9th August 2018

Committee Secretary Standing Committee on Industry, Innovation, Science and Resources
PO Box 6021
Parliament House
Canberra ACT 2600

(Via Website Submission)

Dear Sir or Madam,

Re: Submission to the Federal Government Inquiry into: How the mining sector can support businesses in regional economies

The Mackay Region Chamber of Commerce (MRCC) was established in 1887 as an advocate for local businesses. Today, we represent over 10,000 organisations across every industry in our region. From the one-man band to national businesses with premises in the region.

The MRCC identifies an effective mining industry as vital to the future prosperity of the Mackay region, and subsequently the state.

The MRCC kindly offers the following comments as points for the inquiry to consider when determining outcomes and formulating responses.

Term of reference, Question 1.

"The appropriateness of the payment terms offered to businesses by the mining sector"

The MRCC notes that any deliberate and avoidable delay in payment for services forwarded to our regional businesses directly erodes the region's financial stability by drawing upon the collective working capital of the region.

Working capital amongst the mainly "small to medium" businesses in the region represents the current assets minus current liabilities. This ratio of "available cash" to "immediate payment obligations" is artificially skewed outside normal operating parameters by payment terms of greater than 30 days and adversely effects the financial health of the region's businesses.

It is important to note use of the term "region's businesses'". The effect of delayed payment terms isn't constrained to businesses dealing directly with the mining sector. The collateral damage associated in withholding cash ripples through the region as all parties adjust their activities in accordance with their financial situation.

When the region's businesses are denied access to cash it is entitled, the region will (and continues to) find it difficult to attract investors and lenders. All investors and creditors that operate in the area assess the probability that a return will be generated, and the collective financial health of the region plays both a direct and indirect part in the assessment.

Investors and Creditors will view businesses without working capital as a risk. The inability to attract investors and lenders will (and has) affect(ed) the region's businesses ability to operate.

The suppression of working capital continues to endanger the regions businesses ability to finance its day-to-day operations. Day-to-day operations in a small business typically include salaries, inventory purchases and equipment needs. The suppression of working capital also makes it difficult to prepare for emergencies. For example, if a business loses a majority of its inventory to unforeseen circumstances (e.g a cyclone) a suppression of working capital makes it difficult to replace the inventory to operate.

The MRCC promotes a return to a normal operating position to allowing for positive working capital balances to grow within the region. This will allow business owners to grow in the future. When the regions businesses grow or simply try to meet customer demands, they often purchase additional assets needed to manufacture products or offer services at a quicker pace and on a larger scale. A suppression of working capital hinders the region from acquiring what it needs to expand. If a region continues to experience problems with growth, it will find itself losing customers to capital cities.

It is noted that under normal operating conditions, the regions could attempt to supply to other clients that offer better payment terms. Though due to the nature of the mining industry, and the resources only being mined by a handful of companies, this normal market practice is not available.

Keeping this oligarch situation in mind, and the persistent damaging effect of the current payment terms, the MRCC suggests the normal trading conditions be returned. With the common position being 30 days from invoice.

It is worth nothing that a 30-day payment from date of invoice, is not 30 days from service delivered. With most (not all) of the mining companies engaging in a lengthy and drawn out approval process before invoices can be submitted for payment.

Term of reference, Question 2.

"Best practices between the mining sector and businesses, especially in regards to how they can support regional communities and economies"

The MRCC notes that "best practices" between mining companies, suppliers and the community are observed when a mutual understanding from all parties of an inherent reliance on each other is observed.

This understanding of each other's reliance generally delivers an engaged workforce, effective suppliers and productive, cost effective mining operations.

Some examples of the balance being altered are listed below.

1. The aforementioned delayed payment terms erode suppliers and communities trust and respect for the mining company.
2. The prevalence of FIFO workforces from capital cities also erodes the suppliers and communities trust and respect, and subsequently puts into question the mines licence to operate from a social perspective.

Term of reference, Question 3.

"Barriers to the greater use of regional businesses in the procurement of services by the mining sector"

It is important to understand the normal and important factors in procurement. Any purchaser will understandably be drawn to services that are timely, cost effective and specialised.

These factors, when cast across the axis of "Region vs City", inevitably come down to a point of friction between the economies of scale offered by a city (delivering the subsequent price and general specialisation that comes with that) and the geographic advantage of the region (delivering speedy turnarounds and targeted specialisation).

As such, any move by a mining company to support regional business growth would most effective if steps were taken to promote better scale, ultimately benefitting all parties (as mentioned prior – Mining Companies, suppliers and the regional community).

Supporting regional business growth has a wide variety of aspects, include better payment terms, contract certainty, workforce structure, active community engagement, and so on.

Term of reference, Question 7
"How the Federal Government can support businesses in regional economies benefit from mining development"

The MRCC recognises the federal governments continued support of the regions, and the mining industry.

It is observed that the government is best placed to encourage each party to understand and respect their reliance on each other, and intervene when a breakdown is causing collateral damage to the community. With an example of this being the targeted action in regards to the continued use of delayed payment terms an example of such intervention (in the event that the mining companies to do not self-correct).

The Mackay Region Chamber of Commerce sincerely thanks the committee for the opportunity to add our experience and observations to the debate.

Our committee members are available at any time to explain a point of view, or provide more detail.

Regards

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Simon Vigliante
Treasurer
Mackay Regional Chamber of Commerce