BHP

BHP COAL

INDUSTRY

SUBMISSION

TABLE 0F CONTENTS

EXECUTIVE SUMMARY

BHP Coal operates 19 coal mines and four coal terminals in Queensland, New South Wales and Indonesia.

This submission focuses on those issues which need to be successfully addressed to ensure the international competitiveness of the Company's Australian operations (which account for 16 of the 19 BHP Coal mines and 3 of the 4 coal terminals). Competitiveness and resulting operating margins have been eroded substantially by continuing cost increases well in excess of coal price movements

While progress is being made in addressing restrictive work practices through recent site agreements, the pace of change needs to be quickened if the necessary gains are to

be achieved and competitiveness restored. This is an area which can only be addressed between management and the workforce.

The following remaining issues require support from Government if restraints are to be successfully addressed:

~n Queensland

competitive rail freight and royalty arrangements. The submission argues that competitive freight arrangements can only be assured through third party operator access, with the access regime given priority to meet the target start up of November 2000. It notes also that while agreement has been reached with the Queensland Government to end defacto royalties in the year 2000, the company is at a major competitive disadvantage in the meantime compared to other coal companies in Queensland and overseas companies by paying almost $1 billion in royalty payments on its Queensland operations.

competitive port charges, assisted by Government transparency in pricing structures and financial reporting.

arrangements which ensure genuine contestability in electricity supply from January 1998. favourable consideration to stamp duty relief for restructuring legal entities of existing operations, so as not to hamper or restrict changed or more efficient operating arrangements.

in New South Wales (Illawarra) Collieries

- rationalising the complex, high cost transport chain to the Port Kembla

steelworks and port terminal.
lower, more competitive port charges.
resource security from two perspective’s.

access to high quality resources jeopardised by urban encroachment without forward planning regimes. longwall approvals beyond 1 - 2 years extraction

BHP Coal appreciates the opportunity to provide this submission and looks forward to further discussions with the Commission in due course-

2. THE MARKET FOR BLACK COAL

Metallurgical coal usage globally is approximately 400 million tonnes annually, of which 40% (170mt) is seaborne traded. Growth in this market over the next ten years is expected to be modest at a little over 1% pa. A significant component of that growth will be in increased pulverised injection coal, resulting in the market for coals used for coke production growing at only 0.6% p.a. Major metallurgical coal suppliers to this market are Australia (45%), USA (29%) and Canada (19%).

Thermal coal usage globally for power generation and industrial use is estimated at 2800 million tonnes with only 250mt (9%) traded on a seaborne basis. Japan, South Korea and Taiwan imports represent 110mt of this trade. Australia is forecast to export approximately 70mt in 1997 (approx 25% of the total). Growth in seaborne traded thermal coal is expected to be at a substantial rate of 5-6% pa over the next ten years (Asia 8% pa).

The internationally traded coal business is a highly competitive world industry, with 14 countries exporting coal and low barriers to entry. Coal, along with most other resource based commodities, has a history of falling prices in real terms (see graph l

which reflects

the highly competitive nature of the industry;

increasing demand easily matched by increasing supply (for example, the large production in the United States (ten times that of Australia) means it could quickly swing production into extra exports if prices increase);

the impact of new technology which allows increased scales of production (mines are now using 240 tonne trucks and draglines with 100 cu.m. buckets, double the size commercially available twenty years ago).

GRAPH 1

SUBMISSION BY BHP COAL TO THE, INDUSTRY COMMISSION INQUIRY INTO THE BLACK COAL INDUSTRY

This submission supplements the submission by the Queensland Mining Council (QMC), by providing company specific information and addressing company specific

approaches which are not able to be encompassed in a whole of industry submission. Where it is silent on any issues, it should be assumed that the company supports the QMC submission.

1. DESCRIPTION OF OPERATIONS

BHP Coal Pty Ltd is a division of The Broken Hill Proprietary Company Limited (BHP).

The Company manages 19 open-cut and underground coal mines in the Bowen Basin, Queensland; the Hunter Valley, NSW; the Illawarra region, NSW; and Kalimantan, Indonesia (see map at Appendix 1). The mines, ports, laboratories, town centres, marketing offices and administration centres employ around 8,300 people.

BHP Coal is Australia's largest coal producer and one of the largest exporters in the world. In 1996/97, the Company shipped 53.8 million tonnes of coal to 117 customers in 31 countries. Shipments from its Queensland and New South Wales operations represented more than a quarter of Australia's annual coal exports and 20 per cent of the world's annual sea borne trade in coking coal.

Production consists of a range of high quality hard coking and weak coking coals used for global steel production, and thermal coals used for power generation. Australian production is overwhelmingly coking coals.

Ten coal mining operations and two ports located in Central Queensland are managed by BHP Coal on behalf of their owners - the Central Queensland Coal Associates

(CQCA) Joint Venture, the Gregory Joint Venture and BHP Mitsui Coal Pty Ltd. BHP's equity interests are 47.62% in the CQCA mines and the Hay Point port coal terminal, 58.62% in the Gregory, Crinum and South Walker Creek mines, and 80% in the BHP Mitsui Coal mines and Barney Point coal terminal in Gladstone.

