

NSW MINERALS COUNCIL

**House of Representatives Standing Committee
on Industry, Innovation, Science and Resources
inquiry into 'How the mining sector can support
businesses in regional economies.'**

August 2018



Introduction

The NSW Minerals Council

The NSW Minerals Council (NSWMC) is the peak body representing the \$36 billion mining industry in New South Wales.

NSWMC provides a strong voice on behalf of our 95 member companies.

- 34 full members (producers and explorers)
- 20 associate members (junior explorers)
- 41 associate members (service providers and educational institutions)

We work closely with government, other industry groups, stakeholders and the community to foster a dynamic, efficient and sustainable minerals industry in NSW.

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Executive Summary

The NSW Minerals Council welcomes the House of Representatives Standing Committee on Industry, Innovation, Science and Resources Inquiry into how the mining sector can support businesses in regional economies.

The NSW mining industry makes a vital contribution to the State and its economy. With strong demand forecasts for NSW coal, gold, copper and rare earths there will continue to be promising opportunities for companies that supply and service the NSW mining industry over the next decade and beyond.

The NSW Minerals Council 2016/17 member company Expenditure Survey found that the 23 participating mining companies directly injected \$10.4 billion into the NSW economy in 2016/17, supporting thousands of jobs and generating further billions in additional spending across NSW, particularly in many regional communities across the state.

As part of this \$10.4 billion in spending, surveyed members spent \$5.87 billion on purchases from 6,681 different supplier businesses across NSW.

A stable and responsible regulatory framework will ensure that the NSW mining industry is able to continue to contribute to the economic health of NSW and deliver more opportunities to thousands of mining-related businesses in Sydney and across regional NSW.

The Economic Contribution of the NSW minerals industry

Mining continues to underpin economic activity in regional NSW

The minerals industry continues to be a driving economic force in regional NSW and for the broader NSW economy. In regions such as the Hunter Valley, New England, Central West, Newcastle and Wollongong, the industry employs thousands of mine workers, supports thousands of supplier businesses and generates billions of dollars of royalty income for the NSW Government. The significant economic contribution of the industry is summarised in Table 1.

Table 1 NSW minerals industry – economic contribution snapshot¹²

Economic measure	Amount
Production value	\$24.7 billion
Direct spending on wages and supplier businesses	\$10 billion
Royalties paid to the NSW Government	\$1.6 billion
Direct employment	40,600
Exports	Coal: \$15.2 billion Copper: \$2.1 billion Gold: \$1.2 billion

Mineral resources remain NSW most valuable exports

Coal continues to be NSW's largest export by value. After a period of significant expansion in production, export volumes have remained steady at around 170 million tonnes over the last four years. Japan continues to be the largest market for NSW coal comprising 44 per cent of total coal exports, followed by China with 15 per cent, Taiwan with 14 per cent and the Republic of Korea with 13 per cent.

Coal exports from NSW were valued at \$15.23 billion in 2016-17, making up 18.3% of the total value of both goods and services exports from NSW. Copper ores and concentrates were NSW's second largest goods export, totalling \$2.1 billion, and gold exports are estimated at \$1.17 billion.

The significance of these exports to NSW is apparent when compared to other NSW exports, such as beef (\$1.28 billion) and medicaments (\$1.27 billion).

The largest services export from NSW is education-related travel (\$10.28 billion).

¹ NSW Department of Planning & Environment, Mining Industry Infographics Snapshot – January 2018

Update; <https://www.resourcesandenergy.nsw.gov.au/media-events/news/2018/resources-infographic-s-snapshot-january-2018>

² Estimate from NSW Mining member companies.

