

Dr Nikki Williams – Mining Export Infrastructure 2010
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**‘Detailing the Export Infrastructure Development Path for NSW:
Matching Output with Pit-To-Port Journey’**

Thank you Chair and a very good morning to you all.

As the Head of an industry association I spend most of my energy fighting fires and trying to remove obstacles to our members’ businesses. NSW certainly presents some unique challenges. And they’re not all created by Government.

When I get the time to reflect on the week that was, I often find myself thinking as much about what we’ve prevented happening to the industry as I do about what we’ve done to promote it.

If that sounds like a fairly defensive position, it often is.

Over regulation. Inefficient regulation. Rising business costs. Challenges to the industry’s social licence to operate. It can sometimes feel like we’re running to stand still.

But from where I sit, the challenges presented by export infrastructure are very different. Refreshingly so. Because export infrastructure is about opportunity. It is an enabler. It is about growth. And it is largely, though not exclusively, in the industry’s hands.

After a bruising period of reform, mining export infrastructure in NSW is now a tale of genuine progress.

While there is still plenty more to be done in order to consolidate these efforts, the industry is today much better positioned to capitalise on future growth opportunities and to make up for those lost so far. Today I will tell that reform story and talk about what it means for the industry and for NSW.

First though, a shameless plug.

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 and a small and dedicated secretariat. 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, Unions and the community to foster a dynamic, efficient and sustainable mining industry in NSW.

Of course there is more to the NSW mining industry than coal, even if the black stuff does account for 85% of total production value.

Metallic minerals account for approximately 12% of the total value of mineral production.

We also have large reserves of industrial minerals and whilst these commodities comprise just 1% of total mineral production value, they are used to make products like bricks, cement, glass, ceramics, pavers, pipes, paints and plastics.

The value of almost all exports, with the exception of zinc, had been trending upwards over the period from 2002 to 2008, until we saw widespread softening of price and demand during 2008-2009.

Note that the significant gold production from NSW is not captured here because of its export pathway, though we know that with the commissioning of the Barrick Lake Cowal project in April 2006 and the expansion of the Cadia mine in particular, that gold too is on an increasingly upward trajectory. In fact, NSW gold production is now only eclipsed by that of WA.

The Hunter Valley Coal Chain is the largest coal export operation in the world. Multi-user, multi-operator, it is the very embodiment of complexity.

The coal chain currently comprises:

35 mines, 24 rail load points operated by 14 coal producers, producing more than 80 different brands and grades of coal.

A rail network operated by the ARTC, and two contiguous track networks.

Around 27 coal trains making 15,000 loaded trips per year of up to 350kms, operated by 2 train operators.

Several exit points for domestic coal consumers.

2 coal handling and ship loading port terminals, managed by PWCS, operating a complex cargo assembly process to load several thousand cargoes on around 1,000 vessels per year.

And the Port of Newcastle.

Furthermore, a third port terminal, to be operated by NCIG, will begin operations this year.

Almost everything about the NSW coal industry has been growing apace in recent times.

Indeed, the value of coal exports has increased phenomenally. In 2008-09 the value of export coal 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 a formidable 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.

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 in 2008-09. 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 nearly 12,000 jobs in the Hunter & North Western Coalfields, another 2,000 in the Western Coalfields and almost 3,000 in the Southern Coalfield.

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.

If you examine the performance of Australia's coal export industry during the minerals super-cycle, you can only conclude that we've benefited more from increases in price rather than volume.

Over the six year period to 2008 black coal exports grew by just 5% in terms of volume, while their value grew by 21%.

As Peter Coates, in his capacity as CEO of Xstrata Coal said, "In the case of thermal coal, Indonesia has clearly been a "volume beneficiary" with export growth at times well in excess of global demand growth."

“The Indonesians have the advantage that their incremental investment is lower for a given level of coal exports when compared with Australia and other competitors.”

That aside, this loss of market share is a significant issue, one which has been covered in some detail by the Minerals Council of Australia through its Vision 2020 project, which Sid Marris spoke of yesterday.

As a pre-cursor to the Vision 2020 report, the MCA commissioned Access Economics to conduct some detailed analysis on the scope of the challenge that Australia faces just to maintain market share across a range of commodities. Sadly, the task is Herculean.

Investment in Hunter Coal Chain mines and infrastructure by the coal producers is estimated to be in excess of \$10 billion to date. Further investment of \$5-10 billion is being contemplated to potentially double mine production capacity and exports over the next 5-10 years.

It is clear therefore, that the problems in our supply chain have not been one of a lack of investment but rather one of coordination.

Infrastructure owners, in particular track and port providers, have not been exposed to the cost or benefit of the over or under performance of the supply chain.

There have been no investment signals, in an environment where coal producers have not held firm capacity entitlements with port or track providers.

Shipping queues numbering over 70 at the peak have been a very public symptom of underlying market failure.

Again, in preparing my thoughts for today, I was trying to think of an analogy, one where contributors can still get a return for their individual effort, but get their hands on a far greater dividend through the performance of the whole.

I came up with a race horse. Each horse entered in any race is the product of several contributions, from the jockey to the owner.

