QRC Submission

Inquiry into the prudential regulation of investment in Australia's export industries

Joint Standing Committee on Trade and Investment Growth

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QUEENSLAND resources COUNCIL

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Introduction

The Queensland Resources Council (QRC) welcomes the opportunity to provide a submission to the Joint Standing Committee on Trade and Investment Growth (the Committee). QRC would like to particularly acknowledge the Queensland members of the Committee. QRC notes that the Committee Chair's electorate is centred on Mackay, a global centre of excellence for heavy engineering and mining engineering technology service (METS) companies. These service industries have been particularly affected by the sudden policy changes from the banking and insurance industries.

QRC is a not-for-profit peak industry association representing the commercial developers of Queensland's minerals and energy resources. QRC works to secure an environment conducive to the long-term sustainability of the minerals and energy sectors in Queensland.

While QRC understands the global changes in how the financial sector is appraising and managing climate risks, the rapid implementation of these changes is yielding unintended consequences and has reached a critical point which is now affecting the financial viability of Queensland's export industries. For Queensland, this has particularly impacted the resource industry's supply chain, predominantly comprised of regional businesses. These smaller METS firms are particularly exposed to a change in bank lending policies, or to insurance coverage suddenly becoming far more expensive, or being otherwise unable to renew long-standing policies.

QRC's member survey reveals the accelerating damage being wrought by these changes in financial policies. QRC members are frustrated to report that several retail banks, who once aggressively sought the business of Queensland METS industries, have now started to impose limits on their customer's business. For example, METS companies now must make a special case for banking services if they have more than 30% of their business working for coal companies. Decisions to apply this policy are often not made by local bank managers who have built up a working relationship with the client company. Instead, this decision is deferred to head offices in capital cities.

The consistent feedback from QRC members is frustration that this assessment is not informed by an understanding of the individual business and the risks in the markets it serves; but rather is seen as a perfunctory sweep of the new broom. There is no greater obstacle to the growth aspirations of regional export businesses than the sudden lack of affordable loans with neither the possibility of negotiation nor consideration of circumstances.

As well as difficulties in relation to finance, METS companies have also reported structural difficulty in securing insurance in several key areas including private indemnity. QRC understands that the process to renew an annual insurance policy must now commence 3-4 months before the policy expires. Many firms are facing trade-offs between skyrocketing premiums and higher excess limits on claims. In other cases, some firms have not been able to secure insurance at all. For many METS companies, insufficient insurance cover precludes them from tendering for resource work.

METS companies are reconciled with the reality of working in a cyclic industry where commodity prices can rapidly cycle from bust to boom. They are familiar with environmental factors such as supply shortages or extreme weather events. They are used to being openly assessed on the performance and risks of their business. But QRC continues to hear that METS companies are now being primarily assessed on the commodity their customers sell. This existential finance risk comes with two or more degrees of separation in the supply chain.

QRC's member survey reveals a palpable frustration that the financial sector's efforts to accelerate global progress towards net zero emissions are imposing a heavy burden on the METS sector which is best placed to deliver the technical innovations that will help the whole resource industry negotiate a transition to Queensland's low-emissions future. Well intentioned calls for an immediate low emissions "revolution" may be inadvertently spiking the wheels of progress, with the immediate financial ramifications for METS and the industry's supply chains.

A recent example of the unintended consequences of these insurance trends is the impact on regional farming businesses. In Queensland, a major insurer recently announced that they would no longer cover farms with coal seam gas infrastructure, even after rehabilitation and surrendering the tenure back to the Crown. In some cases, this includes infrastructure which has been designed in collaboration with the farmer so that it provides an ongoing positive legacy for their business – access roads, water tanks, powerlines, better pumping systems, improved mobile coverage enabling remote telemetry. In this instance, the burden has fallen on agriculture, another major export industry, and one fundamental to the economy and social fabric of Queensland. For more details see this summary from the Queensland Gasfields Commission.

Another example is the announcement that AGL Energy Ltd will restructure its business. The Australian Financial Review speculated on 30 March that coal operations face a higher, and increasing, cost of capital than the renewable parts of the business. The article quotes ANZ Banking Group's head of institutional banking, Mark Whelan, who said the pressure for decarbonisation of [ANZ's] loan portfolio had **increased significantly over the past 18 months,** with much of that pressure coming from regulators in 34 different countries.