Figure 1: NSW coal exports 2010/11 to 2016/17 (million tonnes)³

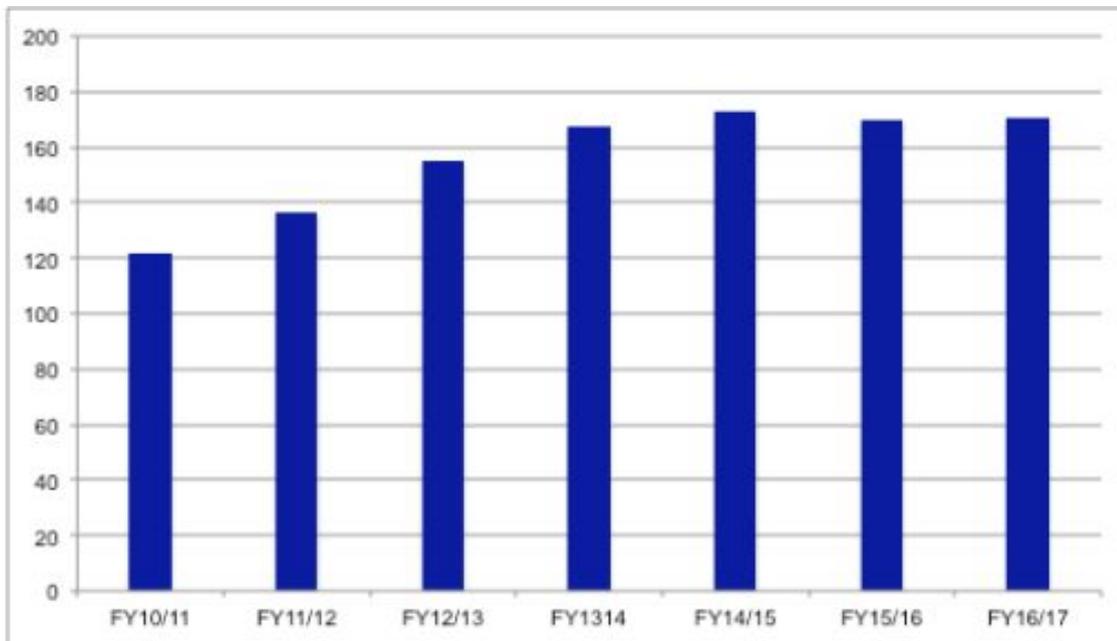
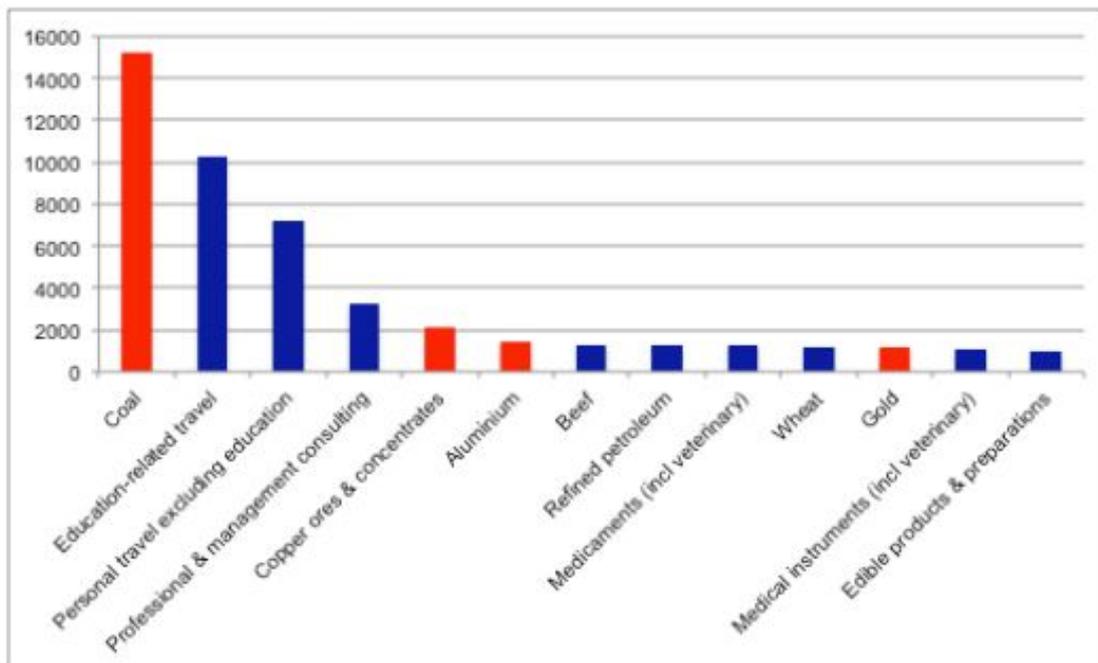


