newportconsulting

Mining Business Outlook

Green shoots in a cold market

2015-16 REPORT

Canvassing the views of Australian mining leaders on:

- Economic outlook
- Prices
- Employment
- Mine closures and reduced exploration
- Capex spending and investment
- Productivity
- Advice to Canberra

Contents

While there are glimpses of optimism, leaders are still exercising great caution in managing their operations. Miners are reducing Capex. Few are hiring.

Introduction:

David Hand

MD
Newport
Consulting

This year's *Mining Business Outlook Report* shows flickers of life in the sector as miners steadily adjust to low commodity prices.

Last year we reported a five-year low in mining sector confidence. This year miners are slightly more confident about growth and stabilising prices over the next 12 months. This has given the sector a slight boost and a basis to plan for the next three years following the confidence slumps of the last few years.

While there are glimpses of optimism, leaders are still exercising great caution in managing their operations. Miners are reducing Capex at a higher rate than previously and a majority of companies have been making large-scale job redundancies. Few are hiring.

Leaders show signs of accepting market conditions by recalibrating, and refocusing on their internal operations. Some are taking drastic measures, which we predict will continue for the next 12 months. Cutting costs on a large scale, reducing expenditure, closing mines, cancelling expansions and projects, and cutting jobs has been common in the drive to remain profitable, with companies waging war against the tough economics of doing business in Australia.

Miners are renegotiating their take or pay contracts, which will have a contracting impact of more mine closures and a fall in revenue and profitability for the rail, port and shipping companies as the mining downturn continues to bite.

The industry wants to remain competitive on a global stage and fight back. We interviewed Michael Roche, CEO of Queensland Resources Council, this year for his insights on the sector's state of play. He describes the pain experienced by the Queensland resources sector and the tough approach that companies have taken through major cost-cutting and efficiency programmes to remain competitive.

Mr Peter Harris, Chairman of the Productivity Commission, also shared his insights on the state of productivity in Australia. He comments on how many companies confuse productivity with cost-cutting, evident in the resources sector. When it comes to real productivity and effectiveness, there are still many questions around 'how'. Productivity still represents untapped potential for many miners.

Stephen Galilee, CEO of the NSW Resources Council, is championing the cause of regional towns that depend on mining for their prosperity. While the NSW government's move to emphasise environmental factors over economic ones plays well in central Sydney, economic factors are much more than corporate profits. The multinational operators can and are moving new projects overseas. 'Economic factors' also mean unemployment, business failure, falling property values and falling populations in regional towns that depend on mining for their livelihood.

This year the message from the sector is simple: we are fighting back to remain competitive. The report concludes with advice to the federal government: take bold steps by reforming industrial relations. The sector is doing all it can and needs government to play their part to make the difference required.

We hope you find the report both compelling and insightful, and we welcome your feedback.

David Hand
Managing Director
Newport Consulting

This year the message from the sector is simple: we are fighting back to remain competitive.

Key insights

This year's *Mining Business Outlook Report* shows a slight revival in the overall mood in the mining sector.

The purpose of our *Mining Business Outlook Report* is to check the pulse of the industry first-hand, by speaking with mining leaders on their outlook, challenges and opportunities, and views on government policy. This year's *Mining Business Outlook Report* shows a slight revival in the overall mood in the mining sector.

Last year, mining leaders were concerned by uncontrollable market conditions such as low commodity prices, changes in demand, escalating costs, a tough regulatory environment, and a changing competitive landscape. This year, leaders continue to get serious about their business operations and focus on remaining competitive through whatever it takes in order to bounce back to their former glories.

From our interviews with more than 50 mining leaders, we see flickers of life and hope for the sector in the next 12 months. Here are the take-away messages:

- **Miners are making the changes needed to survive.**

  For the first time in three years, leaders are marginally more optimistic about their future prospects because prices show signs of stabilising and high cost mines are closing.

- **Miners continue to exercise caution in the management of their operations.**

  A sizeable 78 per cent will reduce Capex this year, almost double the number last year, while 80 per cent will reduce headcount. Again, this is a marked increase over last year.

- **New take or pay contracts may close more mines**

  The renegotiating of the take or pay contracts with rail and port operations in the coal regions of New South Wales and Queensland is likely to result in reduced volumes for the rail and port operators and more mine closures.

- **Leaders more confident with prices stabilising over the next 12 months.**

  One in two mining leaders share the view that prices will stabilise following a protracted levelling-out of the market. At the same time, miners' operations recognise the possibility that prices may plunge again.

- **Productivity keeps leaders awake yet remains an untapped potential for miners.**

  With more mines having come on line after investments made over the years, now is the time to drive productivity through better operational and managerial models, a better workplace culture, and other initiatives that boil down to working smarter and not harder.

- **Industry calls for the government to act quickly on implementing industrial relations reform.**

  Miners have taken on many of the infrastructure investments they hoped to receive from government over the last few years. It now remains for government to play their part through reforming industrial relations law and the unions.

> Miners have been operating some mines because of the take or pay contracts with rail and ports. As they are renegotiated, volumes will fall and mines will close.

The Outlook

This year's *Mining Business Outlook Report* suggests confidence has shifted marginally in the right direction.

MINERS SHOW A FLICKER OF HOPE

Of the mining leaders interviewed, 16 per cent were cautiously optimistic about their growth prospects for the next 12 months – up more than double from last year. Leaders showing no signs at all of optimism dropped from 93 to 84 per cent.

From examining the data that we have collected over the last six years (figure 1.1), we note a distinct bounceback in confidence for the first time in three years, albeit from a low base.

While overall confidence is nowhere near the levels demonstrated in the first three years of the Mining Business Outlook, it appears to have marginally shifted in the right direction.

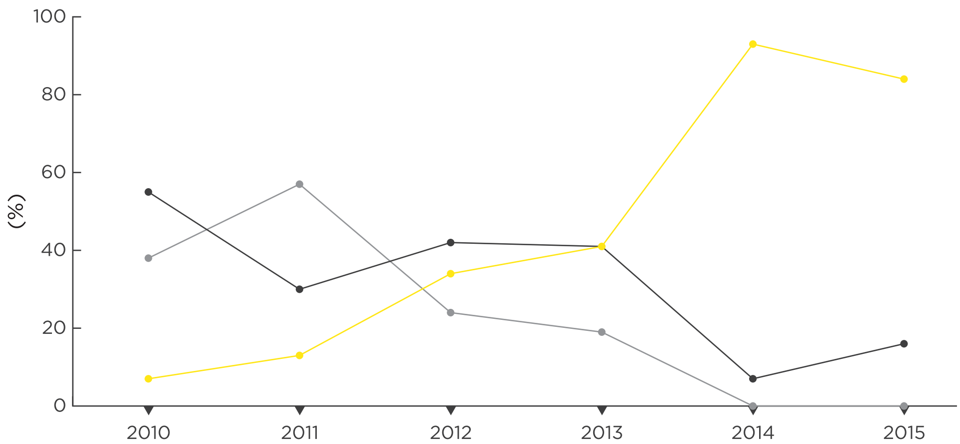
BUT MINERS STILL NOT INVESTING

Despite a slight shift in confidence, miners are not committed to increased spending or investment over the next 12 months. An overwhelming 78 per cent of leaders reported a reduction in Capex spend – up from 44 per cent last year. This year has seen the most pronounced Capex reduction in our five years of reporting.