BHP owns 100% of the Mt Owen coal mine in the Hunter Valley, through the Hunter Valley Coal Corporation. BHP also owns and operates five longwall mines in the Illawarra region of NSW through the Collieries division.

PT Arutmin Indonesia (BHP 80%) operates the Senakin and Satui mines and North Pal au Coal Terminal in Kalimantan, Indonesia. PT BHP Kendilo Coal (BHP 80%) operates the Petangis mine, also in Kalimantan.

BHP's major interest lies in coking coal. The remainder of this discussion on market related issues is concerned with the seaborne traded metallurgical coal market.

Factors affecting Supply of and Demand for Metallurgical Coal

Steel & Pig Iron Demand

The coking coal market is very much tied to steel market cycles. The long term forecast for steel output is for 1.7-2.0%pa growth, with pig iron production expected to increase by 1.2%pa (the difference made up through electric arc furnaces etc). The major threat to coking coal in the longer term is the switch to electric arc furnace or other technologies that are not dependent on coke to reduce iron ore. In the shorter term however, a threat to coking coal and coke is the current abundance of Russian pig-iron in the market. This particularly affects coal exports to countries like India, which produce iron with imported coking coals. Whilst a number of countries are currently looking at introducing anti-dumping barriers, the opportunity for coal importing countries to access low priced steel making raw materials could further constrain the already modest expected growth in the metallurgical coal market.

The demand for coking coal will undoubtably be affected by the impact of the Asian currency crisis on major Japanese and Korean steel customers, as a result of reduced steel demand in South East and East Asian markets.

Coke Market

The traded coke market, representing 4-5% of global production, has always been extremely volatile. Once used mainly as a means of disposing of temporary surplus or covering temporary shortfalls of metallurgical coal, it has been dominated over the last few years by low cost Chinese coke exports (1997 forecast to exceed 10Mt) which have soaked up all import demand and kept coke prices low. The Chinese coking capacity will effectively defer decisions to build new capacity, affecting the longer term outlook for coking coal. This is particularly a threat to the major growth areas for coking coal in SE Asia and India

Export Capacity/"Swing" Tonnage

Given that 40% of the coking coal global consumption is seaborne traded, there is a market susceptibility to "swing" supply. The major swing supplier is the US, but China also has this potential. The Australian industry will need to be able to respond to demand that fluctuates both with steel production and with fluctuating export supply capacity.

Market Perception - Reliability

In the last 30 years, Australia has captured a substantial part of the growth in the coking coal market as well as displacing less-competitive foreign tonnage. While Australia has the potential resources to continue this trend, it should be noted that it took only a perception of Australian unreliability in the 1980s, due to industrial activity, to foster the development of alternate supply from Canada, despite it being technically less attractive and higher cost. The fact that this year the Japanese Steel Mills (JSM) reaffirmed tonnage commitments to the Quintette and Bullmoose mines in Canada to 2002 indicates a lingering unease with a perceived over-reliance on Australian supply.

Supply Capacity'

Together with "swing suppliers", Australia, and to a lesser extent Canada, have the resources and are likely, in the medium term, to increase capacity well in excess of the projected growth in demand. This increase, which will result in an oversupply situation, can be expected to occur for the following reasons. First, cost pressures at Australian mines with inflexible labour arrangements will lead these mines to pursue increased tonnage targets as a means of reducing unit costs of production. Second, more competitive rail freight charges for new tonnage will encourage the entry of new capacity, both greenfield and also through expansion at existing mines where incremental or growth tonnage will attract the benefits of the reduced rail freight cost.

Third, given the state of the international thermal coal market, higher value coking coal will offer prospects for better returns which will push potential developments in this direction.

Given that Canadian cost competitiveness will allow them to place additional tonnage at least to 2002, it is likely that Australian companies will be competing among themselves for part only of the projected demand increase

Technology

Steel producers continue to focus on new technology as a means of remaining competitive. Within traditional blast furnace technologies, pulverised coal injection (which uses non-coking coals) will be used in increasing proportions - displacing the quantity of coke used. In addition, considerable effort will also be devoted to improving the coke quality that can be made using cheaper "semi-soft coking coals".

In the longer term, iron making technology will be targeted at eliminating coke and sinter operations to reduce costs and to address possible greenhouse implications. It is conceivable that within 20 years, viable iron ore reduction processes will be developed which do not require coking coal. A current example of this trend is the COREX process, although at this point it is considered sub-economic generally and, at best, site-specific. Direct reduced iron feeding electric arc furnaces are already a viable alternative, depending on energy costs, the scale of plant, and the availability of scrap. The current percentage of steel production provided by Electric Arc Furnace (EAP) is forecast to increase from the current 33% to 45% by 2012

Barriers to Domestic Trade

BHP Coal is in a unique position where, in Australia, it is the only major producer and domestic consumer (in its steelworks) of coking coal. At present the coking coal needs of the Port Kembla steelworks are met almost entirely from New South Wales mine production. However, the company periodically supplements from Queensland resources. High cabotage costs on interstate shipping provide a significant restriction on such interstate movement

Barriers to International Trade

Japan Market Shares

While no effective global pricing index exists for coal, Asian FOB prices and global price movement trends are influenced heavily by annual negotiations between Australian suppliers and the Japanese Steel Mills (JSM) (led by Nippon Steel).

