

The NSW Coal Industry: a story of growth and innovation – opportunities for India

Thank you Chairman.

I am delighted to speak with you today. I would like to begin by publicly thanking Mr Arun Kumar Jagatramka, Chairman and Managing Director of Gujarat NRE Coke Ltd, both for establishing this forum and for personally inviting me to talk to you about opportunities in my home State of New South Wales.

The NSW Minerals Council represents the State's \$23 billion minerals industry. We are a not-for-profit industry association made up of 70 member businesses. Our members include producers, operators, explorers and associated service providers. Many of our members operate in multiple Australian states, as well as internationally.

We work closely with government, other industry groups, key stakeholders such as Unions and the community to foster a dynamic, efficient and sustainable mining industry in NSW. Happily, this is an objective which is shared by our Government, helping us to compete in a globally competitive marketplace.

As the Head of an industry association I spend most of my energy trying to remove obstacles to our members' businesses. NSW certainly presents some unique challenges, not all created by regulation.

To begin with, Australia's first state is also her most populated. Major regional population centres add to the four-and-a-half million people living in Sydney, making NSW home to seven million, or 30% of the national total. As it happens, a number of these regional communities live next to or on top of major mining operations.

In some cases, the ore body was the very seed from which major towns grew and prospered. You cannot move the resource. You can build communities around it, as we have done throughout our brief history. Yet the pressure on our industry to adapt to changing community expectations and to maintain our social licence to operate is as relentless as it is intense. The challenges presented by India's 'democracy' of which we have heard much today, and yesterday, would ring a striking cord with any NSW miner.

There are also, however, many positive attributes which help make NSW a reliable and efficient provider of high quality natural resources and home to the biggest coal port in the world.

Stable Government. Significant reserves of high quality thermal and coking coals. A highly skilled and experienced workforce. A thriving mining technology sector. Indeed 90% of the world's mining software is generated in Australia. A world-leading safety culture. Developed export supply chains which are undergoing expansion. And last but not least, close proximity to major importers in Asia, including, of course, India. Indeed, the very first export coal shipment from Australia, way back in 1799, made its way to India aboard the barque *The Hunter*.

Almost everything about the NSW coal industry has been growing apace in recent times. Despite some softening of prices during the Global Financial Crisis, we have been fortunate to remain relatively buoyant, although the high Australian dollar is still compressing margins.

The value of coal exports has increased phenomenally. In 2008-09 the value of export coal in NSW rose to \$12.5 billion, up from \$8.1 billion just 12 months prior.

The growth in NSW coal exports was underpinned by increased demand from China, South Korea and India whose exports increased year on year by 320%, 23% and 19% respectively.

Coal is firmly entrenched as the State's biggest export earner.

Around 77% of NSW coal is bound for export, with Asia remaining by far our biggest market. Japan remains our number one coal export destination, with approximately 54.5% in 2008-09, followed by the Republic of Korea, Taiwan and China.

India is of course a trusted and respected trading partner for the NSW coal industry. While over 3% of all coal exports are bound for India, over 11% of our coking coals arrive at Indian ports. Growing demand for coking coal is a critical counterpoint to the enormous global demand for our thermal coal, which comprises almost 80% of our current export volumes.

NSW is fortunate to have a bountiful supply of coal reserves, centred around the 500km long Sydney-Gunnedah Basin. Within the Sydney-Gunnedah Basin are five major coalfields: the Hunter, Southern, Western, Gunnedah and Newcastle coalfield. Further coal reserves are found in the Gloucester and Oaklands Basin.

The Hunter and Newcastle coalfields have traditionally been the heartland of the NSW coal industry. These coalfields produce the bulk of thermal coal for the state's electricity generation needs as well as for the export market.

The Western coalfield also produces predominantly thermal coal which is used in local coal-fired power stations and for manufacturing purposes.

The Gunnedah coalfield is NSW's most rapidly expanding coalfield and is the subject of much exploration containing some 40% of total reserves.

The Southern coalfield is the only region in NSW that produces the premium quality hard coking coal that is so vital in the production of steel. It is on this region that I am focussing my comments a little later on today.

Coal reserves in NSW are estimated to exceed 12 billion tonnes.

The most notable figures for our purposes are the traditional heartland of thermal coal mining in the Hunter, still with over 4.5 billion tones of reserves.