> In our Australian businesses we see opportunities to continue to reduce costs and bring online our other mine, as we see the prices begin to show signs of stabilising.
>
> › General Manager, $12 Billion Mixed Metal Mining Company

Figure 1.1

Leaders on their future prospects



Not optimistic · Cautiously optimistic · Very optimistic

per cent are **optimistic** about their growth prospects

per cent are **not optimistic** about their growth prospects

Only 16 per cent are increasing spend over the next 12 months. In 2013, 81 per cent of mining leaders we spoke to were either moderately or significantly increasing spend. This stark difference suggests that even if there are signs of a possible recovery, it is early stages and will be slow.

Further, of those few who are spending, only 10 per cent are investing in new developments and projects and 29 per cent in existing Capex projects. Automation has been a strong topic over the last 12 months, including how this will impact future development projects. It will be a long time before we see the higher levels of Capex expenditure witnessed in the earlier years of Mining Business Outlook.

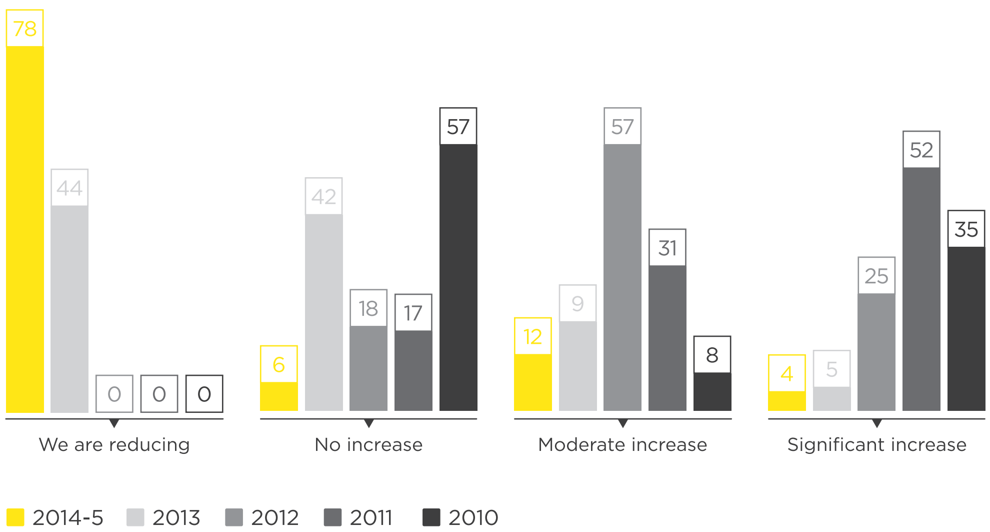
MINING JOBS CONTINUE TO GO

Job retrenchments continue to rise in the mining sector, for the third consecutive year. Data from the Australian Bureau of Statistics echoes the sentiment we are receiving firsthand from leaders. The ABS reports that between May 2012 and December 2014, the mining job net attrition was 38,000, with the total number of jobs in the sector at 237,000 last December.

This year, 80 per cent of leaders plan to reduce headcount – up from 50 per cent last year. As few as 4 per cent reported no change. By contrast, in 2012, one-fifth of the companies interviewed had high job vacancy

> No Capex is being approved. As a new business we are seeking to reduce our back-office costs. We will become lean and mean while supporting essential Capex spend in production.
>
> › President, $34 Billion Mining Company

Figure 1.2
Will you increase spending and investment %



The Outlook continued

rates and were struggling to find people with the right skills for the jobs available. Our data suggests that the employment outlook for miners isn't showing any recovery and may get worse before it gets better.

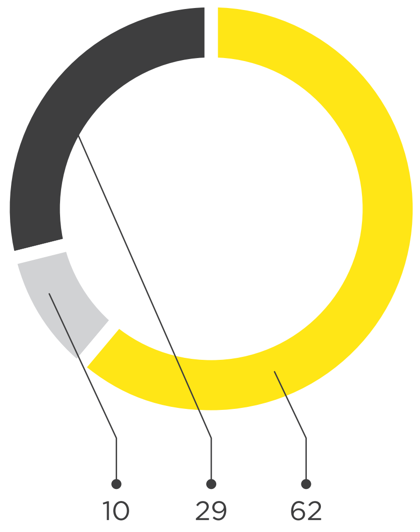
In the past, mining leaders have spoken to us at length about their recruitment challenges and strategies. It was only as recently as last year that miners were challenged by finding competent staff and engaging employees effectively as part of their overall strategies. Recruitment didn't feature at all in our interviews with mining leaders this year. The proof is in the data, with such a large percentage of leaders reducing staff, whereas last year there were still hints of leaders focused on improving the experience and competency of their workforce.

PRICES STARTING TO STABILISE

Another driving factor of a revival in confidence is optimism that commodity prices are stabilising. One in two mining leaders share the view that prices will stabilise over the next 12 months. Less than one in four leaders see prices increasing and around the same see prices further decreasing.

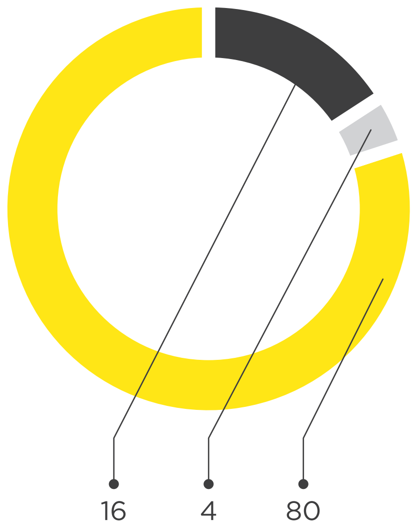
> We see a pickup in the pricing of copper and we are more confident than we were last year. The market has stabilised, or at least is close to becoming stable. We will continue to work on making our operations more productive per employee over the next 12 months
>
> › Managing Director, Copper Miner

Figure 1.3
Allocation of spending and investment %



- Not Specified
- New development
- Existing Development

Figure 1.4
12 month employment outlook %



- Not specified
- No change
- Reducing

In June this year, the markets recorded a slight revival in prices across the board after having fallen continually for months until then. Iron ore remains volatile. It hit a four-month high in June after experiencing all-time lows in April before falling again.

Similarly, gold and coal have seen a slight bounceback owing to positive shifts in emerging markets. This coincides with reports showing an increase in exports over the last six to nine months.

There are signs that the sector is recovering from falling commodity prices and is finally experiencing a levelling out.

Despite this, external conditions such as volatile and low commodity prices still worry leaders. This issue continues to be seen as a challenge that miners must be prepared for in case they start to fall again, given their volatile nature.

