



26 April 2021

Mr G Christensen MP
Chair of Joint Standing Committee
on Trade and Investment Growth
PO Box 6021
House of Representatives
Parliament House
Canberra ACT 2600

Dear Mr Christensen

PARLIAMENTARY INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Thank you for the opportunity to provide a submission to the Joint Standing Committee on Trade and Investment Growth's above inquiry.

ISSUE:

Refinancing and securing banking facilities and associated insurances is an integral part of business. In 2017, Centennial experienced a significant shift by the Australian Banks making it increasingly difficult to do business in the coal sector. In 2020, Centennial sought to refinance its bank debts and guarantee facilities and again experienced a further more significant decline in the Australian banks' sentiment toward a coal company.

Being an underground coal miner the insurance market's perception of risk has always been at heightened levels, meaning fewer available markets and generally more expensive premiums and restricted cover. More recently, despite having an impressive claims history, insurance availability, cover levels, deductibles and premium have all been adversely significantly impacted.

Centennial is a thermal producer, producing coal for base-load coal-fired electricity generation both in NSW (powering 30% of NSW's coal fired electricity needs – keeping the lights on) and overseas, which is further impacted by insurer's ESG policies and not solely mining / business risk.

Centennial raised its concerns with both Government and our industry association in 2018 and is pleased to support this inquiry, which we hope will provide a platform to advocate for an industry that underpins the social and economic fabric in so many regional communities; and makes such a significant contribution to the health of the State's and the nation's economy.

ABOUT CENTENNIAL:

Centennial is an underground coal producer in NSW and a wholly owned subsidiary of Banpu Public Company Limited (Banpu). Banpu is a leading integrated energy solutions company with 3 core groups of businesses: energy resources, energy generation and energy technology across 10 countries – Thailand, Indonesia, China, Australia, Lao PDR, Mongolia, Singapore, Japan, the United States of America and Vietnam.

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Centennial supplies coal to domestic and export markets and fuels approximately 30% of NSW's coal-fired electricity. Currently domestic sales represent over 70% of Centennial's business. Centennial has a large geographic base, operating five mines throughout NSW, in Lake Macquarie and the Western coalfields near Lithgow and employs over 1,500.

A significant local employer in both the Lake Macquarie and Lithgow communities our pay-packets represent approximately \$200m annually, we spend \$660m on goods and services and contributed \$70m (19/20) in royalties to the NSW state coffers.

A proud member of our local communities, Centennial spends locally, recognising we are investing in the communities, not only where our mines operate, but also where the majority of our workforce and their families live.

REFINANCING EXPERIENCE:

Established in 1989 and listed on the Australian Stock Exchange in 1994, Centennial acquired the NSW Government's Powercoal assets in 2002 and at that time was predominately backed by the Australian banks, with support from overseas banks. Latterly, this dominance has reversed, albeit overseas banks still require Australian bank leadership. Since the 2010 Banpu takeover, Centennial's banking syndicate has diversified further, initially through growth and more recently through need (as a result of the reduced capacity offered by Australian banks and more latterly overseas banks).

Generally, Offshore Asian Banks will only participate in an Australian based syndicated financing deal if Australian banks are participating. Their view is that the Australian banks would know Australian mining assets better than they would. If Australian banks don't participate it makes it highly unlikely that Asian banks will fill the void.

As a country reliant on overseas investment to finance our lifestyle, strong leadership from "our" Australian banks is vital.

Australian banks have stated that there is limited support for coal deals within the Banks hierarchy and a term used is the "grief to income ratio" was too high for coal deals. No bank wants to be the last man standing, to use the phrase of APRA's Geoff Summerhayes "holding a stranded asset". Representatives from other government regulatory bodies have made similar unhelpful statements on a regular basis.

In December 2017, Centennial refinanced its existing bank debt and guarantee facilities with three Australian banks and nine Asian based banks, representing a significant shift in the proportion of Australian banks versus Asian banks (represented in the table below).

In 2020 this trend was further exacerbated with Australian banks again further reducing their exposure and Centennial only securing a short extension to our existing banking facilities. 2021 represents a sensitive time for Centennial as we again navigate a refinancing.

	Dec 2017		Dec 2014	
Australian banks				
- Debt Facility	10m	2%	280m	49%
- Guarantee Facility	170m	71%	170m	85%
Asian based banks				
- Debt Facility	520m	98%	295m	51%
- Guarantee facility	70m	29%	29m	15%
Total				
- Debt Facility	530m		575m	
- Guarantee facility	240m		199m	

NSW REHABILITATION GUARANTEES

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 (MEG) and Geoscience. Therefore, protecting the NSW government from inheriting financial liabilities if a mining lease holder should default on rehabilitation and mine closure obligations.

MEG reports that at January 2021, the NSW Government held \$3.3million in security bonds for rehabilitation of exploration and mining sites.

Security deposits are required to be submitted in the form of bank guarantees, insurance bonds, insurance policies or cash. Cash is the last resort as the opportunity cost of lodging cash is much higher than the cost of bank guarantees and insurance bonds. Banks and insurance companies play a crucial role in issuing bonds and guarantees to underwrite rehabilitation obligations.

WHY THE NEED FOR CHANGE?

This inquiry provides a platform to demonstrate how legitimate business' like Centennial, who make an important contribution to the national economy, are being unfairly and negatively stymied by the unfettered actions of the Australian Banks who continue to enjoy the financial guarantee backing of Government.

Australian Banks are now broadening their divestment actions to include 'carbon adjacent' industries, with the Port of Newcastle being the most recent high-profile target. All indications are that while coal mining may be the most immediate target, we represent the thin edge of the wedge and other sectors like manufacturing, transport and building are also exposed and could be targeted in the future.

This is further evidenced by the release last week of prudential guidance on climate change risks by The Australian Prudential Regulations Authority (APRA) which effectively said institutions were expected to assess their portfolios for economic sectors, or regions, with higher climate risks.

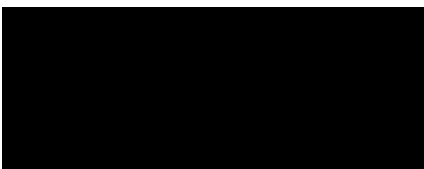
The inability to finance projects or existing operations will continue to lead to lost opportunities to overseas competitors, erode our global competitiveness and negatively impact our national economy and the lifestyle beloved by the vast majority of Australians.

CONCLUSION:

Centennial is a business legitimately mining the State's coal resources, paying royalties into the State's coffers, adhering to the myriad of regulatory obligations, employing, and spending locally. Centennial is a proud member of the Lake Macquarie and Lithgow communities and we continue to have an important role in underpinning our community's economic stability.

We welcome this inquiry and hope this submission helps the committee understand the issues and challenges faced by our industry.

Yours sincerely



Katie Brassil
Executive General Manager Externals Relations