THE Bloomfield GROUP

WE CARE. WE DELIVER.

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13 April 2021

Mr George Christensen MP
Member for Dawson, Chair of Joint Standing Committee on Trade and Investment Growth
PO Box 6021
House of Representatives
Parliament House
Canberra ACT 2600

By online submission

Dear Mr Christensen

This letter is a response to the request for submissions by the Joint Standing Committee on Trade and Investment Growth in Australia to its inquiry into and report on the domestic and foreign investment opportunities and challenges for Australia's export industries.

Terms of Reference

The third and fourth of the terms of reference for the inquiry are most relevant to our particular circumstances:

"3. The approach and motivations of our financial institutions, including banks, insurers and superannuation funds, as well as publicly-listed companies, to their investment in Australia's export industries;

4. The consequential impacts of ... (3):

a) For legitimate, law-abiding businesses connected to Australia's export industries;
b) On regional and rural economies that are reliant on Australia's export industries, particularly in light of the Covid-19 recession:
c) Our national economy, particularly in light of the COVID-19 recession;"

The Bloomfield Group

Our privately owned group of companies is 100% Australian owned, operates solely in Australia and pays taxes in Australia. Our principal activity is mining both semi-soft metallurgical and thermal black coal, all of which is exported to Asia for use in steel making and electricity generation.

Our economic and social contribution

Our group operates in the Hunter Valley and has done so for more than 80 years. It directly employs 550 local people. Our workforce currently includes twenty-three apprentices under an apprentice programme which we have proudly maintained for many years. Our primarily locally and regionally based suppliers and contractors supplied our group with over $200 million in goods and services in the 2020 reporting year. These purchases are a source of additional, indirect local employment and economic stimulus.

Our private philanthropic foundation provides substantial support to charities and community programmes with a focus on local long term charitable initiatives which can be enabled by the guarantee of longer term funding.

We are part of the NSW mining sector which, according to the NSW Budget Statement 2020-2021, is forecast to contribute $1.4 billion directly through the payment of royalties to the state in 2020-2021, with a further $4.6 billion forecast to be contributed to NSW revenue over the three years to 2023-2024.

Our employees, senior management and directors reside in the Hunter Valley and contribute directly to the regional economy. Our shareholders all reside in Australia. Our significant corporate and personal taxes are paid to the Commonwealth of Australia.

Capital expenditure requirements

Coal mining is a capital intensive industry, even after project establishment costs which range from hundreds of millions to billions have been expended. By way of example, our own small (by industry standards) operations include in the mobile equipment fleet forty-nine haul trucks as well as excavators, graders, bulldozers and front-end loaders with a replacement cost in the region of $400 million. The fixed infrastructure includes three coal handling and preparation plants which, in the event of a loss, would not be replaced like for like, so a replacement cost is difficult to estimate but would certainly run, at a minimum, into hundreds of millions.

The capital intensive nature of the industry implies, for economic efficiency, a significant role for financiers and insurers in supporting the cash demand for capital outlays and for loss protection of the high value plant and equipment and infrastructure.

Rehabilitation obligations

In NSW, mining lease conditions require that the holder provides a security to the value of the full estimated rehabilitation costs of a mine to the Department of Mining, Exploration and Geoscience. This requirement ensures that the NSW government does not inherit financial liabilities if a mining lease holder should default on rehabilitation and mine closure obligations.

The Department of Mining, Exploration and Geoscience reports that at January 2021, the NSW Government held $3.3 billion in security bonds for rehabilitation of exploration and mining sites.

Security deposits are usually required to be submitted in the form of bank guarantees, insurance bonds, insurance policies or cash. Cash is generally the form of last resort for mining houses as the opportunity cost of lodging cash is much higher than the cost of bank guarantees and insurance bonds. Historically, banks and insurance companies have played a crucial role in issuing bonds and guarantees to underwrite rehabilitation obligations.

Financial institutions

Insurers

In recent years, following concerted campaigns by climate activist groups, many insurance companies globally have turned away from insuring risk in the coal mining industry to such an extent that insurance cover is prohibitively expensive if it can be obtained at all.

Most major insurers and re-insurers are no longer willing to insure coal mines. This is particularly the case for Liability and Property (also known as Industrial Special Risks (ISR)) insurance; some limited appetite remains for mobile plant and equipment insurance.

We understand that the following insurers have withdrawn from insuring coal mines in the past three years: Allianz, Chubb, Liberty, QBE, CGU, Vero, Zurich, certain Lloyds syndicates, Swiss Re, Munich Re. Sterling, FM Global, Axis and AXA.

This withdrawal has resulted in a complex process to find 100% capacity on a mining insurance program. As an example, between 2019 and 2020 our ISR placement moved from one insurer in 2019 who exited from the coal mining insurance market prior to the 2020 placement which was ultimately finalised with thirteen different insurers, each with a different percentage share of the placement. Between 2016 and 2020, our premiums have more than doubled. In 2020, the deductible/excess on our Industrial Special Risks policy is at ten times the value required in 2017.

Financiers

Similarly, financial institutions here and abroad, in response to shareholder activism, have a waning appetite to finance coal mining project investment and mobile equipment fleets and to underwrite or guarantee, for a price, our rehabilitation obligations.

This reluctance extends further to withdrawal of support for companies associated with or providing services to coal mining companies. One recent example is the February 2021 decision by ANZ to withdraw from the financing syndicate for the Port of Newcastle, Australia's largest coal port, which was reported to be a consequence of ANZ having adopted policies in 2020 that prohibit it from entering new finance deals for customers with significant exposure to fossil fuel.

Consequential impacts

These financial market developments have, for coal mining, significantly increased the cost of doing business, elevated business risk and stifled capital investment as prudence dictates that vastly increased cash must be retained within the business to cover uninsurable property risks, to fund the refreshment of mining fleets and expansion plans and to guard against the prospect of bank guarantees and insurance bonds being unobtainable.

The impacts on the regional communities in which mines operate is less cash circulating in local communities, reduced profits with a flow on effect to wage increases and a lower probability of mine expansions or new mine developments. Thus, regional employment rates and opportunities for skills development are reduced and the local economic stimulus and community support provided by mining is dampened. The flow-on effects to the NSW and Commonwealth economies are self-evident.

As well, these emerging practices from insurers and financial institutions form a significant barrier to new entrants and thus reduce competition in the industry.

Accordingly, we welcome this inquiry and trust that our submission may assist to develop the committee's understanding of the challenges we face as an industry in maintaining and increasing our contribution to the regions, states and Commonwealth.

Yours sincerely,
THE BLOOMFIELD GROUP

[redacted]

Norah St George
Chief Financial Officer

[redacted]