When asked how they would respond to the flat market conditions and lower prices, close to 50 per cent cited a focus on cost control and management. This is evident in the high number of headcount reductions being experienced in the sector. Other strategies included an increase in efficiency (18 per cent) and a stronger focus on the customer (12 per cent). Very few leaders said they were focusing on expansion or reduction in production.

> We have very tight controls that have been instituted on spending and Capex. We are negotiating with clients on their take or pay arrangements.
>
> › Executive Vice President, $4 Billion Coal Company

Figure 1.5
12 month price outlook %

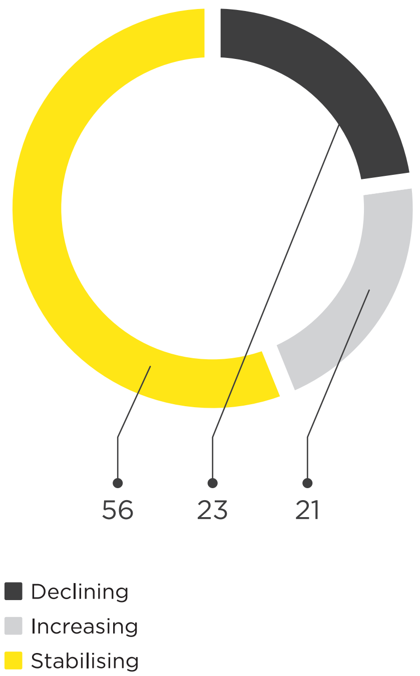
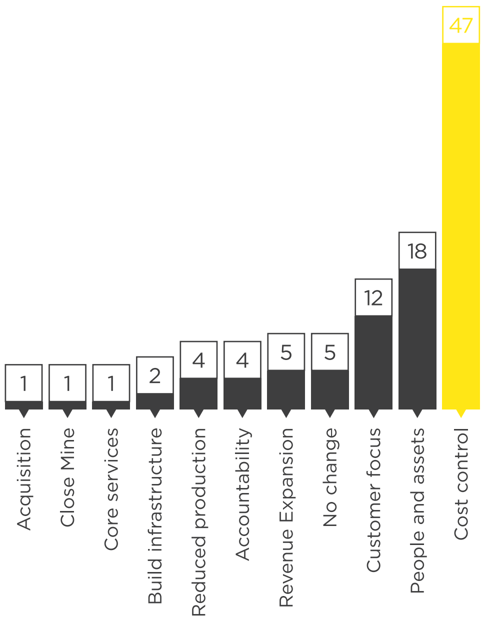


Figure 1.6
Response to business conditions %



Interview:

Michael Roche

CEO
Queensland Resources Council

Provides his insights into the state of play of Queensland's resources sector in this year's Mining Business Outlook.

As the Chief Executive of one of the industry's peak organisations, what is your outlook for the mining sector and supporting industries for the next three to five years in Queensland and Australia?

The outlook for most minerals and energy exports is subdued as a result of global over-supply in key commodities. That said, the industries in Queensland transitioning from investment to production are very different to what they were a decade ago. They are more efficient, more robust and in the case of coal seam gas in Queensland, embarking on a brand new era of economic contribution to the state and the nation.

You have been quoted recently saying that, "while the world sets our prices, we set our costs." A recent QRC report on the state of the sector in Queensland found that the state's resources sector is regaining its global competitiveness by focusing on cost control, management and efficiency programmes. Can you elaborate on this?

I must give credit where it's due and thank a BHP Billiton executive for that observation, but there is no doubt that the resources sector in Queensland has a continuing focus on winding back costs to reflect price outlooks and to remain globally competitive.

An April 2015 survey of QRC member CEOs confirmed that the pain of industry cost-cutting has delivered results, with 43 per cent of Queensland's mining operations now in the lowest production cost quartile. A year ago, that lowest cost quartile contained just 19 percent of Queensland mining operations.

Unfortunately, the same survey showed that operations in the third and fourth quartile have increased from 19 to 28 percent, placing them at risk.

For oil and gas, the story is more positive. Compared with a year ago, Queensland now has 20 per cent of operations in the lowest cost quartile and 60 per cent in the bottom two quartiles. The industry is yet to return to the situation in 2008, when all Queensland operations were in the bottom two quartiles. However, as the LNG projects move out of construction and into operations, there are signs that these operations will move down the global cost curve.

With one in every four dollars of Queensland's economy being derived from the resources sector, what do resource companies need to focus on in the future to continue contributing to the state and national economy?

The priority for QRC members is maintaining their global competitiveness. Our industries are price takers, not price makers, and with the industrialisation of Asia more subdued but not abandoned, there are many more potential competitors for Queensland active in the marketplace.

Do you see any confidence returning to the sector in the next 12 to 24 months? If so, what are the key indicators? And what conditions would need to prevail for postponed projects to be restarted?

Better prices always get the most attention, but the other filip for Queensland producers would be a fall in the value of the Australian dollar against the greenback. Unfortunately, that's another factor over which we have no control. Domestically, confidence would be boosted by clear commitments from governments to take advantage of the current downturn and prepare to take advantage of the inevitable rebound in demand for minerals and energy.

> The priority for QRC members is maintaining their global competitiveness.

Historically, governments have invested in industry development infrastructure, and that's something we think should be revived. Particularly in the context of opening up new provinces such as the Galilee Basin, and helping the North West Mineral Province centred on Mount Isa reach its full potential.

What are some of the biggest challenges the sector will continue to face over the next two to three years? What are the opportunities?

Aside from global competitiveness, also important at home is maintaining the bipartisan political support that our industries have earned over many decades. Despite the fact that minerals and energy are essential pillars of modern society, some people are detaching from that reality. Australians must be reminded that their standard of living is tied to the fortunes of export sectors like resources. Some people scoffed at the notion of the biggest mining town in Queensland being Brisbane, but it doesn't take long for them to appreciate the reality that in 2013-14 alone, 17,000 Queensland businesses were supported by resources sector spending on goods and services.

What do you think the state government and federal government should focus on to support the sector in the future?

Investments supporting long-term industry development should be a focus of all governments so we can position ourselves to take advantage of the next upswing in resources demand. Asia has not abandoned its economic aspirations, and a more realistic supply-demand balance for essential minerals and energy resources will be restored.

At the state level, it's been a harsh lesson for many in government that, at a time when some minerals and energy producers are losing money, key service providers such as rail, port, water and power are still earning good returns on the back of take or pay contracts.

Mines pay for contracted capacity regardless of whether it is used. In this environment, cash losses would typically need to be greater than the take or pay cost commitments before a mine opted to shut the operation down and incur the full liability and all other associated costs.

Similarly, while low global oil prices have provided a welcome cost relief for many miners and explorers, the media has gleefully reported the impact that these prices have had on the LNG export industry, where the sale price is indexed to oil.

The Queensland Government has plenty of skin in this game, and with their royalties set against sale prices, every fall in commodity prices drags down royalty revenues.

Aside from global competitiveness, also important at home is maintaining the bipartisan political support that our industries have earned over many decades.

The Challenges

Productivity is the biggest challenge for one in three mining leaders – up significantly from the previous two years.