Queensland METS companies are not looking to the Committee to deliver complex financial reforms. They would simply like to focus on what they do best: to deliver world-class engineering and technology solutions. METS companies are happy to be assessed on their performance. What is generating widespread concern amongst Queensland METS companies is the reality of costs skyrocketing because of the product exported by their customers.

The speed and confluence of these financial trends risks compromising the future of our industry. This, in turn, compromises the future of Queensland's economy, including the families and communities supported by the resources sector.

QRC wishes to highlight a fundamental issue with the narrative that Queensland's coal or gas industries are "uninsurable" or will soon become "stranded assets". The reality is that the resources industry is not only providing many of the building blocks for low-emission technologies – the 'new-economy' minerals like aluminium, copper, cobalt, zinc, and lithium – but also the industry is proving to be adept as an early adopter of these new low-emission technologies like electric vehicles, hydrogen fuel cells and batteries.

The resources industry is well down the path to electrification of operations, with draglines, compressor stations, conveyer belts, LNG refrigeration units, grinding, pumps, refining and smelting all running on an electricity supply which is rapidly decarbonising. With many remote resource operations facing high costs for delivered electricity, the industry has long focussed on what the International Energy Agency calls "the first fuel" – energy efficiency.

The poster child for thinking outside the box on energy use in Queensland is SunMetal's Zinc Refinery in Townsville which has redesigned its smelting processes to take advantage of the low price of solar electricity during the middle of the day.

In addition, individual companies like BHP have signed power purchase agreements to insure that 50% of their power supply will come from renewable energy. Minter Ellison's Australian Renewables Report 2021 says (page 32):

> *"Most miners are rethinking their operational processes and existing power supplies to invest in and integrate renewable energy sources. The benefits of investing directly in solar and wind power and smart storage, or otherwise buying green power, are clear, to drive down energy costs, curb emissions, improve safety, and lessen investor scrutiny."*
> Simon Scott, Energy & Resources Industry Lead

METS companies are leading the way with technology, engineering and innovation, while the industry is also embracing the opportunities through initiatives, such as the Minerals Council of Australia's recent Towards Sustainable Mining framework, to manage and reduce emissions. An example of this is Glencore's Carbon Capture program.

QRC is concerned that the incremental pressure of shareholder and investor agitation for more rapid action on climate change has now reached a critical tipping point for Queensland's export industries, and in particular the regional businesses that rely upon them. This financial pressure reinforces the need for ongoing action on a national approach to address climate change. As outlined in QRC's Climate and Energy Policy:

> *'Queensland needs a stable energy policy, ideally* ***an integrated national policy,*** *to provide investment certainty and remain globally competitive. These policies must encompass Australia's participation in global agreements, including the Paris Agreement, which include greenhouse gas emission reduction commitments from major emitting nations.'*

A well-planned and executed national energy policy will help clarify for financiers and insurers the key differences between Queensland's exports of LNG, metallurgical coal and thermal coal. QRC welcomes the initiative of the Australian Government's Technology Investment Roadmap, and recent announcements towards new investments in low-emissions technologies including Carbon Capture and Storage and hydrogen. Such technologies will be crucial in meeting Australia's emissions reductions targets, and the Queensland resources sector is poised to deliver. In Queensland, coal and gas is extracted, processed, and exported under strict environmental and industrial laws, under an intensive social-impact assessment (SIA) process. These social impact regulations include enhanced SIA processes in place for large resource projects under the *Strong and Sustainable Resource Communities Act* 2017 (Qld) and other State and Federal regulations. Under this scrutiny and regulation, Australia's exports help drive the economic development of both advanced and growing nations, including by displacing other energy sources which produce higher emissions.

Businesses working in, and with, the resources sector are law-abiding industries working hard to create value for shareholders and stakeholders alike through a focus on delivering triple-bottom line outcomes. Queensland benefits enormously from our thriving export industries. These companies expect the same ability to access finance and insurance products as any other business in Australia.

QRC's hope is that this inquiry will help raise awareness of the impact, if not reduce, the pressure being exerted on Australia's export industries, and the network of regional businesses that supports them.

THE CONTRIBUTION OF QUEENSLAND'S RESOURCES

Queensland is richly endowed with a wealth of natural resources. This has supported the creation of a world-class export industry. In a typical year, around 80% of the value of Queensland's exports are resources.

At the end of each financial year the QRC's members provide information on their spending. The aggregation of this confidential company information is then used to build a uniquely detailed picture of Queensland's largest export industry. An infographic illustrating the latest story for Queensland based on our 2019-2020 data is at attachment one.