Figure 2: Value of major exports from NSW 2016/17 (\$m)⁴



³ Coal Services Pty Ltd

⁴ Australian Government Department of Foreign Affairs and Trade, Trade and economic fact sheet for New South Wales <http://dfat.gov.au/trade/resources/Documents/nsw.pdf>

Prospects for NSW Coal remain strong

Future demand for NSW coal is forecast to remain strong. The majority of NSW coal produced is thermal coal used for power generation (approximately 85%), with the remainder being metallurgical coal used for steel production.

While the industry suffered from an oversupply of coal in international markets following a period of significant growth, more stable market conditions have returned, with Figure 4 showing how NSW coal prices have recovered since 2016 and are now strong once again.

Figure 3: Newcastle Thermal Coal price 1996-current⁵



Around 85% of NSW coal is exported, particularly to Asian countries and it is the energy futures of these countries that will have the largest influence on future demand for our coal.

The International Energy Agency expects Southeast Asia to have huge growth potential for Australian coal exports. The region has a total population of 650 million, many with no or limited access to electricity.⁶

There is significant energy demand growth forecast for the region, with projections of a total increase of 100 GW in coal fired capacity in the outlook period to 2040 - more than four times Australia's current total coal fired capacity - locking in the need for coal into the foreseeable future.⁷

Bloomberg New Energy Finance states that coal "remains the bedrock of the region's power supply, providing 34% of electricity in 2040 – a larger share than any other fuel"⁸.

⁵ IndexMundi.com

⁶ World Energy Outlook 2018, International Energy Agency.

⁷ World Energy Outlook 2018, International Energy Agency.

⁸ Bloomberg New Energy Finance

New opportunities in metalliferous sector

As well as a strong coal sector, NSW also has some of the world's best metals mining operations, including gold and copper.

As a result there is growing opportunity for mining supplier businesses in regional areas, due to improvements in metalliferous commodity prices and new projects coming online.

Gold and copper prices have increased, with the value of gold up by 11 percent since January 2018 and the value of copper up by 17 percent over the same period.

Importantly, there are new metals mining projects being developed across NSW. These include Regis Resources' development of the McPhillamys gold project near Blayney in the Central West of NSW.

Clean TeQ is developing its Syerston Nickel Cobalt Scandium 'Sunrise Project' near Fifield NSW. This operation will mine one of the highest grade and largest nickel and cobalt deposits outside of Africa. Silver Mines Limited is also developing the largest undeveloped silver deposit in Australia just east of Mudgee.

Heron Resources is continuing with its plans to reopen the Woodlawn Zinc and Copper mine South of Goulburn.

Each of these projects will create jobs and deliver economic growth for their respective regions, and represent excellent opportunities for regional businesses that supply mining projects.

Mining essential for the economic stability across regional NSW

Across NSW, mining provides a bedrock of economic stability that injects a significant measure of resilience into regional communities helping them weather downturns in other economic contributors like agriculture and tourism.

In the Hunter, mining provides a solid base of 20% Gross Regional Product (GRP) that generates further economic activity in related sectors such as transport, manufacturing and financial services. In the Far West of NSW, mining underpins the economic health of communities like Broken Hill and Cobar.

In regions like the Central West, mining provides much needed additional and diverse economic activity to offset the cycles experienced by other sectors like agriculture, helping to provide alternative incomes and opportunities during drought for example.

Gunnedah and Tamworth are also excellent examples of mining helping these communities endure adverse conditions that impact critical industries, such as the current drought affecting agriculture in regions along with the rest of NSW.

Tamworth Council has identified mining as one of its key industry pillars for future growth. The Council's Regional Development Strategy recognises the opportunities to harness the full potential of mining activity through local businesses meeting supply demands as well as making the most of the region's 'quality of life' elements to attract workers and their families.

In Mudgee, mining has contributed to a diverse and economically resilient community, coexisting with agriculture and tourism and providing economic activity across the region.