PRODUCTIVITY KEEPS MINING LEADERS AWAKE

Competitiveness (17 per cent), regulations, tax and unions (14 per cent) and volatile commodity prices (14 per cent) followed.

Productivity has featured in every *Mining Business Outlook Report* and it always makes an appearance on the agenda. Companies need to be more efficient in their operations; however, outside cost-cutting measures, achieving improved productivity continues to be a challenge. Some players have reported higher utilisation rates in their operations through better maintenance efficiencies and increased equipment use.

We discuss this in more detail in the next section of the report.

REMAINING COMPETITIVE

For the first time in the history of the Mining Business Outlook Report, the industry has spoken at length on competitiveness. Remaining competitive is clearly perceived as a challenge. Yes, the industry has moved on and accepted market conditions that they cannot control – namely prices and demand. This year, leaders shift their focus from the what and towards the how of productivity improvements. Michael Roche talks about drastic measures some companies have taken to do this – large-scale cost cutting and efficiency programmes with some wonderful results. Miners are showing a growing appetite for turning things around and are largely looking internally to do this.

COMMODITY PRICES AND REGULATIONS SLIDE ON THE SCALE

Falling commodity prices were a key concern for 27 per cent of leaders interviewed last year. While this year it is only a concern for 14 per cent of leaders interviewed. Like last year, commodity prices are dominating this report, but this time for good reason – they are stabilising and easing the pressure. Prices are still on the radar given their volatile nature; however, it is not the prime concerning factor for leaders.

It is also interesting to note that the regulatory framework has also fallen in importance in terms of challenges. It is clear that last year, with the new Federal government newly appointed, more eyes were on the government to see what the impact would be. A degree of nervousness and uncertainty accompanied this watching game.

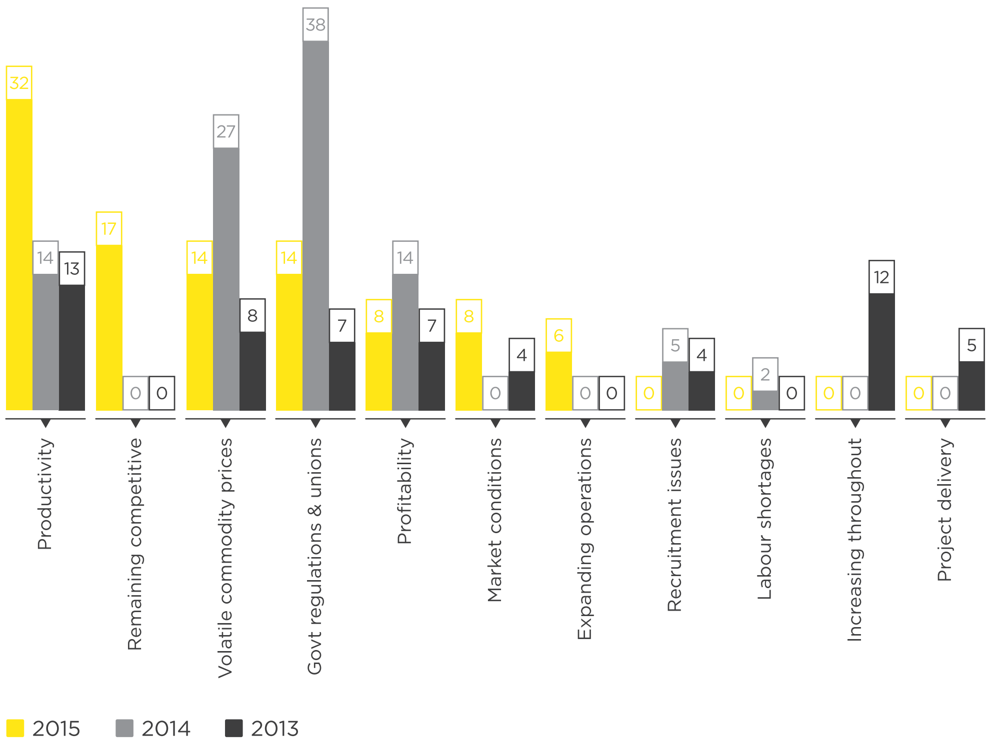
WHAT'S MISSING?

Labour shortages, recruitment and retention, increasing throughput and delivering projects on time and to budget are all missing from this year's list of challenges keeping leaders awake.

This demonstrates the shifting focus of miners. They are reconciled to low commodity prices in the medium term and are focused on measures needed to survive in today's difficult conditions.

> This year, leaders shift their focus from the what and towards the how of productivity improvements.

Figure 2
Key Challenges %



Exploration has slowed dramatically. This will result in major issues as new developments will be late coming on line or never developed. We need to substantially increase our levels of productivity per employee.

› CEO, Major Mining Services Company

Business Strategies

Companies are largely looking at their internal operations in response to these challenges for survival.

PRODUCTIVITY: NOW OR NEVER

A focus on productivity will help miners extract more value from their existing assets over the next 12 months. However, improved productivity is something that the sector continues to struggle with. Many have mistakenly equated better operations with cost cutting, evident in the number of retrenchments made over the last two years.

Yet productivity improvements should mean looking at the bigger operational excellence picture. The time to act is now, as operational excellence is key to remaining competitive and therefore crucial for survival.

Miners need to strengthen their operational performance by not only reducing costs, but also improving their operating and capital productivity, helping them mitigate some of the impact of lower commodity prices.

CUTTING COSTS RULE SUPREME

In the past, miners were more forthcoming with their views on the government's role in helping turn the sector's performance around. This year, many are cutting costs as a key strategy. Others are making significant headcount reductions and further cutting back on Capex. Some are advancing their cost reduction efforts with significant falls in net income and year-on-year bookings.

The results of significant cost-cutting measures are starting to emerge, with more efficient and more robust businesses as a result. As Michael Roche, CEO, Queensland Resources Council, has said, (read our interview on page 08) many miners have reduced their production costs to put them in the lowest quartile. However, 28 per cent remain in the higher production cost quartiles.

Such large-scale cutbacks, however, are hurting other areas of the economy. The Reserve Bank of Australia reported earlier this year the heightened risk of some of Australia's mining services companies defaulting on their debt because of lost contracts and fewer orders.

> We will maintain controls on spending, Capex is at a minimum and we have made redundant thousands of people. We don't believe we can cut more. If the market does not improve, we will close mines and put them on a care and maintenance regime.
>
> › Executive Vice President, $1 Billion Coal Miner

CUSTOMER IS KING FOR MINERS TOO!

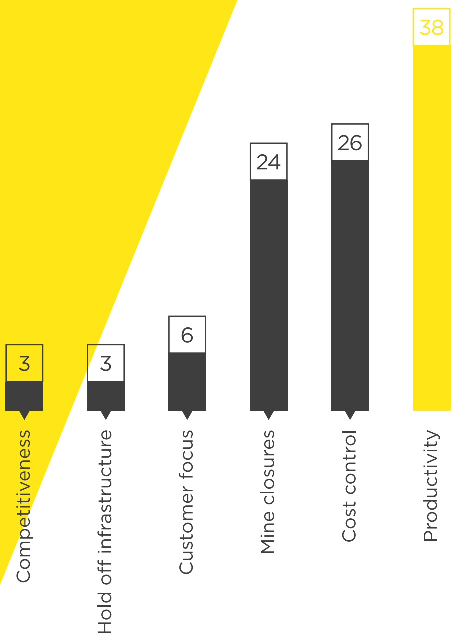
Customer-centricity is prominent in many sectors. Encouragingly, this year we are seeing miners talking about providing greater customer service as part of their survival strategy and as a way of the future.