As an industry grouping with commercial power, the JSM is arguably more susceptible to political pressure and therefore more likely to develop sourcing policies on bases other than delivered cost and quality. Australia and BHP in particular have had access to greater market share limited despite delivering quality coals on lower

delivered cost bases than, say, US coals. Undoubtedly political pressure (eg US "trade balance" considerations) can be exerted on such joint purchase schemes far more effectively than under an individual purchase system.

It has been suggested that Australia should respond with a single industry face. However, there is no doubt the JSM would react adversely to any comparable selling group from Australia. Even if it was possible to organise a coal selling cartel, the negative impact on hard coking coal would outweigh any positives. Major customers would see it as an attempt to artificially control supply - something that countries like Japan, Korea and Taiwan, which are totally reliant on imports, would find unconscionable and which they would profoundly reject.

Import Restrictions

Germany, and to a lesser extent India, protect domestic coal industries that are noncompetitive with imports on price and/or quality. The fact that both these major potential growth areas are essentially dictated by political decisions, adds greatly to uncertainty in demand forecasting. However, the perception of investors in coking coal capacity is that "rationalisation (in these countries) is inevitable". However, if these markets do not open up fully, growth in hard coking coal exports will he seriously impeded.

Trading Blocks

Further distortion of the global coal market by trade barriers of one kind or another is unlikely to ever be of benefit to the Australian coal industry, given its exposure and reliance on coal exports compared with domestic demand and Australia's limited trading power status. NAFTA, for example, has affected Australian coal competitiveness in South America. In the case of Chilean coking coal imports (a market where Australia once held a dominant share) tariff free access for Canadian coal (while tariffs remain on Australian coal) has forced a substantial price cut on Australian suppliers to seek to retain that market. The Australian Government's preference has been to use multilateral trade vehicles such as APEC to address trade barriers. While BHP Coal has supported the APEC framework and agenda for reducing trade barriers, it needs to achieve early results. If it cannot, difficulties such as that being experienced in the Chilean market will need to be addressed through other, more immediate and direct bilateral means

Greenhouse Effects

The Kyoto conference outcomes potentially loom as the major challenge for the industry.

BHP is seeking improved levels of energy efficiency as both good greenhouse and business practice. BHP has supported the Greenhouse Challenge from the outset, and is on target for energy efficiency improvements that should reduce its emissions by 8 million tonnes, or 25% by 2000 over "business as usual".

BHP fully supports the Government's approach on differentiated targets in global greenhouse negotiations, to ensure an equitable and efficient outcome. Research by ABARE and other organisations has highlighted the extent of impacts from significant uniform restrictions. BHP accepts the need for precautionary action by it, but at the time of preparation of this submission, the likely outcome of the Kyoto conference is not clear as the major developed nations appear to have significantly different approaches.

However, it is likely that tight restrictions would have significant implications for coal exports beyond the medium term once adjustments were undertaken by major coal importing countries, notwithstanding that some of that adjustment may involve relocation of production capacity to developing countries not subject to greenhouse restrictions.

One could argue that thermal coal exports being curbed would eventually add costs to electricity generation and therefore favour blast furnace iron-making processes over the energy intensive electric arc furnace route, at least in the developed countries. Additionally, old coke ovens could be closed on environmental grounds, creating a coke shortfall, tightening that market and leading to the construction of newer more environmentally friendly ovens (such as the Jewel-Thompson type, currently being constructed on a large scale by Inland Steel in the US). Nevertheless, even considering the above positives for metallurgical coal, it is difficult to imagine blast furnaces, coke ovens and sinter plants remaining the preferred technologies under a significantly tighter emission climate - although it should be acknowledged the way in which individual countries address these issues will have a significant bearing on the end result.

If, on the other hand, greenhouse targets are relatively modest, metallurgical coal will continue to have a strong future over the medium term, **subject** to technological developments.

It will be important that the implications of discussions at Kyoto are well understood by both Australian coal exporters and Government and **trends and any warning** signs heeded. Negative outcomes at Kyoto or subsequently would only serve to exacerbate existing pressures on the industry and give added **impetus to the need for change** in other areas addressed in this submission.

3. **PERFORMANCE OF THE AUSTRALIAN INDUSTRY AND BHP COAL**

The Australian export coal industry has been recognised as having a number of traditional advantages - high quality (world's best) resources, well serviced infrastructure and proximity to ports. These features facilitated the development of the industry and provided an ability to attract long term contracts.