Mining in regional communities like Mudgee contributes to the local economy through jobs, and also by creating opportunities for local businesses. In Mudgee, mining provides excellent opportunities for businesses that supply the industry, as well as for the wider business community indirectly.

NSW Minerals Council member spending with NSW businesses 2016/17

The NSW Minerals Council 2016/17 member company Expenditure Survey found that the 23 participating mining companies directly injected \$10.4 billion into the NSW economy in 2016/17, supporting thousands of jobs and generating further billions in additional spending across NSW, particularly in many regional communities across the state.

As part of this \$10.4 billion in spending, surveyed members spent \$5.87 billion on purchases supporting 6,681 different businesses across NSW.

Businesses in the Hunter received the largest portion of spending from mining companies with \$2.1 billion spent on purchases with 3,070 businesses.

Outside of Sydney, the next largest regions in terms of purchases with local businesses, was the Illawarra with \$484.5 million spent on purchases with 459 local businesses, and the Central West with \$179.4 million spent on purchases with 872 local businesses.

This support for local businesses is reflected across Local Government areas like Gunnedah, Singleton, Orange and Parkes, where mining makes a significant contribution to the local economy. In Gunnedah mining spent \$106.3 million with 164 local businesses, while in Orange, mining companies spent \$198.7 million dollars with 188 different local businesses.

In Parkes, mining companies spent \$58.2 million with 143 local businesses and in Singleton, mining companies spent \$845.3 million with 532 individual local businesses.

The direct expenditure of surveyed companies in 2016-17 is estimated to have contributed 19 percent of Gross Regional Product (GRP) in the Hunter, 8.5 percent of GRP in the Central West, 7 percent in the Illawarra, 6 percent in the North West region and 4 percent in the Northern region of NSW.

Figure 5: Mining as a percentage of Gross Regional Product

Region	Contribution of NSWMC Member Company Spending to GRP
Hunter	19%
Central West	8.5%
Illawarra	7%
North West	6%
Northern	4%

Mining expenditure supports thousands of jobs and businesses across NSW. Figure 7 below details this impact according to our 2016/17 member company Expenditure Survey.

Figure 6: Regional businesses supported by NSW Minerals Council member companies⁹

Region	Businesses supported by mining	Business purchases and community contributions (\$m)
Central West	872	179.4
Hunter	3,070	2,811.7
Illawarra	459	484.5
Sydney	2,349	2034.4
North Western	463	82.2

Mining spending driving jobs growth in regional NSW

A strong mining sector has been essential to the strength of regional job growth over the past few years. When the mining industry is doing well and employing people then unemployment falls in regional economies.

Nowhere is this more true than in the Hunter, which saw unemployment hit a high of 10.3 per cent in August 2015 as the local mining sector entered a downturn. The recovery of the region's coal sector has seen unemployment fall to 6.5 per cent.

Mining's successful coexistence with NSW regional industries

Mining and agriculture have successfully coexisted in NSW for around 200 years. NSW will continue to be home to a range of industries as part of a successful, diverse, modern economy.

There are many examples of agriculture and other industries coexisting closely together in regional centres right across NSW. Cattle and sheep farms, vineyards, grain and fodder crops and thoroughbred breeding operations, have and will continue to coexist to provide a diverse and dynamic economic base for hundreds of communities across the State.

Case study - Edderton and Mt Arthur Coal

Mining companies often own land that is not used for mining, but instead continues to support other local industries in the area. In the case of Edderton, a property owned by Mt Arthur Coal in the NSW Hunter Valley, the land is currently used to produce Angus and Wagyu beef.

⁹ 2016/17 NSW Minerals Council Expenditure and Jobs Survey

The history of Edderton, a large 3,000 acre property located just south of Muswellbrook, has been owned by BHP Mt Arthur Coal since 1992. Constructed in 1908, the Edderton homestead features a unique design inspired by a range of different architectural styles. The homestead, which boasts regional heritage significance related to its historical association with the expansion of the wool industry in the Upper Hunter, is now a NSW heritage listed property.

As larger estates became less viable in the late 1950s, Edderton was subdivided into smaller holdings, many becoming dairy farms.

The current lessees, Trevor and Narelle Petith, have operated the property as an Angus and Wagyu beef enterprise since October 2005 as part of their business HV Wagyu.