It is the first time in the history of the Mining Business Outlook that we have seen customers mentioned so frequently.

In the past, the focus in relation to customers was largely on getting more coal on the belt to meet orders and demand. Clearly, there is now broader recognition that a more proactive and responsive approach to customer service is part of survival, and an opportunity to remain competitive and continue to stay open for business.

Figure 3

Response to opportunity or challenge %



Top 3 Strategies

#01 Productivity

#02 Cost-control

#03 Mine Closures

We are excited to make this business more cost-efficient and provide better customer service. We will be making better use of our assets and reducing Capex.

› C-level Executive, $500 Million Utility

Miners need to strengthen their operational performance by not only reducing costs, but also improving their operating and capital productivity.

The Opportunies

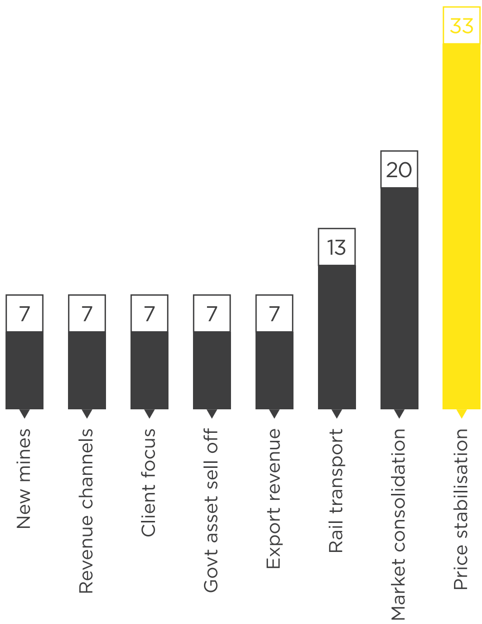
In keeping with tradition, this year's survey also asks leaders about the opportunities for their organisation and sector as a whole.

STABILISING PRICES DELIVER HOPE

Last year the prospect of positive change from a new government was an opportunity. This year, stabilising prices is giving mining leaders the most hope.

Stabilising prices is a running theme throughout this year's report. Last year, commodity prices also dominated the report – but for the wrong reasons. It was causing the sector the most angst and pain. A number of market reports echo the possibility of an upward trend in prices, and this is an opportunity embraced.

Figure 4
Future opportunities facing the sector %



Though there is emerging hope of a recovery in commodity prices, miners are not rushing back into investment and expansion. They are continuing to consolidate and look to stabilising prices to underpin the industry's immediate future in these difficult times.

CONSOLIDATION IS AN OPPORTUNITY

We have seen over the last 12 months miners starting to reduce the number of mines actually operating and drive throughput more efficiently and effectively in the ongoing operations. Close to a quarter

> We see this time as an opportunity to consolidate and we are looking at doing so. While the gold price holds up, we will make a good margin.
>
> › C-level Executive,
> $1.5 Billion Copper & Coal Miner

of the leaders interviewed saw consolidation of operations as the way forward, ahead of improved infrastructure and new mines.

Mine closures across the country have delivered both positive and negative outcomes. On a positive note, it has helped improve the financial performance of the mining company and has helped keep companies in business. It has been necessary for many miners as part of their survival.

On the other hand, the ripple effect of mine closures has been felt everywhere as Stephen Galilee, CEO NSW Mining, discusses in his interview (see page 26).

It has accelerated job losses and, more particularly, placed enormous economic stress on the regional towns where they have been based.

Mine closures have impacted the community widely, from local business owners, to property developers and families. It has led to higher levels of unemployment, business failure, falling property values and falling populations in regional towns that depend on mining for their livelihood.

Our immediate opportunity is doubling output at one of our mines. However if the price does not improve we will need to consider reducing production in the less profitable mines.

› CEO, Major Coal Mining Company

The productivity imperative

Productivity comes up frequently in our Mining Business Outlook reporting.

MINING LEADERS PUZZLED BY PRODUCTIVITY

Each year it is acknowledged as key for competitiveness and stronger business performance, but it is the ‘how’ not the ‘what’ that puzzles the sector.

Given the importance of the subject, we invited Mr Peter Harris, Chairman of the Productivity Commission, to contribute his thoughts. You can see his full interview in the pages to follow.

The major misunderstanding across all industries regarding productivity is that it is often seen as reducing costs rather than making investments work better. Though cost reduction has a major positive impact on profitability, it is often associated with a reduction in associated output. An airline that closes an unprofitable route becomes more profitable but flies less. The productivity answer in such a scenario is to improve loadings and have more passengers per flight. If an airline reduces flights and transfers passengers onto its other flights, it is more productive. But if those passengers go to a competitor, the airline has reduced costs and improved profit, but it is not more productive.

Similarly, in the mining sector the critical success factor is reducing cost per tonne or cost per ounce. Miners are closing high cost per tonne or ounce mines, and focusing on operating their lower cost per tonne or ounce mines more effectively. As the industry renegotiates take or pay contracts with rail ports and shipping companies, we may well see a continuation of high-cost mines going onto care and maintenance cycles until commodity prices improve.

In an era of lower volume demand from customers, the answer for the mining industry is to operate fewer mines at maximum rates of efficiency to return to profitability. A focus on driving up actual production hours improves the productivity of labour, energy and capital invested. Equipment availability is a strong focus, which makes maintenance performance critical in efficient mine operations.

The best operating mines focus on active management at short intervals, managing shifts, maintenance of critical equipment and addressing operating problems that cause production delays.

Costs per tonne or ounce are also affected by the quality of the material and geological conditions encountered. Whatever those conditions may be, managing the operation actively and effectively will put downward pressure on production costs and improve the viability of the mine.

For this reason, the skills of mine managers from the general manager to the front line leaders will be even more critical to gaining and maintaining a low production cost mine. The practices that really work consist of effective operating standards, plans and schedules that reflect those standards, and active management behavioural models, a confidence to face and address variances and operating problems effectively, and a culture of support for the workforce rather than one which blames people for their mistakes.

> “It is both management and unions that need to admit the poor productivity levels, and then work together to improve it.

Our biggest challenge is productivity. You can only cut heads for so long. Productivity needs to be recognised as an essential element of management.

Interview:

Peter Harris

CHAIRMAN
Productivity Commission

Productivity continues to challenge the economy. In this report, Mr Harris provides his views on Australia's productivity imperative.

In more recent years, productivity has been equated to working smarter, but what this means is rarely defined. How would you best define productivity in today's economy?

