

28 April 2021

Mr George Christensen MP
Member for Dawson, Chair of Joint Standing Committee
on Trade & Investment Growth
PO Box 6022
House of Representatives Parliament House
Canberra ACT 2600

Dear Mr Christensen,

We are writing to you in 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

In this submission we will be outlining our position in regard to three of the terms of reference:

1. The existing and future contribution of Australia's export industries.
2. 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; and
3. The consequential impacts of (2) and (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 considering the COVID-19 recession.
 - c) Our national economy, particularly considering the COVID-19 recession.

New Hope Group

New Hope Group (NHG) is a diverse Australian energy company with operations in coal mining, exploration, port operation, oil and agriculture.

Over the past five decades, we have built a robust business model based on efficient and cost-competitive production of high-quality, low emission coal that is supplied to long standing customers in both Australia and in a diverse range of Asian markets.

Our business is underpinned by continued demand for high calorific-value Australian thermal coal in our key export markets. Regional economic growth in Southeast Asia is forecast to triple by 2040 with the International Energy Agency's (IEA) World Energy Outlook 2019 predicting energy demand to grow by almost two thirds in the same timeframe.

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On that assessment, coal will remain an important element of the energy mix even as supply transitions to an increased proportion of renewable sources.

Our Economic and Social Contribution

Each year the resources industry in Australia injects more than \$230 billion into the Australian economy and supports almost a quarter of a million direct jobs.

Across our various operations, NHG has a direct workforce of 750 people and supports an indirect workforce of more than 3,000. In the past 12 months, NHG has paid more than \$180m in wages and provided \$1.6m in donations and sponsorships to our local communities.

Almost 1,000 local suppliers shared more than \$400m in payments.

The vast majority of our employees at our two coal operations, Bengalla in the Hunter Valley in NSW and New Acland on the Darling Downs in Qld, live in their local area. Their families shop and go to school in the local communities, and many support local sporting and community organisations.

Our pastoral operations at both Bengalla and Acland work hand in hand with their neighbours and have provided support to other local farmers in time of drought.

NHG does not use FIFO workers and we are proud to support the local communities in which we operate.

Rehabilitation Obligations

Most mining lease conditions require that the holder provides a security to the value of the full estimated rehabilitation costs of a mine to the relevant State Government department. This requirement ensures that the government does not inherit financial liabilities in the event of a default on rehabilitation and mine closure obligations.

In NSW alone, the Department of Mining, Exploration and Geoscience reported 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 companies 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. The concern is, will this continue and what are the implications if it does not.

Financial institutions

Insurers

In recent years, a number of insurance companies have become reluctant to insure businesses in the coal industry due to concerted campaigns by activist groups. This is particularly evident in the case of the Carmichael Mine in Queensland where activists have engaged in promoting illegal secondary boycotts of any business looking to provide products or services to the project.

The current stance of these insurance companies is particularly evident for Liability and Property (also known as Industrial Special Risks (ISR) insurance), some limited appetite remains for mobile plant and equipment insurance.

Over the past four years NHG's insurance has more than doubled and it is becoming increasingly difficult to secure Directors Insurance.

It has been widely reported 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.

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Financiers

Financial institutions are also withdrawing support to businesses associated with the coal industry, again making it difficult to secure finance for capital expenditure.

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. This 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.

Superannuation funds have also made a big deal out of divesting their shares in coal companies, largely to pacify the vocal minority of activists.

In NHG's case, we have seen superannuation funds and major investment firms take a small position in the company only to sell the shares in a very public announcement to create the perception of being a responsible investor.

Consequential impacts

If the financial institutions continue on their current course of rejecting the business of coal companies, the consequences will be dire.

Cost of doing business in Australia is already becoming prohibitive and, for the resources sector, increased government regulation is making it increasingly difficult to keep projects viable.

The actions of these financial institutions have already significantly added to 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.

The flow on effects of this on the communities in which we operate is equally significant. Reduced profits will lead to less cash circulating in local communities, impacts on wage increases and a lower probability of mine expansions or new mine developments.

This ultimately results in a reduction in regional employment opportunities and opportunities for skills development. Local contractors, who make up a huge part of our business, will lose work as projects are slowed or put on hold and support for local community organisations and sporting groups will reduce.

The resources sector has been and will continue to be a major contributor to the economic recovery post COVID-19. Despite the reduced dependence of coal as a power source in Australia, thermal coal will continue to be in demand across South East Asia. The value of our coal exports to the Australian economy cannot be underestimated and should not be put at risk through the anticompetitive actions of our financial institutions and the misguided objections of a vocal minority.

NHG welcomes this inquiry and the opportunity to make this submission. We hope this submission helps to inform the committee's understanding of the challenges facing the resources sector.

Yours faithfully,
NEW HOPE GROUP



Reinhold Schmidt
Chief Executive Officer

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