However, competitiveness has been eroded by sustained large cost increases - costs often largely outside the industry's control such as inflexible Government charges and infrastructure costs and labour costs reflecting, to date, rigid work practices.

Cost increases have easily outstripped price movements, which have continued to reduce in real terms over the last two decades. As a result, margins and returns on assets have sharply declined - both absolutely and relative to other sectors. For example, in 1980, 12 of the top 20 listed companies by market capitalisation in Australia were resource companies, but in 1997 there were only 4 (Australian Financial Review (12/11/97).

Difficulties in the industry have been increased by continuing excessively optimistic forecasts of future demand and market prospects which has encouraged significant new capacity, both in Australia and among low cost overseas competitors such as Indonesia and Colombia. The oversupply has been exacerbated by non profitable mines who marginally price to remain in business.

As prices have and continue to decline in real terms, producers have no alternative but to reduce costs if they are to remain competitive. The attack on costs must be comprehensive in incorporating both work practices and other internal issues as well as external influences of infrastructure costs and Government charges. BHP is actively pursuing a rigorous internal cost review. It is imperative that this is mirrored on the Government side.

Historically, BHP Coal has not undertaken detailed international benchmarking of productivity performance with overseas producers. However, it is increasingly turning its attention to such benchmarking as margins fall.

BHP Coal is benchmarking individual operations against other operations within the group and against other relevant BHP minerals operations in order to identify best operating practices and measure the impact of implementation of these practices.

In particular, this process has to date focussed on comparisons of key performance drivers in specific areas (eg Truck/Shovel operations) with similar operations elsewhere in the BHP Coal group and with BHP's Mt Newman iron ore operations in Western Australia. The identification and understanding of the cost drivers is providing significant value as an assessment tool.

Within Australia, benchmarking activities have tracked the aggregate **productivity** of BHP Coal's Queensland operations against coal industry averages in Australia. It has also made some productivity comparisons between Australian operations and newly

emerging competitors such as Indonesia but notes that these need to be carefully evaluated because of differences in factor costs. In all cases, productivity performance needs to be addressed within the overall context of comparative rates of return to

shareholders from different operations, as this, necessarily, is the primary investment driver

Overall, in BHP Coal's Australian operations, improvements have not been sufficient to curb cost increases and prevent a continuing narrowing in operating margins. To achieve the necessary turnaround, the Company needs to urgently address its major cost items which to date have either been largely outside its control (eg. Government charges and infrastructure costs) or which reflect entrenched work practices.

4. WORK ARRANGEMENTS

Workforce Profile

BHP Coal in Australia employs in total 7170 employees - 5300 in Queensland and 1870 in NSW. The following information relates only to Queensland operations except where data is specifically identified as New South Wales Collieries data.

The average age of the total workforce is 42 years with 50% over 40 years of age and 20% over 50 years of age.

The average length of service of the total workforce is 12 years, of which 50% have more than 10 years of service and nearly 20% have more than 20 years of service

Separating salaried employees and wages employees, 36% of salaried employees have more than 10 years service compared to 65% of wages employees. There is mobility of salaried employees between sites whereas the service of wages employees tends to be at one site only.

For BHP Coal as a whole (including Brisbane Office and Laboratories), gross average annual earnings per person in 1996/1997 was $85188, with a salaried employee average of $83464 and wages employees $85803. Approximately 5% of total earnings is incentive based ie. attributable in the main to minesite production bonuses. Production bonuses are a significantly higher proportion of total earnings for wages employees at the New South Wales Collieries

Working!

Conditions

Working hours and conditions at BHP Coal operations in Australia are based on a 35 ordinary hour week. Actual average hours worked by wages employees including overtime in 1996/1997 were 43.1 hours per week.

Shift arrangements vary between and within sites and range from 5 day shift work to continuous 7 day, 3 shift rosters and 12 hour shifts

Annual leave arrangements vary from 5 weeks per annum for 5 day shift workers to 6 weeks per annum for 7 day continuous shift workers.

Long Service Leave is based on 13 weeks after 8 years service and Sick Leave is 15 days per annum accumulative and, for wages employees, is paid out on termination.

Salaried employees are paid on an annual salary basis, based primarily on Job Evaluation and Market surveys and adjusted annually for individual performance.

Wages employees are paid a base rate according to the number of competency based skills held under the Open Cut Work Model or a variation thereof

Attendance - History

Table 1 summarises time lost due to industrial disputes and absenteeism (sick leave and Workers Compensation) in BHP Coal's Queensland operations for the past eight years, expressed as a percentage - hours lost over possible work hours.

TABLE 1: Time lost at BHP Coal's Queensland operations

Union Coverage

The dominant union, the Construction, Forestry, Mining and Energy Union (CFMEU) covers around 90% of all wages employees with the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing & Allied Services Union of Australia (CEPU) and Australian Manufacturing Workers' Union (AMWU) covering the remaining 10%.

The Australian Collieries' Staff Association is the key staff union in the industry, covering around 40% of all staff. Most other staff are non-unionised.

