



Inquiry into how the development of the mining sector can support regional communities

Standing Committee on Industry, Innovation, Science and Resources

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Introduction

The Hunter Business Chamber (The Chamber) is the largest regional business chamber in Australia and was established in 1886. The Chamber independently represents around 2,000 member organisations to all levels of government and is the peak industry association in the region, reflecting the interests of all business sectors.

The Hunter Business Chamber works as an integral part of the NSW Business Chamber network and represents business at local, state and federal level to advocate for an improved operational climate for businesses in this region.

The Hunter region in NSW just north of Sydney covers over 31,000 square kilometres and has over 660,000 people or nine per cent of the state's population. Mining continues to be an important sector within the Hunter's resilient and diverse regional economy, adding more than \$5 billion in value to the regional economy, or 11.4 per cent of the value added by all industry sectors. Mining employs an estimated 14,000 people, or about five per cent of the region's workforce, and contributes 12.8 per cent of the Hunter's total economic output of \$98.7 billion¹. The Port of Newcastle is the world's leading coal export port, with mining accounting for 40 per cent of the region's exports by value.

The Hunter Business Chamber represents the interests of many participants and stakeholders in the mining industry, including SMEs supplying goods and services, organisations and companies involved in technological development and innovation, major mining companies, power generators and energy providers. The Chamber also has a direct role in apprenticeship support and an interest in ensuring that government policy facilitates workforce capacity that meets the needs of industry.

The Hunter is unique in the extent to which its communities are invested in the mining industry. Mining is not an industry that sits outside or alongside the communities of the Hunter; rather, it is intrinsically tied to them, and as such the region's communities and their local economies are particularly vulnerable to the boom-bust nature of the mining sector.

The Chamber has sought feedback from members to inform this submission and offers the following comments.

Snapshot of mining in the Hunter

The mining industry in the Hunter is currently in a healthy state, with sustained growth in employment and productivity. Thermal coal prices have risen significantly over the past year, from \$US74.52 per metric ton in 2017 to \$US105.45 in 2018.² Unemployment in the Upper

¹ ABS/Remplan data sourced from Hunter Research Foundation and Newcastle City Council website

² Hunter Research Foundation, Upper Hunter Region Economic Indicators, Jan-Jun 2018

Hunter, where most mining activity is focused, is 4.6 per cent, which is below that of the Hunter generally (5.6 per cent) and slightly below the overall figure for NSW of 4.8 per cent. This is reflected in relatively high levels of business and household confidence in the local economy; the Hunter recorded the highest level of business confidence in the NSW Business Chamber's June 2018 quarterly business conditions survey and above-average levels of business and household confidence were reported in the Hunter Research Foundation's Upper Hunter Region Economic Indicators for January to June 2018. The number of Upper Hunter firms listing labour shortages as their key business constraint has increased sharply from June 2014, with almost one in five Upper Hunter firms reporting labour shortages that are adversely affecting business

However, the economic benefits of the mining upturn are not shared in traditional mining areas within the region where the industry is in decline. The Chamber notes the observations made by Cessnock City Council in its submission³ to this inquiry about the legacy impacts of mining on communities, such as high unemployment – especially among youth – underemployment, low education levels and other socio-economic issues. The submission notes that these factors, combined with a high level of dependency on mining, can also thwart entrepreneurial tradition, making it difficult for traditional mining areas to transition to new economies.

While mining remains a major employer and one of Cessnock's five key propulsive sectors, Cessnock has relatively high unemployment of 7.3 per cent, youth unemployment of 13.2 per cent and nearly 40 per cent of the population earns less than the minimum weekly wage.

Future-proofing local economies that rely on mining is an important issue that should come within the remit of this inquiry. The Chamber believes it should be a priority of Government to work with the mining sector to ensure local economies are supported not only to participate in the industry while it is active within an area but also to transition successfully to new opportunities when mining goes into decline.

Terms of reference

The Chamber offers comment on the following terms of reference.

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

Feedback from Chamber members involved in the mining industry indicate that slow and inconsistent payment terms can be a significant pain point for SMEs. Payment periods can vary between 30 and 90 days and there have been calls from a number of stakeholders, including the Resource Industry Network, for 30-day terms to be regulated.

The Chamber acknowledges that there is a power imbalance between large mining companies and smaller suppliers and contractors who have less capacity to endure disruptions to cash flow or may feel intimidated into agreeing to terms that are

³ Cessnock City Council, Submission: How the Mining Sector Can Support Businesses in Regional Economies

disadvantageous to their business. Often, it is when agreed payment terms change – at some point after the SME and principal company have made an agreement – that difficulties arise. While this can be due to fluctuations in the economic cycle, the SMEs bear the brunt and feel they have limited recourse to have the situation addressed. We support the notion of a consistent payment term that is fair and reasonable for all parties but believe that could be better achieved through promotion of an industry code rather than by regulation.

Some companies have voluntarily entered into agreements to provide shorter payment periods. BHP Billiton, which operates the Mount Arthur coalmine near Muswellbrook, has a Local Buying Program that supports businesses in the Muswellbrook, Singleton and Upper Hunter Local Government Areas to engage with the company. The scheme has shorter payment terms than general contracts, with an average of 12 days, and spent more than \$6.6 million locally through the program last financial year with more than 100 local suppliers. While acknowledging that the need for specialised mining equipment and supplies can necessitate procurement outside the local area, the Chamber sees potential for this model to be further developed and would support incentives from Government that encourage large mining companies to enter into similar agreements with local suppliers in the areas in which they operate.