Key findings:

In 2019-2020, the resource industry's **direct contributions** to Queensland, utilising only 0.1% of its land mass, included:

- **$6.5 billion in wages** and salaries paid to 52,676 full time equivalent employees;
- $27 billion in purchases from **15,200 Queensland local businesses;**
- voluntary contributions to **1,283 charities and community organisations**; and
- $4.5 billion in royalties paid to the Queensland Government.

QRC commissions independent economic modelling of the **flow-on benefits** from the industry's direct economic activity. In 2019-20, the industry's direct spending is estimated to have supported a further:

- **$44.8 billion** in additional value add; and
- **367,493** full time equivalent jobs.

To put that economic contribution in the context of the **Queensland economy** that totals to around:

- 20% or **one dollar in every five** spent in the Queensland economy; and
- **one in six jobs** in the Queensland economy.

Drivers of Growth

The resources sector is driven by export demand. Like agriculture or tourism, Queensland resources sell to global markets.

Queensland supplies the world with a broad range of elements, energy, minerals, and metals. Fundamentally, however, we are in the business of supplying the resources needed for the world's economic development. Our resource exports are either energy fuels like thermal coal and gas, or the building blocks of development including copper, zinc, aluminium, and metallurgical coal for making steel. Electricity generated in Queensland from renewables, coal, and gas, is also sold into the national electricity market.

While the drivers of demand in individual markets can vary, what they all have in common is that economic development drives demand for our high-quality resources. The industrialisation of Japan and Korea through the 1950s and 1960s drove demand for resources from Queensland. While that demand continues, it is now joined with demand from rapidly growing economies like India, China, and Vietnam.

Every three months, the Office of the Chief Economist at the Department of Industry, Innovation and Science produces a report, the *Resources and Energy Quarterly*, which forecasts the price, volume and export earnings from 12 of Australia's largest resources and energy export commodities. A recent report noted that:

- *"As the world's largest coal exporter, and potentially the world's largest LNG exporter, Australia is an energy superpower."*
- *"Australia has identified resources of around 415 years of uranium, 280 years of black coal, 50 years of gas, and 30 years of oil at current production rates."*
- *"The long-term outlook for metallurgical coal, which accounts for two-thirds of Australia's total coal export earnings, is relatively positive: there are no proven competitive substitutes for metallurgical coal in blast-furnace steel-making and the ongoing urbanisation and industrialisation of emerging Asia will require steel."*

For Queensland's metalliferous miners, the electrification of transport and the inexorable growth of renewable energy sources is creating demand for existing minerals and metals. It is also generating global interest in Queensland's ability to supply strategic minerals and rare earths.

In September 2020, the Queensland Treasury released a long term study of coal demand, which concluded that:

- *"Queensland's future coal demand will continue to be primarily linked to key economies in North-East and South-East Asia.*
- *it is likely that international demand will support Queensland's coal exports over the coming two decades, with the long-term prospects for the State's metallurgical coal likely to be more robust than for thermal coal."*

METS – THE INDUSTRY'S CRITICAL SUPPLY CHAIN

Queensland's mining and engineering services (METS) sector is a world leader including in safety, mine site rehabilitation and remediation processes, knowledge and technology, contract mine servicing, and project management.