A jockey might take a fee from riding, but he'll be much happier with a share of the winner's cheque.

Likewise the trainer and strapper.

The breeder might get a fee every time his stallion serves a mare, but he'll be doing cartwheels if his stallion sires a Group winner, increasing his fees with every win.

The poor old syndicate of horse owners... well, I couldn't quite make them fit into my analogy, they get nothing without saluting the judge, so maybe they're akin to the coal producers.

You get my point. One of the problems for the Hunter Coal Chain historically has been a lack of anyone being accountable for the throughput of the coal chain, not enough sharing of incentives and risks, with a result that everyone focussed only on their own individual task.

The thing that is needed, therefore, is alignment of interest around a collectively agreed outcome.

Compare Australia's growth in iron ore shipments with our performance in thermal and coking coal. The contrast is striking.

The alignment of interest or the lack of it between the producer, shipper and all other parts of the export chain is surely the main reason for the discrepancy.

Clearly the Hunter Coal Chain and the Pilbara are two very different systems, with very different constraints.

But whichever way you look at it, we've been bleeding our coal export market share for far too long.

The supply chain constraints in the Hunter have direct and indirect costs for our industry.

These include lost export revenue, estimated at more than \$2 billion between 2005 and 2010.

Additional costs, with demurrage alone estimated at more than \$300 million per annum: enough to build a new railway line every year.

And decreased customer confidence and loss of export markets and market share.

There is also an opportunity cost for the people of NSW, through foregone royalties and lost employment opportunities.

However, the story of reform of the Hunter Coal Chain, as I mentioned earlier, is gathering pace.

On the 9th of December last year the ACCC gave final approval to the Hunter Coal Agreement. The Agreement is the culmination of two years of negotiations involving the industry and the NSW Government, through the former Minister for Ports, Joe Tripodi, and the Newcastle Port Corporation.

The Hunter Coal Agreement meets a number of shared objectives for industry and Government:

- Triggers requiring terminals to build new capacity as demand necessitates.
- Long term take-or-pay contracts to underpin investment in terminal capacity.
- An industry levy to help fund new terminal infrastructure where it is required.
- Guaranteed access for new entrants and expanding producers.
- Business and planning certainty for existing producers.
- A proposal for a fourth coal terminal at Kooragang Island.

The Hunter Coal Agreement consolidates the benefit of enormous investment by the industry to expand port capacity.

Earlier this month PWCS announced approval for a \$670 million expansion of the Kooragang Island terminal. The project will add another 20 million tonnes to its nameplate capacity, which was lifted from 102 to 113 million tonnes per annum in late 2009. Over the past 12 years PWCS reports that it has spent more than \$1.6 billion on coal loading infrastructure.

And just down the road from PWCS, on Kooragang Island, the new third coal loader, being built by Newcastle Coal Infrastructure Group, is taking shape (as these next few slides show).

The first stage of the project, with a capacity of 30 million tonnes, will load its first shipment of coal in April this year. NCIG has development approval for construction of 66 million tonnes of capacity on the site.

The shiploading facilities are being built to the west of the existing Kooragang shiploaders, with the new stockyards and rail facilities to the south-west of the Kooragang Coal Terminal. The Hunter River will also be deepened to allow ships to reach the planned berths to the west of the Kooragang loader.

This is a very exciting expansion phase for the Hunter coal industry, and it will deliver real benefits to NSW. The new Ports Minister, Paul McLeay, estimates that the combination of the Hunter coal agreement and the capacity expansion will boost coal export revenue by \$6.5 billion per year by 2016, deliver up to 25,000 jobs in the Hunter over the next six years; and generate an additional \$500 million in royalties per year.

Conscious of the fact that David Marchant, the Chief Executive of ARTC is the first speaker on after lunch, I am not going to cover the issue of rail expansion in any great detail. For one, I am certain David knows the story in far greater detail than I, and secondly, given David's fearsome reputation, I am very reluctant to steal his thunder!

What I would like to do in this forum however, is to acknowledge the significant contribution that ARTC has made to the Hunter coal chain since it commenced a 60-year lease of the rail network in September of 2004.

As David will cover, there is a comprehensive plan to deliver rail capacity to match the port expansions and the industry's growth aspirations over the next several years, which is captured in the Hunter Valley Corridor Capacity strategy.

On the investment side, one of the very first announcements as part of the Federal Government's stimulus package was directed to the Hunter Valley Coal Chain.

Totalling \$1 billion, in the form of an equity injection, the investment provided ARTC with the funding certainty to proceed with its own investment and ensure the on-time delivery of four critical projects to the expansion of the network.

The aim of the ARTC program is to double rail capacity to 200 million tonnes by 2012.

The capacity expansion will be underpinned by access arrangements. The industry is working with the ARTC on a new Undertaking which will compliment the certainty which has been achieved through the port reforms. Among a number of significant changes, the Undertaking proposes that producers will contract capacity direct with ARTC, as opposed to the existing system where access is contracted with the haulage provider. Long term take or pay arrangements will help to provide the certainty producers crave, mirroring that which now exists with port access. We look forward to that piece of work being finalised and the benefits it will add to the performance of the coal chain as a whole.