Industrial Regulation

BHP Coal operates within the jurisdiction of the Australian Industrial Relations commission.

The four main Industrial Instruments are Parent Federal Awards, namely

1. Coal Mining Industry (Production and Engineering) Interim Consent Award September 1990;

2. Coal Mining Industry (Supervision and Administration) Interim Consent Award, 1990, New South Wales and Tasmania;

3. Coal Mining Industry (Supervision and Administration) Interim Consent Award, 1990, Queensland;

4. Coal Mining Industry Interim Consent Award, (Deputies and Shotfirers), 1990.

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These Awards apply except where they have either been replaced fully or in part by:

· The BHP Coal Framework Agreement (covering all of the Australian operations).

· The BHP Coal Umbrella Agreement in Queensland.

· Site Enterprise Agreements at individual minesites.

Consultation

BHP Coal interacts with all unions at a National, State and local level depending on the nature and breadth of an issue. However, the emphasis has shifted in recent years towards the local level. This trend will continue with the primacy of the individual, site-specific enterprise agreement tailored to ensure as many issues as possible are dealt with through local consultative arrangements.

Company/Union Consultative processes are in place at all levels with two formal consultative meetings per year with National officials, four per year with State officials and generally monthly meetings at site level. In addition, informal meetings (as required) are held at all levels on specific issues.

Current Developments

BHP Coal is continuing to accelerate recent trends to decentralise employment arrangements into site level enterprise agreements.

This move away from State (District) and National Union Official involvement in day-to-day issues is being achieved through a stronger focus on individual site performance, a high degree of information sharing and consultation with union officials, site delegates and employees. The development of "Umbrella" and "Framework" Agreements seeks to facilitate a change in emphasis, towards partnership rather than confrontation between management and the unions.

Together with several other companies that have also negotiated Framework Agreements, BHP Coal is seeking significant workplace reform through the modification and elimination of a number of award provisions that prevent optimum flexibility.

Some significant change is taking place or, with ongoing cooperation, is in prospect. New site agreements have been concluded at Peak Downs and Goonyella/Riverside mines while the new Crinum underground mine has commenced operation with improved, more flexible arrangements

Enterprise Agreements at some BHP Coal sites are progressing trials and implementation of employment conditions which support the elimination of artificial demarcations and support increased flexibility. These new conditions include annualised aggregate wages, performance management, including individual recognition for performance, workplace team concepts, 12-hour shifts, flexibility in meal times, more effective attendance management, information sharing

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arrangements, starting/shift handover arrangements, equipment manning and overall

r manning reductions.

Workplace Teams are being progressively introduced, with the objective of building employee ownership of their part of the business process. This change requires a more co-ordinating and coaching style of leadership and less of the traditional directive style of supervision and management

Sites are seeking increased **flexibility to use contractors** when business needs (eg; skills, cost, time) require as **well as moving to** outsource non-core or specialist activities which are more effectively or efficiently performed by other groups.

However, despite the above trends and active participation by all parties, the rate of introduction of more efficient and flexible work methods and arrangements into BHP Coal needs to be quickened to deliver the required cost reductions that are critical if BHP Coal is not to see unsustainable narrowing of margins and a loss of significant market share in the face of fierce international competition. Necessary and substantive change is constrained by longstanding practices and entrenched views

Progress in a number of key areas has been limited, whether due to culture, management, union policies, custom and practice or the Award system. These areas include:

,, · Right to recruit "on merit";
· Right to select and promote on merit;
~· Effectiveness of disputes procedures;
L · Right to use contractors when business needs dictate;
· Acceptance of continuous improvement without undue delays;
L . Shift roster and work hour flexibility;
· Flexibility between work streams and wages employees and staff;
· Right to outsource when clearly cost effective;
· Restrictions on overtime;

Specific equipment manning issues;
· Use of casuals;
· Crib flexibility;

· Attendance management including procedures eg. notification of absence;

· Removing seniority where it is a barrier to improved business performance.

The enhanced efficiency and ongoing ability of BHP Coal's operations to compete will necessitate not only an increasingly cooperative approach to address these issues, but also a sense of urgency in agreeing and implementing change at a far more rapid pace. This must include a recognition by all parties of the need for basic structural change and a willingness to implement that change through new and progressive practices. An inability to do so will result in a continuation of the relentless narrowing in mine returns to unsustainable levels.

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5. **SAFETY**

Comparative Performance

A comparison of safety performance in terms of I2 month rolling Lost Time Injury Frequency Rates (LTIFR) and Lost Time Injury Severity Rates (LTISR) to August, 1997 in a range of BHP operations is provided in Table 2 (data includes employees and contractors):

TABLE 2:

Clearly, BHP's Australian coal operations have significantly poorer safety performances than its Indonesian, Iron Ore, New Mexico coal mining operations and separate Steel and Copper groups. Essentially the same philosophy and management emphasis is shared, however differences are encountered in work force cultures and applicable laws and practices. While the safety performance of BHP Coal's Australian operations has improved, it is far from satisfactory when judged in terms of its human impact and impact on business performance. The Company is taking a number of steps to improve that performance which are outlined in Appendix 2

Performance by the Collieries Division is below that of the rest of BHP Coal, despite a 35% improvement in LTIFR and 30% improvement in LTISR over the last 12 months.