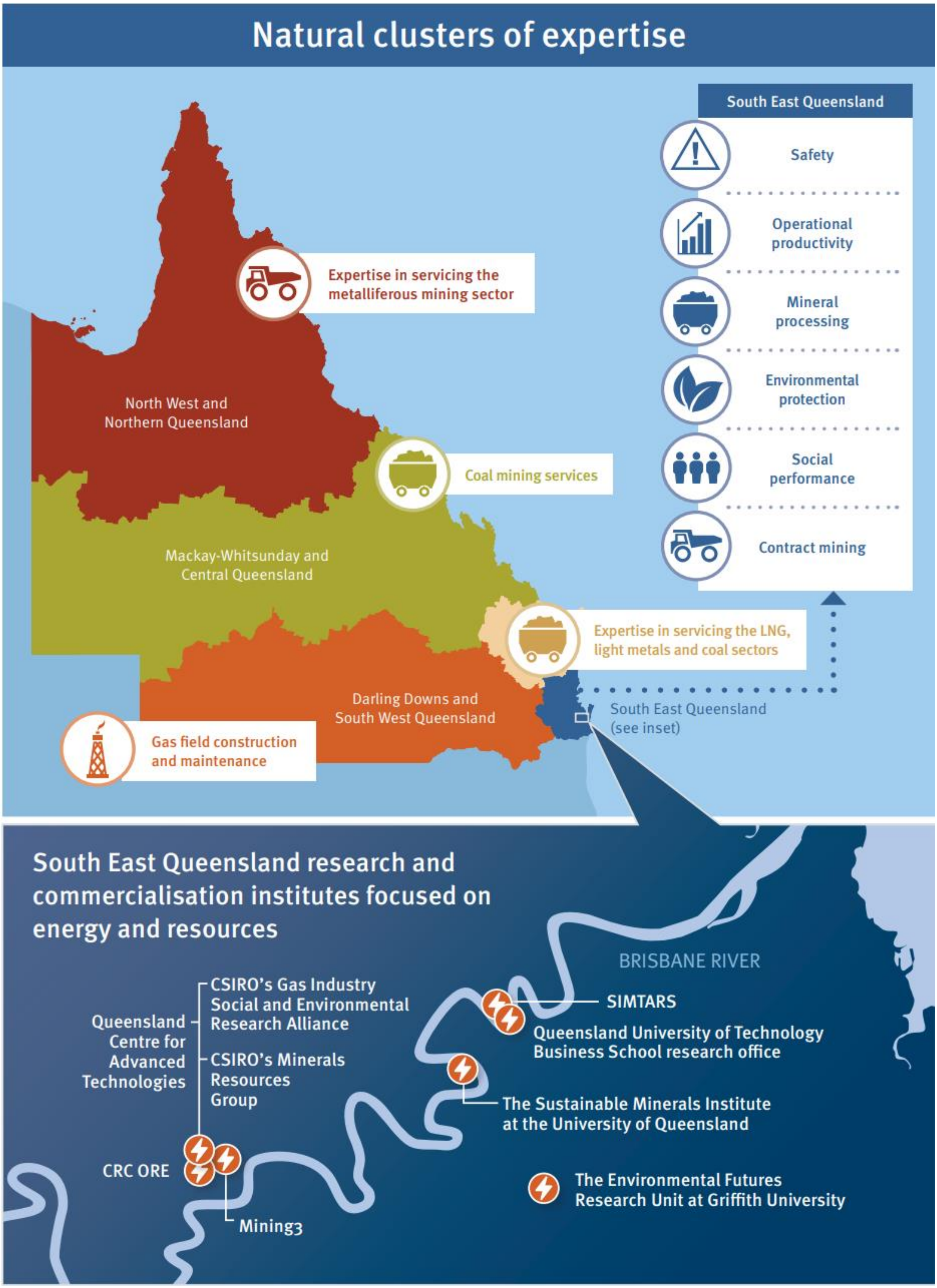
With more than 800 METS companies in Queensland, the sector employs 20,000 people across Queensland, with $7 billion revenue and $2.5 billion in value added to our economy. Within those companies, the METS sector is highly diverse, ranging from large contract mining companies capable of designing and building whole mine sites, to small firms that design and produce specialised equipment tailored to specific operations. The connections between the companies, suppliers and institutions have resulted in the development of natural clusters of expertise in various locations across Queensland (see figure 1, on the following page).

The Queensland METS sector is also a critical employer of people in regional areas. According to Deloitte research commissioned by the Queensland Government, the sector provides well paid and stable employment for Queenslanders, especially in the resource regions of Mackay, Fitzroy, North West and Darling Downs-Maranoa, as well as a significant number of people in South East Queensland and Brisbane.

Recent Austmine surveys indicate:

- By state, Queensland has the greatest export percentage of METS revenue at 29%, followed by South Australia, Western Australia, Victoria, and New South Wales.

- 82% of METS companies are Australian-owned, with major markets served including: mining, infrastructure (roads ports and rail), utilities (electricity, water and waste water), defence, renewables and clean energy, oil and gas and agriculture and construction.
- 65% of METS companies export goods and services.
- A third of the METS companies that do not export currently, intend to do so within the next 2 years.



Source: page 7, Queensland Government's METS action plan

THE WORSENING FINANCE AND INSURANCE DROUGHT

The winds of change in financial markets are fast strengthening into a howling cyclone for Queensland's export industries. The rapid implementation of policies aimed at decarbonising global investment and insurance portfolios has had a cumulative impact in Queensland. The scope, scale and fervour with which these financial changes are being pursued is unprecedented.