We note that the launch of the 30-day [Australian Business Supplier Code](#)⁴ by the Business Council of Australia in 2017 was acknowledged by the Federal Government as a positive “first step” in addressing the impost of extended payment periods on small business.

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

Following on from the previous response, a number of Chamber members have expressed the view that procurement policies that provide more support to local economies and prioritise Australian content would help businesses in regional economies compete with offshore suppliers who have lower costs. There is support for refining the definition of Local Procurement for mining contracts to ensure businesses in the immediate LGA or region in which the mining operation takes place are prioritised. However, any regulation of this nature would obviously have to take into account local availability of what can sometimes be highly specialised equipment and supplies and that mining companies will often enter into contracts with a single supplier to provide equipment or services across multiple sites.

The Chamber notes that many mining and associated companies have extensive community engagement and support structures in place, including consultation committees and programs that fund community groups and activities. Aurizon Operations Ltd, for example, has provided grants to more than 50 charities and non-for-profit community groups through its Community Giving Fund since 2011. Many of the other regional industry leaders have similar community partnership and support programs, including Port Waratah Coal Services (Community Investment and Partnership Program), Newcastle Coal Infrastructure Group (Community Partnership Program), Port of Newcastle (Community Partnerships Program and

⁴ Business Council of Australia, Retrieved from www.bca.com.au

Community Contribution Fund), Orica (Community Investment Program) and Centennial Coal (sporting and community sponsorships), among others. These programs provide millions of dollars annually to community and sporting groups to run events and fund projects. In conjunction with other community-focused programs, such as targeted training and capacity-building programs, these initiatives provide significant support to the communities in which they operate.

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

The complexity and technicality of tender documentation can be a significant barrier to participation for SMEs that don't have people with high-level contractual expertise on staff. The Chamber believes more local businesses would participate in the sector if mining companies made it easier for them quickly determine what goods and services are being sought, in what quantities and over what period.

One of the main problems for SMEs is lack of consistency in documentation between different organisations. More standardisation of documentation, including simple actions such as colour coding essential items in tendering documents, could help SMEs decide where they should concentrate their time and efforts.

The Chamber notes the positive role industry networks such as HunterNet play in helping regional businesses participate in the mining industry by alerting them to opportunities, linking them with the big industry players and providing industry-focused training and business development programs. Governments can tap into industry resources such as these to help regional SMEs upskill and better position themselves as industry suppliers.

Building the skills and expertise of businesses to leverage opportunities in the mining sector

The Chamber supports Government investment in skills and technology training in mining areas that is targeted to develop the specific skills required in mining, but to also diversify local workforces for times when mining is in a slow cycle or, indeed, when mining in an area is coming to an end. Generally, the mining sector is proactive in providing training opportunities and encouraging local businesses to upskill, but shifting rules around apprenticeships and subsidies can deter SMEs from taking on young employees.

The Chamber notes the correlation between labour shortages in the sector and the replacement of the 457 visa system, which has restricted the use of overseas workers in the mining industry. The NSW Business Chamber has argued forcefully that changes to skilled migrant visas need to be coupled with a renewed commitment to the training of young people to ensure business demands can be met and regions gain maximum benefit from having an appropriately skilled workforce that is capable of meeting local industry needs.

How the Federal Government can support businesses in regional economies benefit from mining development

Councils and communities in the Hunter have been vocal in their calls for a consistent approach to funding and support of mining communities across all levels of government. Schemes such as the NSW Government's Resources for Regions are in theory a good vehicle for returning mining royalties to the source communities but the NSW program has drawn criticism over inconsistency of criteria that has in the past led to some LGAs in the Hunter being deemed ineligible to participate despite having active mining operations. The Chamber questions whether determination by LGA is the best method of appropriating funds, as the effects and impacts of mining flow across council boundaries, and suggests a regional focus would be more appropriate. We note there is also disparity between similar schemes in different states in the amount of money that is allocated, how it is distributed between mining communities and for what purposes. A royalties allocation scheme should not necessarily be compensatory but also be purposed for building resilience and economic diversity in mining areas.

Conclusion

In summary, The Hunter Business Chamber sees the following points as central to the deliberations of the Committee:

- Ensuring regional economies are supported not only to participate in the mining industry while it is active within an area but also to transition successfully to new opportunities when mining goes into decline;
- Investigating ways to encourage industry-wide practice that provides payment terms that are fair and reasonable for all parties;
- Promotion of policies that encourage procurement within the immediate geographic area of the operation, taking into account local availability of specialised goods and services and industry need to in some cases have central suppliers for multiple sites;
- Encouraging participation by SMEs by simplifying complex and inconsistent tender documentation;
- Investigating further partnerships with industry network groups that have a proven record of facilitating and enhancing participation by local businesses in the mining industry; and,
- Increasing Government investment in skills and technology training in mining areas that is targeted to develop the specific skills required in mining but to also diversify and future-proof local workforces for times when mining is in decline.

The Chamber appreciates the opportunity to provide these comments and welcomes any further engagement around this matter.

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