Above rail, the issue of adequate rolling stock has been the subject of some significant developments, with Xstrata recently announcing that it would introduce three of its own trains to move a proportion of its coal from 2011. It will be the first time that a producer has made this type of direct investment and demonstrates the industry's commitment to invest in supply chain certainty.

The establishment of the Hunter Valley Coal Chain Logistics Team and its recent evolution into the new Hunter Valley Coal Chain Coordinator has been an incredibly important development in improving the productivity of the system.

Prior to 2003 there was no central planning and coordination process for the movement of coal through the Hunter Valley Coal Chain. Instead, planning was undertaken by each individual service provider in virtual silos.

The net result of this situation was inefficient planning and scheduling of coal through the Chain; a lack of coordinated, planned maintenance activities; excessive levels of cancellations; and the need for each organization to continuously revise its plans.

In early 2003 an Industry Review Team recommended that a centralised Coal Chain planning function could potentially deliver enormous productivity gains to the Coal Industry through better coordination.

The Hunter Valley Coal Chain Planning Group was initially established as a trial in 2003. It quickly demonstrated that centralised planning of coal chain activities could realize greater efficiency for Coal Chain capacity.

The arrangements (trials successfully through the Planning Group) were formalized with governance arrangements under a Memorandum of Understanding in July 2005, thereby establishing the Hunter Valley Coal Chain Logistics Team (HVCCLT).

Membership of the HVCCLT then included all organisations responsible for the transport of coal from the Hunter Valley mines to the port and onto ships for export, including PWCS, Pacific National and QR National as the train operators, ARTC as the track owner and Newcastle Port Corporation which manages all vessel movements in the Port of Newcastle.

Under the MOU, the Logistics Team represented a cooperative organisation responsible for planning all coal exports for the Hunter Valley coal industry. It was the first cooperative model of its kind in Australia; implemented to maximise export opportunities through a coordinated approach to planning. Membership was open to any existing and future Service Providers of transport and port infrastructure in the Coal Chain.

The Logistics Team had two broad planning objectives: day-to-day planning and scheduling plus long term capacity planning.

Whilst including a combination of Federal, State and privately owned organisations operating individual components of the Coal Chain, the Logistics Team provided a single point of coordination for all planning decisions and demonstrated real benefits.

Last year, as part of the industry's major reform of the contractual arrangements for the movement of coal, it became evident that the Logistics team needed to evolve further from a cooperative of service providers to a body with legal status.

This entity needed to be more representative of the coal industry; in particular it needed representation from Coal Producers as well as Service Providers. As a separate legal entity it would be better placed to more effectively meet its obligations in this new contractual environment.

On 27 August 2009 the Hunter Valley Coal Chain Coordinator Limited (HVCCC) was incorporated. The membership of the HVCCC includes all current Hunter Valley Coal Chain Producers as well as Service Providers.

The HVCCC Board appointed an independent Chairman and CEO. As a separate legal entity, staff previously seconded from the various Service Provider organisations were offered permanent roles as employees of HVCCC.

The HVCCC's mission is to plan and co-ordinate the co-operative daily operation and long term capacity alignment of the Hunter Valley Coal Chain. Under its new structure, HVCCC plays a pivotal role in the determination of contractible system capacity and assumptions; the measurement of actual performance against system assumptions and allocation of system losses; and the use of contractual entitlement and administration of transfers of entitlement between parties.

It seems that in the HVCCC, the industry now has an entity with the perspective and the authority to drive system efficiency in a way that was previously confined to dreams.

Now that the reform story of the Hunter Coal Chain is reaching its concluding chapters, it is one of which both industry and Government can be very proud.

It has been incredibly difficult - as you would expect with around 20 coal producers, service providers and other stakeholders involved, without any one in charge!

But despite the challenges over the past 5-6 years, the Hunter Valley Coal Chain provides a model for critical export infrastructure reform.

There are three main things which stand out for me from this reform experience.

The first is that there must be someone with the task of bringing the diverse interests of multiple players together. In this case, a central body with the perspective and authority to plan and co-ordinate the co-operative daily operation and long term capacity alignment of the supply chain.

The second thing is that there must be alignment, both of the supply chain's physical capacity and the Agreements which underpin its operation. This alignment must ensure that the throughput of the supply chain takes precedence over the diverse interests of the contributing businesses.

Third and finally, that there is a critical role for Government, both as the regulator and as the owner of infrastructure.

Where there is a case of demonstrated market failure, as occurred in the Hunter supply chain, Government must retain the capacity to intervene and to drive reform. Without such authority, the prospect of effective action will always be limited by the capacity of the participants to set aside their particular interests for the common good.

The increasing cost of doing business in NSW is a challenge I confront on behalf of my members every day.

But it is dwarfed by the cost of infrastructure constraints over the past five to six years, in the form of foregone revenue and demurrage.

With a potential doubling of coal exports over the next decade, the cost of failing to address the problem is potentially far greater.

I believe the reform of the past two years puts the industry in a better position than ever before to meet the challenge.

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