There's a good overview of the intensifying global scrutiny being applied to banking and finance at Insure our Future, who provide an annual scorecard on the rate of change. The scorecard reports that since 2017, 23 companies have ended their insurance cover for coal projects. This represents a restriction which applied to 3.8% of the global market in 2017 growing to almost half (48.3%) in 2020. The scorecard notes that in 2020:

> *"Most European and Australian insurers no longer provide cover for new coal projects, while others are becoming more cautious and restricting capacity. Coal companies are facing rate increases of **up to 40%**, according to broker Willis Towers Watson."*

In December 2020, it was announced that the London Insurance Market would rapidly cease servicing all thermal coal by at least January 2022 with all cover for coal ceasing by 2030.

Lloyd's, the world's biggest insurance market set a market-wide policy to stop new insurance cover for coal, oil sands, and Arctic energy projects by January 2022, and to pull out of the business altogether by 2030.

Australia's QBE Insurance Group plans to stop offering new policies for thermal coal mines and coal-fired power stations to help encourage a low carbon economy and combat climate change. From July 1, it will no longer offer any new direct insurance services for construction projects for thermal coal mines, coal-fired power stations or thermal coal transport infrastructure.

Zurich will assume responsible risk management if a new or existing client, or an investee company, derives less than 30 percent of its revenues from mining thermal coal or, for utility companies, generates less than 30 percent of energy from coal.

In 2019, Suncorp announced it would phase out its underwriting exposure to thermal coal by 2025, a move which was reinforced this year with a similar commitment on oil and gas. Investment exposure to oil and gas companies would be progressively phased out.

IAG has declared that by 2023 it will stop insuring companies with more than 30% revenue from fossil fuel extraction or more than 30% of electricity generated from fossil fuels.

Chubb has adopted a new policy concerning coal-related underwriting and investment. With the new policy, the company will no longer underwrite the construction and operation of new coal-fired plants, or new risks, for companies that generate more than 30% of their revenues from coal mining or energy production from coal. Insurance coverage for existing coal-plant risks that exceed this threshold will be phased out by 2022, and for utilities beginning in 2022. In addition, Chubb will not make new debt or equity investments in companies that generate more than 30% of revenues from thermal coal mining or energy production from coal.

Axa CEO Thomas Buberl said in October that climate change must remain at the top of the risk agenda, with his firm committing to totally divest from servicing the coal industry in OECD and EU countries by 2030, and globally by 2040.

Other examples include Allianz, which said it would not insure companies that generate more than 25% of their revenues or energy from thermal coal from 2023, and The Hartford which will no longer insure or invest in businesses that generate more than 25% of their revenue from coal mining, or generate more than 25% of their energy production from coal.

SURVEY RESPONSES

QRC ran a survey amongst the industry's supply chain in Queensland. The results make for concerning reading.

> ***"Our existing banking relationships are being maintained but it is almost impossible to source finance from a new banking partner."***

> ***"Our efforts to refinance loans have been flatly refused."***

75% of respondents said that accessing banking or lending services has become much more difficult in the past two years.

When companies asked for the reason for the change, the general response has been a reduced exposure to resources, but especially coal. The banks do not appear to differentiate between companies who own or operate mines, and the extended supply chains that play a role in servicing these operations.

> ***"Their behaviour is to offer us stunned silence. They are not interested in even responding to enquiries. It feels like they just want us to go away."***

When asked to quantify the change in their banking costs over the last two years, including their time and efforts invested in chasing finance, companies typically estimated an increase of **between 50% and 85%.**

> ***"Please stop discriminating against our business. We have been in business for over 25 years in a legitimate occupation, and we are hurting!"***

Over a third (44%) of the companies surveyed said that if these banking costs stayed at these levels for the next five years, then they would be **unlikely to continue operating**. Given that the survey responses encompass companies who **employ around 7,600 Queenslanders**, these rapid changes in financing practice are threatening perhaps a third of these jobs.

Not a single company offered the view that higher banking costs would help them transition more quickly to a low emissions environment. The METS sector has long been an important source of innovation in the resources industry. The METS sector, working across multiple sites and sectors also play a critical role in accelerating the uptake of new practices and technologies. Queensland METS companies have long played an essential role in the cross-fertilisation of technologies and practices between coal seam gas, exploration, metalliferous and coal mining.