The Gunnedah Basin, essentially the next frontier for the coal industry in NSW, again home to high quality thermal coal and subject to two major exploration leases at the present time.

And finally the Southern Coalfield, with lower reserves at 786 million tones, but what we have there is extremely high quality hard coking coal.

In terms of our international ranking, Australia is the fourth largest producer of coal, preceded by China, the USA, and of course, India. NSW has a large piece of the production pie, providing 42% of the Australian total.

Australia's ample coal reserves matched with our small population enable our positioning on the world stage as the number one coal exporter.

Out of the 325Mt that Australia produced in 2008, 252Mt was exported. That is 78% of our coal production delivered to ports around the world. NSW's share in the Australian export is an approximate 40%, a figure that demonstrates the efficient operations and peak performance that the state is capable of achieving.

The steel industry depends on an efficient, reliable source of coal with 70% of total global steel production dependent on coal inputs. India itself is the 4th major importer of coal, after Japan, Korea and Chinese Taipei, taking in some 60Mt of coal in 2008. Nor is India a blushing damsel when it comes to the production of steel, ranking in at number five on the list of global steel producers.

As mentioned, the Southern Coalfield is the only source of hard coking coal in NSW. The close proximity of the region's coal resources to the export facility at Port Kembla is a considerable advantage. While comparatively the volume of hard coking coal exports is much smaller than those of thermal coal, they attract a premium and are the subject of increasing demand. Domestic steel mills are also dependent on coal mined in the region.

Back at home, the heavy lifting done by our industry results in great blessings for the NSW Government's consolidated revenue. Royalties from NSW minerals have increased almost three-fold in the past three years to reach a total of \$1.3 billion last financial year. This increase was a result of the higher prices received for NSW export coal and an increase in coal royalty rates in January 2009.

The royalty increase was not something we were singing from the rooftops about, as you can imagine. However, on the most recent calculations, the enormous benefits returned to the NSW taxpayer by way of royalties effectively halved the State deficit, underlining the coal industry as a 'must have' for an internationally competitive, future-focused NSW.

Some 30,000 people are employed directly in the NSW mining industry, with heavy concentrations in regional areas. Coal mining is again our industry's biggest employer with 12,000 jobs in the Hunter & North Western Coalfields, another 2,000+ in the Western Coalfields and some 3,000 in the Southern Coalfield, the home of our high-grade, hard coking coal.

As an industry we appreciate the hard work done by our mining workforce. The mining industry is the highest paid in NSW with average weekly earnings of some \$2,000. This is more than twice the average weekly wage in NSW.

The flow-on effects of the thousands employed in the mining workforce as well as the high earnings of the employees ensure that the benefits are felt far beyond the confines of the mining industry.

I said earlier that almost everything had grown apace in recent times. There are some exceptions. One of those is export volumes.

The coal industry's stellar growth has occurred in spite of supply chain constraints, with volumes experiencing only incremental increases while prices did most of the heavy-lifting.

In NSW, supply chain constraints centred around the Port of Newcastle, where the vast majority of exports leave our shores. Thankfully, major private investment by industry, patience by regulators and leadership by Government has resulted in a breakthrough on this issue, which should pave the way for a doubling of port capacity to some 211 million tonnes by 2015.

Below rail, a national focus on nation-building, productivity enhancing infrastructure, has helped to bring forward expansion projects. Above rail, the commissioning of new rolling stock by service providers and even by one major coal producer, expected to come on-line by the end of this year, demonstrates the industry's appetite to invest in its future.

That future is highlighted in the following projections by Japan's Institute of Energy Economics. In the period between 2004 and 2030: World thermal coal import demand is forecast to increase at a rate of 2.6% per annum. World metallurgical coal import demand is forecast to increase at a rate of 1.4% per annum.

The *International Energy Outlook 2009*, which presents an assessment by the US Government's Energy Information Administration (EIA), of the outlook for international energy markets through 2030, puts this growth story into sharper focus. And I quote:

"The countries of non-OECD Asia account for 90% of the projected increase in world coal consumption from 2006 to 2030. Strong economic growth is expected for non-OECD Asia, averaging 5.7% per year from 2006 to 2030, with China's economy averaging 6.4% per year and India's 5.6% per year. Much of the increase in demand for energy in non-OECD Asia, particularly in the electric power and industrial sectors, is expected to be met by coal."