The Collieries Division comprises 5 large underground coal mines. Workforce levels are higher than at newer operations. The work force, due to the length of time of operation and the past requirement to hire from retrenchment lists, has a high average age. At the current time, the operations are undergoing extensive restructuring to address low productivity levels and high associated costs. As outlined in the recent ACIL study into the NSW coal industry, at such times accident rates tend to h~ historically higher.

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An important point to note is the superior safety performances achieved at BHP's contractor operated operations compared to the operations self operated by BHP. Among iron ore operations, Yarrie and Yandie in Western Australia outperform the Newman operations, and BHP Coal's only contractor operation in Queensland, 5th Walker Creek. has had a zero LTIFR and LTISR over the last 500 days.

Health & Safety Impact on Profitability and international Competitiveness

The impact of the different accident frequency and severity rates on the business is clear. The Australian operations suffer more accidents and the resulting time lost is longer for individual accidents. For Queensland Table 3 shows the level of workers compensation costs that have been incurred over the past five years.

TABLE 3:

Common law claims far outweigh the actual Workcover claims. The recent changes to allow the legal profession to charge on a commission only basis is seen to have greatly contributed to the escalation of common law claims. In terms of actual days lost, in 1996/97 across the entire BHP Coal division, a total of 8,668 work days were lost by employees and contractors. This translates to the equivalent of over 39 employees always being absent on workers compensation. Assuming that each person on workers compensation requires replacement by persons undertaking overtime, the wages cost for this is conservatively 150% of normal costs. Based on an average wage of $80,000, the wages cost due to overtime coverage is estimated at $4.7 million in 1996/97.

Workers Compensation Self Insurance

The recent change to the Workers Compensation Act allows companies to self insure for their workers compensation liability. BHP Coal has chosen to pursue the option of obtaining a self insurer's license. This will provide an immediate benefit in lower costs due to reduced premiums. It also offers opportunities for improvement by allowing closer and more prompt attention to cases, with more detailed information available to focus attention on the higher cost areas.

Differences between Australian Coal and Metalliferous Mine

The safety performance of the open cut Queensland coal operations is similar to that of the Mt. Newman iron ore operation in Western Australia. It should be noted,

however, that superior safety performance is being achieved **at all of the** above mines that are using contractor operations.

Conclusions on Safety'

As the steps outlined in Appendix 2 indicate, BHP Coal is committed to improving the safety performance at its operations and has achieved a measure of success. However, the rate of improvement is unacceptable. A review of accidents shows that while facilities, systems and procedures have improved, more needs to be achieved. The focus for the future will be on "behaviours", as it is believed most accidents are the result of unsafe behaviours. Measures will be pursued to ensure managers, supervisors and employees all behave safely.

6. **INFRASTRUCTURE ISSUES**

QUEENSLAND

A Rail Costs and Issues

Rail freight costs continue to be the single largest non-labour cost incurred by BHP Coal's operating mines in Queensland in producing and delivering a tonne of coal to port for shipment to overseas customers. For the year ended 31 May 1997, rail freight costs accounted for approximately 30% of total production and delivery costs, at rates as high as 7.5¢/ntkm, compared to world's best practice rates of around 24. Performance at this level or better is achieved at BHP's Western Australian Iron Ore operations.

From 1 June 1997, BHP Coal renegotiated its rail haulage arrangements for five of its North Bowen Basin Mines. As part of this negotiation, which was predicated on the premise of growth in the industry, the Government agreed to identify and separate out the de facto royalty and rail freight components of the rail freight rates, thereby allowing clearer negotiation of the true rail freight component. Based on the achievement of performance linked incentives and a co-operative approach between Queensland Rail and BHP Coal to improving both current and future practices, potential for improved efficiencies and potential flow on benefits was also agreed. Payment of the de facto royalty component, directly to Queensland Treasury, will however continue until the year 2000. The continuation of the de facto royalty until that time will see the effective rail freight "rate" remain only marginally lower than it has been in recent years, and will not reduce substantially until 2000. Notwithstanding the advances in the recent agreement, the uneven application of the de facto royalty

continues to place BHP Coal at a distinct competitive disadvantage with many other Queensland producers who do not pay this impost.

Despite renegotiation to more commercial levels, rail freight rates in the Southern Bowen Basin mines - ie those railing to the port of Gladstone, remain particularly high by World's Best Practice standards and BHP Coal is keen to continue working with Queensland Rail on efficiency improvements aimed at their reduction.