> ***"The banks need to establish a resources section of the [banking] business that supports transition over the long-term rather than abruptly cutting off supply."***

> ***"All Australian Banks need to ensure that it supports the local industries, especially when these industries make up the majority of Australia's exports."***

The story is much the same for insurance with **90% of respondents** saying they had experienced a major change in insurance as a result of working in resources. Public Indemnity insurance was an area that was reported as causing widespread consternation.

> ***"We are not enjoying fewer insurers and higher premiums for less cover."***

Survey responses indicated that the cost of securing insurance, including labour, has **increased between 90 and 120%** over the past two years. Of concern to the QRC is that many responses indicated increases of several hundred percent:

> ***"Initially, our same insurance cover was going to cost 400% more – but when we challenged that quote, the cost was reduced to a 300% increase."***

Another clear message on the frustrations being experienced in securing insurance cover was the survey respondent who said:

> ***"We approached 10 different underwriters and got just two quotes back. That's not competition – the attitude seems to be we can either take it or leave it."***

When asked to provide a key message for their financial suppliers, respondents offered:

> ***"Get to know the insured and the true risks of an operation more deeply."***

> ***"Offshore insurers will be taking a lot of business from Australian insurers in the future. We will not forget how you treated us."***

REGIONAL IMPACTS

QRC's economic contribution data (see attachment one) illustrates the deep engagement between the resources sector and regional economies across the state.

While Brisbane has the largest number of jobs associated with the resources sector, due to its choice of location for most head offices, in regional areas the connection runs even deeper as a percentage of population, and in terms of social importance.

For example, in the Brisbane region, the resources sector supports 175,316 full time jobs, supports 6,463 local businesses, and accounts for $35.6 billion in Gross Regional Product (GRP), which is about 20 per cent of the region's total GRP.

For the Mackay region (which encompasses the Mackay, Whitsunday and Isaac local government areas), the resources sector provides 83,237 full time jobs, supports 2,153 small businesses, and accounts for $16.6 billion, or **55 per cent, of the region's gross regional product** (GRP).

State-wide, the resources sector pays $4.5 billion in royalties to the Queensland Government, $3.5 billion of which is accounts for royalties related to coal sourced mainly in and around the Mackay region.

Clearly, the stakes are higher in a region like Mackay given the relatively greater significance of the resources sector to the region's total GRP, its economic base.

The resources sector also produces highly skilled workers. While the resources sector helps support regional bakeries, doctors' surgeries, schools and cafes, it is also home to some of the most advanced, sophisticated and world-leading skills sets in the world. These skills are important because of their value to the broader economy.

Set in this regional context, the recent trends in the finance and insurance sectors are disproportionately impacting regional economies. Targeting businesses associated with the resources sector means regional economies will be hit harder. This is not only unfair, it is also economically shorted-sighted. It is counterproductive and against the national interest to undermine the economies of Australia's resources regions, which have an important role to play in a low emissions future.

Conclusion

QRC's hope is that this inquiry will help raise awareness of, if not reduce, the pressure being exerted on Australia's export industries, and the network of regional businesses that supports them. QRC thanks the Committee for the opportunity to provide this submission and would be happy to provide further information or to have the opportunity to appear before the Committee and speak in support of this submission.

In summary, the key conclusions that we'd present to the inquiry are:

1. Insurance and banking are fast becoming unaffordable for the resources industry and their regional supply chains. This will inhibit its ability to continue to make a significant economic and social contribution to Queensland.

2. The pressure being exerted by insurance and banking industry is unnecessary: QRC supports the Paris Agreement and emissions reductions targets set under the agreement, but believes Australia's high quality, well-regulated and environmentally sustainable resources sector can continue to thrive while meeting those targets.

3. The impact of this unnecessary pressure will be felt most keenly in the regions and by the industry's supply chain, particularly regional businesses. These METS firms are particularly exposed to a change in bank and insurance policies.

4. The financial sector's efforts to accelerate global progress towards net zero emissions are imposing a heavy burden on the METS sector which is best placed to deliver the ongoing technological innovations necessary to help the whole resource industry negotiate a smooth transition to Queensland's low-emissions future.

5. The resource industry simply seeks a level playing field – having the same opportunity to have financial and insurance services priced on the balance of that businesses risks and opportunities.

Thank you again for the opportunity to make a submission on behalf of the Queensland resource industry and the long regional supply chains that sustain the industry.

ATTACHMENT ONE: THE VALUE OF RESOURCES TO QUEENSLAND IN 2019-2020