The worst thing that's been done with productivity as a term is defining it to suit the purpose of other agendas. Years ago, Paul Keating said derisively of a chief minister who claimed a new policy was microeconomic reform that, "I guarantee if you walk into any pet shop in Australia, the resident galah will be talking about microeconomic policy." I feel a bit this way about productivity. Some agendas will simply be about cost-cutting – that is not the same as effectiveness. Productivity is how we optimally combine labour, capital and technology such that sum of the parts is greater than the elements alone. And effectiveness, so described, is productivity to me.

What does the slowdown of the mining sector in recent years mean for the rest of the economy and Australia's overall productivity performance?

Mining as a sector has just gone through an extraordinary period of high returns, encouraging extraordinary investment and, overall, significant improvements in income. But even though the improvement was stronger for longer, it ended as cyclical out-performance usually does. The implications for Australia are yet to be seen in full. Mining investment has yet to see all the returns that it would need to justify the capital involved. The alternative growth sources in the non-traded goods sector and non-mining traded are not making up the difference.

As an industry, how do you think the mining sector's productivity performance has fared over the last few years? What are the top performing sectors?

I don't think it's easy to point out top-performing sectors. Indeed, for most of mining, the story is about productivity recovery following under-performance, because of the lags between the investment and production phase of the mining boom. We have already seen a sharp turnaround in the negative growth rate of multifactor productivity in the mining sector, and we can expect that turnaround to continue. It's likely to take some time.

What are some of the biggest productivity challenges that Australia will continue to face over the next 10 years?

Australia, like a lot of the western world, is seeing an unusual slow-down (or for others, a return to a low growth norm) in productivity. Measured across the full range of factors, not just labour, productivity has turned negative in a way that seems quite counter-intuitive. This trend has potentially serious implications for nations such as ours, where falling participation in the workforce is inevitable due to an ageing population and consequently slower domestic demand growth. One way to offset this is encouraging businesses not to discard older workers, and there are other important steps as well.

> Productivity is how we optimally combine labour, capital and technology such that sum of the parts is greater than the elements alone. And effectiveness, so described, is productivity to me.

You have said that Australia's declining terms of trade are pointing to our need to improve the nation's productivity. Where are the opportunities for productivity gains and efficiency improvements in the Australian economy?

The opportunities lie in addressing the flexibility of resource allocation at the national, state and local planning levels. The solution to a general slow-down in productivity surely lies in a general attack on as many of our inflexibilities as possible, and for a period as persistent as that we applied in the 1990s. Firms and workplaces will address labour productivity as long as they have the incentives to do so. The strongest incentive consistent with a healthy market economy is higher levels of competition. The strongest opportunity is to remove impediments to the free application of new ideas.

The Productivity Commission was asked last year to inquire into Australia's workplace relations framework. What outcomes would you like to see for Australia's future workplace?

Labour markets are different to normal product markets. A refrigerator doesn't alter its performance if the price offered for it falls by 20 per cent. By contrast, the techniques and policies in reform of labour markets are not just a simple application of market principles. That said, the drivers of better performance cannot be ignored. As a nation, we designed an industrial relations system where it was essential to have dispute in order to have progress. It took the better part of a century to remove that driver. The challenge this time is to align the regulatory system, now free of the need for disputes, with a focus on positive opportunities to improve workplace relations.

Much has been said about investment in infrastructure as a path to improved productivity. Is it the silver bullet?

Much as I regret to be the messenger, there is in fact no silver bullet. As I said before, the only guide we have is the last occasion on which we enjoyed a persistent productivity outperformance. The tools – and the reform targets – then were many and diverse. Infrastructure was one. I can recall in particular the investment in a standard-gauge national rail system, and the emphasis on economic analysis in choosing projects for the National Highway System. But they were not alone, and neither were they the biggest factors. The key was the breadth of change pursued persistently for such a period that expectations changed across the economy. Some changes were pursued more joyfully than others, but ultimately most Australian businesses embraced the idea that we could accept low growth or we could seek to make ourselves more open to new ideas and wider competition.

What do you think the governments – state and federal – should focus on to improve Australia's productivity performance in the future?

The key for governments is not to be swayed when regulators or businesses facing competitive threats or new ways of delivering old products or processes tell them to oppose change. Digitisation, for example, is creating new opportunities for business processes and for alternative products. Killing off these ideas because the regulatory telescope is narrowly focused on the problems of last year or last decade, rather than focusing on the broader universe of ideas, is a core problem. Not all new ideas will be of public benefit, but no good ever came out of not being prepared to consider and to learn.

> The solution to a general slow-down in productivity surely lies in a general attack on as many of our inflexibilities as possible, and for a period as persistent as that we applied in the 1990s.

The growth sectors

This year, we also talked to mining leaders about their views on other areas of the economy.

In light of the tougher years more recently experienced by the sector, we were interested to see where leaders see the opportunities for growing the economy.

While mining leaders were very quick to reinforce the need to build a more productive mining and resources sector, they agreed that it is important to develop other sustainable sectors to help maintain our high standard of living.

Leaders agreed that health and aged care is a top growth sector to watch. This is followed by services, transport and education. Leaders also spoke frequently about growth sectors in relation to Asia-Pacific and about the need to re-orient our economy's focus on providing service industries to the region as well as exports, namely agriculture products including dairy, cotton, agrifood and wheat.

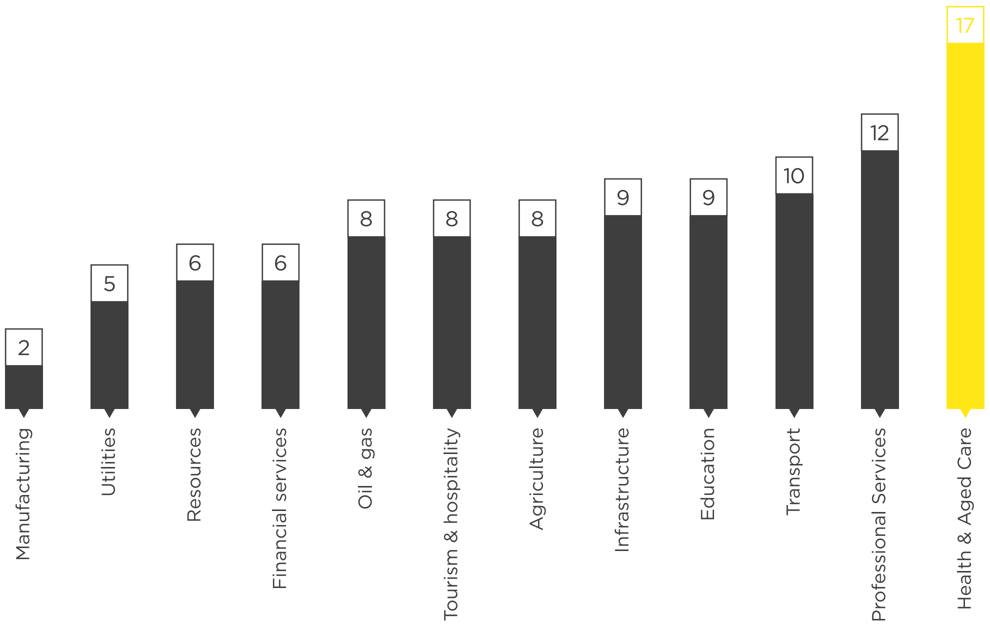
Some miners spoke at length about agricultural businesses and displayed genuine hope for the sector. Some who provide a range of commodities hinted that if resource commodities did not have a future, they would look to move into other sectors needed to feed and supply staples to the world, provided it be a profitable move.

