our business insurance, for the past two years in a row. We are now offshore for insurance.
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They are far more reluctant to insure coal operations and particularly underground operations.
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THE IMPACTS

The real effect of restricting the ability of Queensland businesses to access business insurance is to provide an unfair advantage to global businesses who purchase insurance from offshore.

Of particular note are arbitrary rules such as the 40% turnover limit. These mean that smaller regionally-based businesses will be locked out of the resource sector supply chain, while larger transnational and international businesses are unaffected.

The result will be that less of Queensland's resource sector supply chain will be locally owned. Data released by the Queensland Resources Council (QRC) demonstrates the importance of the resources industry to the regional and state economies.

The total economic contribution to the Mackay economy has increased by 36 per cent during the past financial year going from a GRP of \$12.2Billion in 2018-2019 to \$16.6Billion for the 2019-2020 financial year. See infographic below.

This current figure accounts for 55 per cent of the Mackay's total GRP and contributes directly and indirectly to more than 97,000 full-time jobs in the region.

The QRC data backs up what RIN has been saying for many years about the enormous importance that resources play in our region and its contribution to the whole of Queensland.

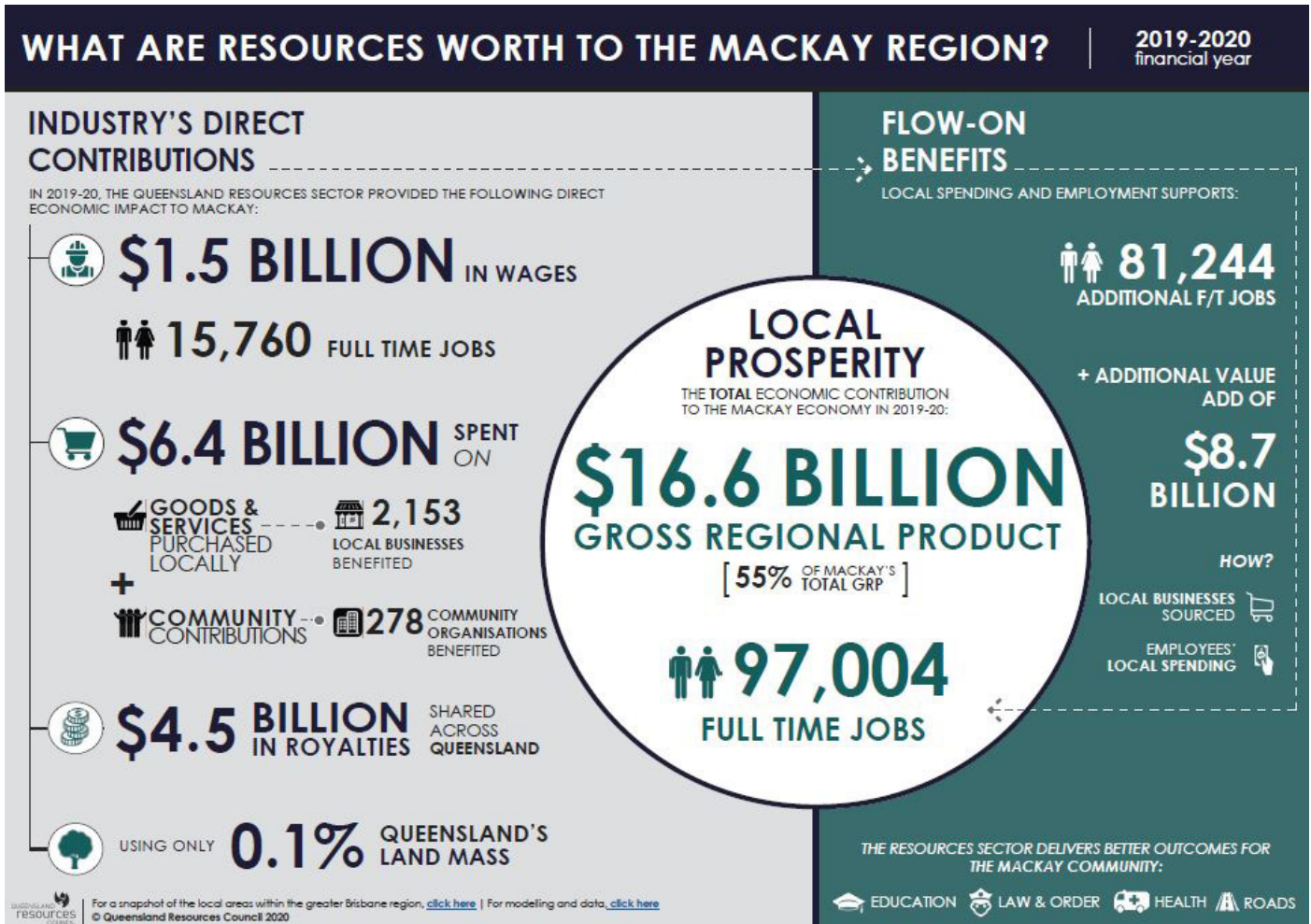
This data also shows that \$4.5Billion in mining royalties was shared throughout State to the benefit of every Queenslanders.

Our vibrant METS sector plays a critical role in keeping the resources sector operational and a world leader in productive and efficient mining practices and their role should be acknowledged as part of this inquiry.

Interestingly, Mackay, Whitsunday, and Mirani were in the top 10 Queensland electorates ranked in order of economic contribution to the state economy in 2019-2020.

It should be noted that Mackay is ranked second in economic contribution to the Queensland economy and clearly demonstrates our strength as a region.

This strength continues to evolve as our sharp-minded METS sector continues to innovative and diversify into other markets and increase their export capacity to service a global market.



Infographic demonstrating the Mackay region's economic contribution courtesy of Queensland Resources Council.

CONCLUSION

RIN thanks the Committee for the opportunity to provide a submission to this inquiry. RIN would be happy to provide further information and to appear before a Committee hearing.

The concerns RIN holds for the future of our sector not only paint a worrisome future for many SMEs in this region, but also to Queensland's ability to support our number one export industry with a locally owned supply chain.

Many businesses are at a critical point with many pondering the feasibility of their operations if global activism efforts are allowed to continue to apply pressure to businesses servicing customers in coal.

While the investment pipeline in the resources sector has evolved in recent years, the region's extensive and leading industry business base, knowledge/skills, and specialisation has provided the foundation to lead the way for further growth and diversification across the mining and the resource services sector.

Much of this progress is due to the ingenuity and innovation of small business operators who are focused on providing solutions to the resources sector.

However, if they are unable to secure insurance in the same fair way that other industries can, they will be forced to re-evaluate the viability of operating their businesses and the impacts could have severe consequences for an industry that has been labelled critical for post-Covid economic recovery.

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