The gains achieved to date must be viewed as merely the starting point for the reduction of transport costs in the State if the industry is to remain viable and competitive on a global basis. The continuing erosion of the industry's competitiveness is well illustrated by the fact that, at one of our mines, while coal prices have risen on average by approximately 24% in nominal terms over the past 20 years, rail haulage costs (based on new "commercial rates" for the year ended May 31, 1997) have risen by approximately 200% over the same period. A similar scenario can be assumed for other BHP operations

Coal freight rates in Queensland have been targeted by the State Government to reach World's Best Practice by the year 2000 but, despite the reforms and improvements achieved to date, it is unlikely that the target will be achieved without the introduction of third party operators to Queensland's rail network in order to realise the benefits of competition.

While the National Competition Principles set a framework for the introduction of such competition in other sectors from 1996, coal in Queensland suffers from a moratorium on the introduction of third party operations until 2000, a restriction that will effectively and practically prohibit their introduction, without immediate steps to facilitate that access. until well beyond this time

The successful entry of third party operators will be significantly impacted by the terms and conditions that will govern their operation. Indications to date in Queensland, and results to date in NSW, reveal a number of concerns that must be addressed if third **party access** to the rail network is to be provided on a basis that will encourage true competition and therefore the most cost effective outcomes.

Central to these concerns are the methods of asset valuation (including proper **recognition** of user funded assets) and determination of the appropriate rates of **return** on below track infrastructure that will be applied to determine the access charge. Any **inflation** of these values will result in overstated access charges levied on third party operators, which they will be obliged to pass on, and which will do no more than to transfer the excessive element of past rail freight rates to the access component. Transparency in determining these inputs is essential in demonstrating the true commerciality of the proposed rates as well as ensuring competitive access rates to the potential rail service provider.

In ensuring the fairness and transparency of the proposed rail access charge, consideration must also be given to the organisational structure of the existing rail corporation that will best ensure that such a result is delivered. Despite there being arguments on both sides, there is reason for concern that the retention of an access body within the control of the current service operator, without specific and transparent controls, will not result in an unbiased outcome. This issue is currently being addressed by a review committee drawn from Queensland Government departments. This committee has held a number of discussions to date with the Queensland Mining Council, at which a range of alternatives have been canvassed, albeit on a preliminary basis; it is imperative that this dialogue continue to ensure that an outcome is achieved that can support future industry growth

In progressing towards an effective third party access regime in Queensland, the Queensland Government is currently preparing an application for certification, for lodgement with the National Competition Council (NCC), for its coal carrying rail services. Indications to date are that it is Queensland's intention to seek accreditation on a "bare-bones" basis, with the State subsequently responsible for developing the detailed undertaking in conjunction with Queensland Rail and under the authority of the Queensland Competition Authority. This leads to a concern that the current rail service provider will have too strong an influence in designing the final playing field. The access regime presented to the NCC must contain sufficient detail to establish the 'rule book' for third party access, to allow the NCC to properly assess the effectiveness of the proposed regime. It is also essential that the Commonwealth Government continues to fully support the NCC in its approval of third party access principles and arrangements.

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In summary, there have been real improvements (from a BHP perspective) in rail transport within the Queensland system. These have resulted from improvements in operating efficiencies and other gains due to increased co-operation between all parties. Further co-operation of this nature and the successful implementation of a competitively neutral access regime to encourage the entry of third party operators on a sooner rather than later timetable will be critical if we are to achieve the further gains necessary to achieve rail freight rates approaching World's Best. This will be vital to maintaining the global competitiveness of the coal industry.

B_ _Other Effects of Government in
Royalty

As indicated earlier in this Section, the current high cost arrangements relating to the payment of the de facto or monopoly rent royalty will continue until 2000. The cost to BHP Coal, which remains one of the few companies in Queensland still paying this royalty is in the order of $200 million per year. Removal of the royalty in 2000 (which will be partially offset by an increase from 5% to 7% of FOR value in the existing "ad valorem" royalty) will, belatedly, restore BHP Coal to a position of equity with the majority of other Queensland producers who no longer incur this impost. In the

meantime, between the time of this submission and the cessation of defacto royalties in 2000, BHP Coal will pay to the Government around $1.0 billion in these royalties.

Queensland

Rail Reform - Third Party Access

The introduction of third party service providers to the Queensland rail network is critical if rail freight rates are to be reduced to true commercial levels on a par with World's Best. The opening up of Queensland's system to third party access is presently prevented until the year 2000. To ensure access will be available, even at this deferred time, it is essential that a sense of urgency be instilled now into the responsible State Government departments to develop detailed and fair access regimes that will encourage the interest of potential third party providers, give them confidence and certainty in the conditions that will govern their participation, and above all, allow them time to gear up and secure the necessary equipment to make a 2000 start up a viable proposition.

Progress to date in developing the required access regimes and subjecting those regimes to review by all interested parties has to date been slow. Further delays in finalising the required regime will run the risk of deferring introduction of third party competitors, from a practical viewpoint, until well beyond the current deferred date of 2000, and risk significant potential industry growth.