Leaders voiced a genuine desire to see the resources sector substantially increase its productivity and long-term competitiveness, and for other growth sectors to grow through operational excellence and enhanced productivity.

As Peter Harris confirmed during his interview (see page 20), mining investment has yet to see all the returns that it would need to justify the capital involved. In addition, alternative growth sources in the non-traded goods sector and non-mining traded sector are not making up the difference. The productivity imperative is something that all industries need to face.

> Leaders voiced a genuine desire to see the resources sector substantially increase its productivity and long-term competitiveness

Figure 5
Australia's next growth industry *%*



We are wedded to resources given our primary product however we expect a revival in agriculture demand as the needs in Asia Pacific grow.

› General Manager, Major Mining Services Company

Advice to Canberra

For the first time in the five years we have produced the Mining Business Outlook, leaders are reasonably satisfied with the government of the day.

An upswing in business confidence means miners are shouldering more of their own challenges, and casting less blame on the government.

Yet for the industry to capitalise on the glimmers of opportunity that have shown up on the mining horizon, stronger partnerships with the government will remain crucial – as will the government's role in delivering on their promise. The criticisms that remain, then, focus on two main areas – industrial relations law and the unions.

Last year, the sector remained dissatisfied with the new government, with 70 per cent of mining leaders having expected big and fast changes to the sector yet stating that election promises were not being delivered on. The previous year, the industry was looking forward to a change in government after years of dissatisfaction under the Gillard/Rudd governments, and their legislations, such as the Minerals Resources Rent Tax.

While mining leaders have accepted a government that will listen and there is satisfaction in areas that they previously were unhappy with, the message is now very clear: address the burning issues that are not going away.

A majority of the mining leaders interviewed this year called for either more flexible industrial relations laws (53 per cent) or limited union power (47 per cent), to place Australia on a level playing-field with other countries. Missing from the agenda is the strengthening of national infrastructure, which had appears on the advice agenda for the last couple of years.

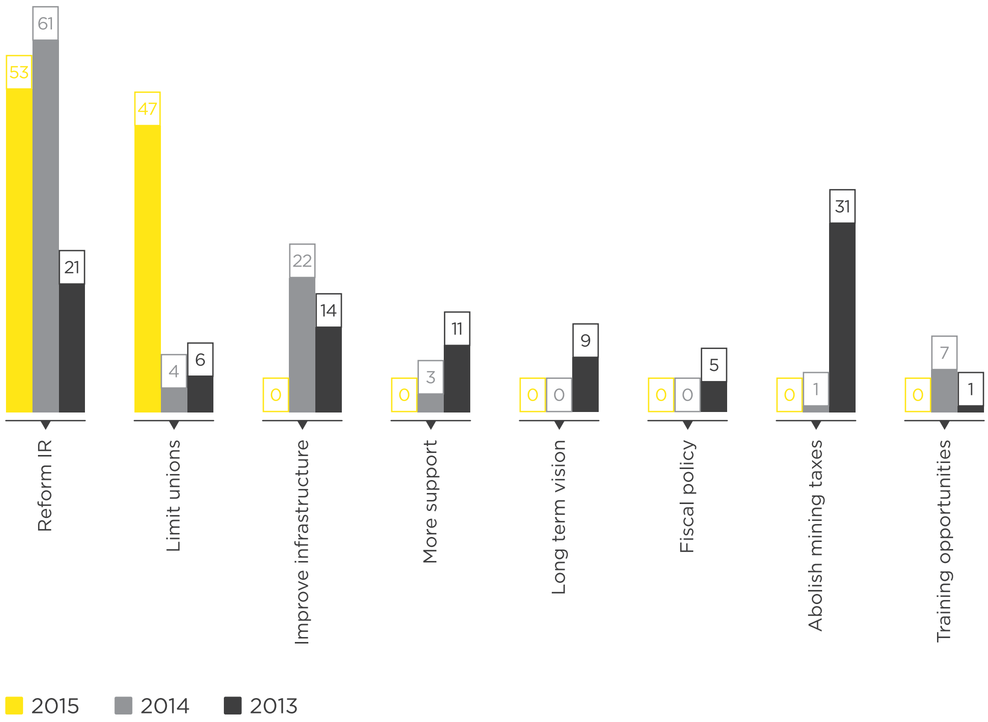
The miners have come out of an era where skilled labour was scarce and promotions were rapid, causing a diluting of skill and experience at every level. Pay levels rose to among the highest in the Australian economy during the commodities boom. In today's difficult conditions, miners are looking for flexibility and cooperation from their workforce because of their major impact on production costs. Failure to do so will keep mines in the high production cost zone and bring about more mine closures as unprofitable mines cease production. This is an issue Unions should take note of. Being inflexible and stubborn in EBA negotiations in defence of their members' pay and conditions may well bring about the loss of those members' jobs.

It is very clear, this year the leaders want to see noticeable change to industrial relations laws and to the unions.

"Union officials should work to the same governance and legal regulations as company directors. Industrial relations laws need re-vamping to allow companies to communicate with their employees without union interference.

› Executive Vice President, $4 Billion Transport Business

Figure 6
Advice for Canberra %



"The wages and conditions in Australia are the highest of all our global operations, while Australia's productivity levels are among the lowest. It is a situation brought on companies by the industrial relations system, which most see as being unfair and strongly biased in favour of the unions."

› Managing Director, $2 Billion Copper Miner

Interview:

Stephen Galilee

CEO
NSW Minerals Council

In this exclusive interview, we hear first-hand the challenges and opportunities for the resources sector in New South Wales.

As the Chief Executive of one of the industry's peak organisations, what is your outlook for the mining sector and supporting industries for the next three to five years in New South Wales and Australia?

The mining industry has a strong future in NSW. We have excellent coal, gold, copper and other minerals mining operations that are among the world's best.

NSW is a significant gold producing state, with most production coming from major operations near Orange, Parkes and West Wyalong in the state's central west. In 2013/14 NSW produced over 938,000 ounces of gold, valued at $1.45 billion – accounting for 12 per cent of Australia's gold production. NSW is expected to account for an expanding share of Australia's gold future production due to the development of several large scale gold mines and the expansion of existing mines.

NSW also has major copper mines around Orange, Parkes, Cobar and West Wyalong. The outlook for copper is positive over the medium term, due to strong growth in demand from developed economies.

Ongoing export demand and the emergence of new markets indicate solid long-term prospects for our state's coal sector. On the ground that means much needed jobs and investment for our local mining communities and a strong NSW economy.