The property's 1,450 hectares of mostly native grasses provide an ideal pastoral environment for the Petith's herd of Angus cattle and full-blood Wagyu cows used to breed Wagyu bulls.

The Petiths run Edderton in conjunction with their operations at Whites Creek – a property located approximately 12 kilometres away – which is also owned by Mt Arthur Coal.

Case Study - Northparkes Copper Mine

Northparkes is a large Copper and Gold mine located in Central West NSW that has been operating since 1993. In addition to running Australia's most technologically advanced, automated mine, Northparkes owns and operates a large series of farms surrounding its mine site.

Their large 3,000 hectare plot includes canola, barley, wheat and field peas. It is a testament to the minimal impact operations of a mine like Northparkes that thriving profitable farms can coexist in close proximity.

Supplier Case Study: Quarry Mining

Quarry Mining is one of the true success stories of a local business working alongside mining operations in the Hunter Valley coal fields in NSW.

Located in Beresfield NSW, Quarry Mining started with a small shed and employed just three people. Today, Quarry Mining is the last remaining Australian manufacturer of drilling tools for underground mining, employing 55 full time staff, eleven production machines and four robots and in house heat treatment facilities.

Throughout 2017, Quarry Mining achieved significant market share within their core business of underground coal mining tools. In addition, these businesses have expanded, by applying their mining expertise to the various tunnel projects underway in Sydney, that require the application of mining techniques as opposed to tunnel boring methods.

Quarry Mining focus on creating local employment opportunities and driving 'smart' manufacturing and innovation. The company possesses skill sets ranging from professional engineers, metallurgists, technical and many various trades' people, to ensure a fully customised, optimal service solution is provided to customers.

Employment of university graduate engineers ensures the highest level of project quality and safety can be delivered from Quarry Mining's manufacturing facility.

In early 2017 Quarry Mining acquired a small pneumatic equipment business and partnered with an engineering firm to grow and expand the 'repair' business unit. Approximately 50 per cent of the company's growth has been achieved in this niche.

Quarry Mining's Managing Director, Kari Armitage, recently featured in the national '*Making the Future Possible*' information campaign for the mining industry.

Supplier Case Study: McLanahan

McLanahan is an engineering solutions company with operations in NSW, Queensland and Western Australia. Since 1835 they have been providing customers with innovative engineered solutions to technological challenges, while employing hundreds of countless people in Australia.

With their NSW operations based in Newcastle, where they employ 45 local staff, McLanahan are able to provide tailored bespoke solutions to mining operations. For example, designing a brand new coal sizer/crusher for a mining operation that required the coal to be reduced not only to a diameter smaller than industry standard, but also the crushing equipment had to operate for much longer periods between shutdowns.

Following the success of the new equipment design, the mining operation manager commented on their experience working with a local company willing to meet the needs of their specific project.

"One of the biggest things we realized with McLanahan was when we first talked to them, they were happy to change a design to suit our needs rather than giving us an off-the-shelf product. They worked with us throughout that whole stage."

Conclusion and Recommendation

The NSW mining industry makes a vital contribution to NSW and its economy. The positive outlook for NSW minerals provides promising opportunities for companies that supply and service the NSW mining industry over the next decade and beyond.

The NSW Minerals Council 2016/17 member company Expenditure Survey found that 23 participating mining companies directly injected \$10.4 billion into the NSW economy in 2016/17, supporting thousands of jobs and generating further billions in additional spending across NSW, particularly in many regional communities across the state.

As part of this \$10.4 billion in spending, surveyed members spent \$5.87 billion on purchases supporting 6,681 different businesses across NSW.

Supplier businesses in regional areas of NSW are working more closely than ever with mining companies to provide innovation in technology solutions. Businesses in regional NSW like Quarry Mining are employing technical specialists and open pathways for graduates from regional universities to remain in regional areas, rather than seeking employment in the city or overseas.

Governments can support a strong ongoing economic contribution from mining by providing stability and certainty over the long term. A stable and responsible regulatory framework will ensure that the NSW Mining industry is able to continue to contribute to the economic health of the State and deliver more opportunities to businesses in regional NSW.