We believe NSW is well positioned to satisfy the import requirements created by this growing demand.

One of the things we are very proud of in NSW is our safety record and our history of safety reform.

The minerals industry in NSW has a simple approach to safety – it is the number one priority. The industry is committed to zero harm. This commitment is supported by the substantial and sustained improvement in the level of safety throughout the operations of all companies across NSW.

The rate of workplace injuries and fatalities in the NSW minerals industry has been continually falling since the late 1970s. In fact, since that time the fatality rate in the NSW coal sector has decreased by 89%, while at the same time the Lost Time Injury Frequency Rate has decreased by 92%.

This is a direct result of significant contributions from all major stakeholders: mining companies; their contractors and suppliers; trade unions; governments; industry associations; and most of all the concerted efforts of those working in the mines themselves.

In 2005, the Wran Mine Safety Review, convened by the Honourable Neville Wran AC QC - a man who is well known to this audience and a past speaker at this great event - recommended that a new, strengthened Mine Safety Advisory Council (MSAC) should take forward future examination and progression of mine safety and health issues in NSW.

MSAC is a tripartite body made up of industry, unions and the regulator, with an independent Chair and two independent experts. MSAC has integrated the outcomes of the Wran Review into Mine Safety, the Digging Deeper Action Plan, the Health and Safety Action Plan and the CEO OHS Culture Summit to work toward one strategic direction under the banner of 'World-Leading OHS'.

The 2008 CEO OHS Culture Summit, attended by industry leaders from employer groups, unions and NSW government agencies, agreed on an 11-point vision for the NSW mining and extractives industry.

Some recent areas of reform in New South Wales driven by MSAC include fatigue management, health management planning, safety incentive schemes and guidance on musculoskeletal disorders.

Another issue we take very seriously in Australia is our reputation as a peace loving, multi-cultural nation. In this forum I think it would be remiss of me not to make some comment on some of the recent violence which has been targeted at Indians in our country.

Briefly, I would say that these sorts of incidents are abhorred by Australians generally, more so if they have any possibility of racial motivation. Our industry is culturally enriched by its international links and in my experience having lived across the globe, Australia is a friendly place to live and a good place to do business. Just prior to Christmas I had the honour of being invited to Gujarat's Festive Season Party. I witnessed some 1,000 guests including all the Aussie staff, their wives and children enjoy resplendent Indian cuisine and dance the night away to Bollywood performers. It was a wonderful example of cultural enrichment that was greatly appreciated by all who attended.

Indeed, talking of Gujarat: it is one of the finest examples of the opportunity NSW presents for India.

Arun Kumar Jagatramka first entered our world in 2004, about the same time I became CEO of the NSW Minerals Council.

The story of Gujarat NRE Coke is obviously very familiar to this audience. It is the largest independent producer of Met Coke in India and is to date the only Indian company with coking coal mines in NSW.

NRE bought the Bellambi West colliery in the Illawarra, re-opening it as NRE No. 1 colliery in 2005. In 2009 the NRE Wongawilli Colliery began production, bringing the former Eloura Colliery back to life. NRE's innovation has meant a second-coming for some of our State's resources, growing the industry in that region, providing employment opportunities and injecting new investment into the local economy. In a space of just a few years, Gujarat under Arun's visionary Chairmanship has acquired world class hard coking coal resources in excess of 500 million tonnes.

And not only that.

Last year, after a 32-year history in Australia's National Basketball League, the Wollongong Hawks were looking down the barrel of extinction due to rising costs and dwindling crowds. While Wollongong is a sports mad town with a rich heritage in cricket, rugby league, basketball and soccer, today the Hawks are the city's sole representatives in a national league of any sport.

With the deadline looming, Arun stepped in to save the day, thereby cementing his status as something of a local hero.

He is also a revered member of the industry, contributing his own time and encouraging his people to play a role in the work of the NSW Minerals Council. For this I am deeply appreciative.

Arun and the NRE Gujarat story are living proof of the opportunity which exists for mutually beneficial trade relationships between India and NSW, particularly with our State's coal industry.

My final word is to assure you, to use Dr Irani's words, that investing in the NSW minerals industry is no "false dawn".

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