Coal extraction contributes around 80 percent of total NSW mining activity. Despite the temporary fall in coal price, demand for NSW coal remains strong and exports to key Asian markets have increased by around 5% or more annually over recent years, strengthened by emerging international markets like India.

The most recent forecasts from the International Energy Agency predict global electricity demand will almost double between 2009 and 2040 as more people gain access to electricity and household energy consumption grows in the developing world. The IEA believes coal will meet more of this increase in global energy demand than oil or gas over the next five years, and will still provide around a quarter of world energy by 2040

You have been quoted recently saying that, "(Changing state planning rules) will put at risk thousands of current and potential jobs, particularly in regional mining communities where unemployment is often well above the state average". Can you elaborate on this? Which regional centres in New South Wales are in your view most vulnerable to the negative economic outlook facing the resources sector?

The NSW Government's proposal to remove economic considerations from the assessment of important mining projects will cost jobs and hurt regional mining communities here in NSW.

The proposal by the NSW Planning minister to change the mining State Environmental Planning Policy (SEPP) will remove a critical component designed to protect jobs. The measure within Part 3 was introduced to ensure an appropriate balance of economic, environmental and community factors during the assessment process for new mining projects.

There are thousands of mining jobs hanging in the balance right across NSW, caught up in the broken state planning system. In particular there are 1,800 workers and their families in the Hunter Valley with their livelihoods on the line thanks to uncertainty around planning approvals for local mining projects.

"There are thousands of mining jobs hanging in the balance right across NSW, caught up in the broken state planning system.

Unemployment in the Hunter is currently over 11 per cent, or twice the NSW average, and nearly four times the unemployment rate of the North Shore of Sydney. Many Hunter communities are suffering badly from a hard economic downturn that feels like a regional recession. However, instead of making decisions that protect jobs and support one of the largest employment drivers in the region – mining – the NSW government wants to move the goal posts on NSW planning laws, putting thousands of Hunter jobs at risk.

Do you see any confidence returning to the sector in the next 12 to 24 months? If so, what are the key indicators? And what conditions would need to prevail for postponed projects to be restarted and existing operations to stay in production?

There is a bright future for NSW mining in the years ahead, given the need for largescale, reliable and affordable energy as demand for energy continues to grow along with industrialising economies in Asia and Africa.

NSW's minerals mining operations are among the best in the world and will continue to deliver strong export returns as well as providing jobs and economic stability for regional centres in NSW like Parkes, Dubbo, and Orange.

As a supplier of some of the world's highest quality coal NSW is also well placed to capitalise on the emergence of new global markets, as well as building our trade with traditional export partners including Japan, Korea and Taiwan.

Expectations of ongoing demand for our high quality coal over the longer term make it critically important that we get the policy settings right here in NSW, particularly on planning reform.

What do you think the state government and federal government should focus on to support the sector in the future?

NSW Premier Mike Baird's recent commitment to halve assessment timeframes for new mining projects is a welcome first step for the Industry, yet there is more to be done. It's vital that the Government focuses on fostering mining investment, maintaining and creating mining jobs, and ensuring that our state's most valuable export industry can continue to underpin the economic strength of our state into the future.

There is a bright future for NSW mining in the years ahead, given the need for largescale, reliable and affordable energy.

Methodology

Research design and analysis for the Mining Business Outlook Supplement Report was conducted by Manning & Co., and field work conducted by Newport Consulting.

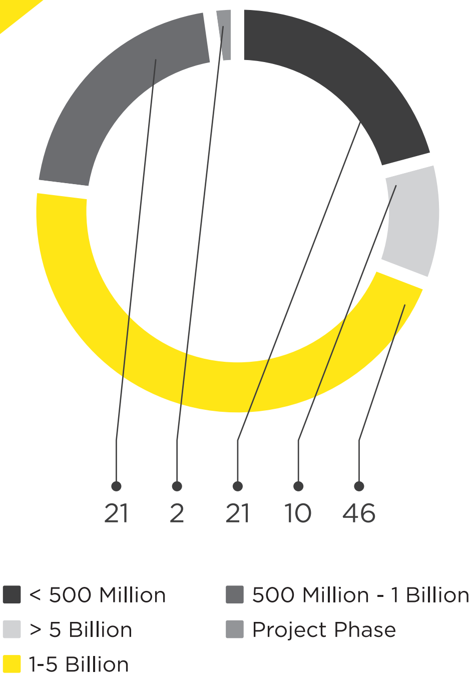
Our research is based on one-on-one interviews with 50 leading mining executives at a number of companies across the resources sector. The interviews are face-to-face, so that we could gain a personal view and detect underlying motivations, beliefs, attitudes and feelings on a range of areas and subjects.

We asked the following questions:

- How optimistic are you about future growth and business in 2015-2016, and why?
- Will you increase capital spending and investment this financial year? If yes, by how much? If not, why not?
- What are the key challenges that your company faces in the year ahead?
- How will you respond to these challenges?
- What are the opportunities for the sector?
- How do you view productivity in relation to your mine's performance? Please elaborate. Are there any perceived barriers to achieving productivity? How do you plan to measure it?
- What is the single piece of advice that you would like to offer to Canberra?
- What should the government's ongoing role be in relation to the sector?

The responses were then coded by Manning & Co into key categories. The mining leaders interviewed and the companies they represent can be broken down accordingly:

Figure 7.1
Company Size %



Disclaimer: The *Mining Business Outlook Report* canvasses the views of Australia's mining leaders. It has been conducted annually since 2010. This year's report draws on lengthy face-to-face interviews that took place between 16th April and 30th June, 2015. Fifty mining executives participated from a broad range of mining companies. The data reported in this paper is based on the responses of the organisations which participated in our survey.

Percentages are representative of the survey sample. Some percentages may not add up to 100 percent due to rounding.

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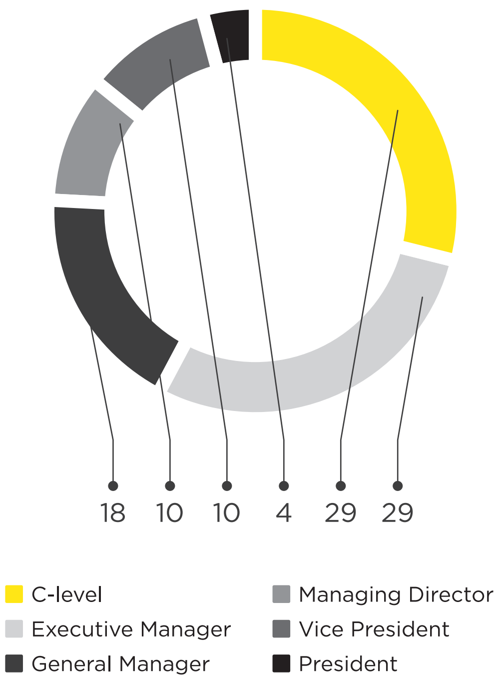
Figure 7.2
Company Role %



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Newport Consulting is an Australian-headquartered operational management consultancy that focuses on achieving operational excellence for corporates. We work extensively in the mining sector, having delivered measurable and sustainable operational improvements to a number of mining projects across the country.

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