C Ports

There is little doubt that a 'seamless' transport system provides maximum efficiency - ie a system where the three elements - mines, rail and port are owned or controlled by the same party. Queensland does not have such a system and is in fact at the other end of the scale with numerous Queensland mine ownerships and separate operation of each of the rail and port systems. It is therefore imperative that close working

relationships be developed between each of the participants to develop co-operative approaches to improving the efficiencies of the overall transport chain.

A strong start has been made in this area, particularly in the Gladstone system, where a tripartite study has been completed, involving the mining industry, Queensland Rail and the Gladstone Port Authority, and some of the recommendations for efficiency linked changes identified therein implemented. However, again, it should be recognised that this represents only a beginning in the drive towards optimal efficiency and there remains considerable work to be done. The need for such a tripartite study was the result of significant problems, particularly in rail/port interface where significant and costly delays had reached a point where a continuation of the

current system was unacceptable.

This is not to single out the port operation as the sole cause of these problems. It could be said that the ports, in their current form, are reasonably well managed, however, to be competitive, in the global sense, it is essential to lock in the recent operating improvements and to achieve further significant productivity gains through improvements in work practices.

The level of port charges, as for the rail system, is determined by a number of factors, not the least of which is the valuation of port assets and the rate of return sought on these assets. Transparency in the determination of these parameters, including, again, the proper recognition of user-funded assets, is essential if users are to have confidence in the level of rates levied. In this respect, the level of the Special Harbour Due at Dalrymple Bay Coal Terminal is of concern, however the opportunity exists to address this concern with termination of the existing charge and renegotation of a

replacement regime due in September 1998.

Allied to this is the issue of control over major future expansions or new assets at existing ports to cater for perceived future tonnage throughput increases. The decision to proceed with such expansions must be based on sound economic justification, with transparency the key point, to ensure a manipulation of asset valuations or rates of return cannot be used to impose charges on existing users to guarantee the revenue stream required to support a new project or expansion.

D Electricity

BHP Coal is a major user of electricity in Queensland, with most mine sites exceeding demand levels of 40 GWh per year. Electricity costs, at $67M per year, represent the second largest (after rail freight) non labour cost at its Queensland operations. BHP Coal welcomes the electricity reform initiatives taken by the Queensland Government. The introduction of a deregulated electricity market on 18 January 1998, as proposed by the Queensland Government for major users, is of vital importance to BHP Coal's operations. Similar deregulation in New South Wales has seen reductions in electricity costs of 20% or more.

BHP Coal, like all coal producers, is exposed to significant pressure on **coal prices,** due to the increasing demands from a competitive environment. To manage this

exposure, there is an urgent need to minimise costs of production. Electricity costs must be part of this equation.

The requirements of BHP Coal, in relation to electricity supply from a future deregulated market, is for a cost reflective electricity price delivered from a truly

deregulated market, while maintaining security of supply equal to that presently received in Queensland.

However, before BHP Coal can enter into the deregulated electricity market as a consumer, its existing supply contracts with the regional distribution boards need to be terminated. All mines are presently bound to agreements with either the Mackay Electricity Board or the Capricornia Electricity Board, agreements that were in place during a monopoly regime and which imposed strict conditions on the sourcing of supply, as well as significant capital contributions for the establishment of required infrastructure.

The Queensland Electricity Reform Unit (QERU) has formulated a draft Principles and Policy Guideline as transitional arrangements for dealing with existing supply contracts held by major customers. Under these guidelines, present customers will have 3 months from the commencement of contestability to notify their intention to change. There will then be a further 6 months to negotiate new contracts, before final release from existing contracts.

While these guidelines provide a broad framework for the unwinding of existing agreements, there remain a number of unresolved issues that need to be addressed. These include:

Reimbursement of capital contributions through refund of security deposits. These reimbursements must be fair and acceptable to the industry and should not, contrary to draft proposals, be in any way linked to the period of any new connection contract negotiated.

— · Transmission and distribution use of system (TWOS and DUOS) charges

should not be subjected to capital assets contributed by BHP Coal.

It is also of concern that while TUOS and DUOS fees have not yet been released, BHP Coal is bound to act within the QERU timetable for implementing a new electricity contract, or risk default to the original contract. Finally, even if it acts within the current guidelines, the guidelines as drafted provide for reversion to the existing contract if no agreement is able to be reached with the existing suppliers within 9 months from 18 January 1998.

BHP Coal needs to be in a position to properly assess its entry to a deregulated market from its introduction on 18 January 1998. The above issues must be resolved to permit this to occur.

NEW SOUTH WALES COLLIERIES

While the Collieries have good quality resources, costs are high and margins low because of the depth and small size of the mines, low **productivity** and high transport costs and port charges. Under its Recovery Plan, the Collieries are restructuring their operations to seek to bridge the cost and productivity gap through significant changes in work arrangements and other cost elements. These measures need to be combined with reduced transport costs and port charges to competitive levels.

Transport Chain to the Port

By any standards, transport costs are high despite the short distance to the port - in 1996/97 these costs were on average 21¢ per net tonne kilometre and amounted to approximately 14 per cent of total costs for these mines.

The high costs result from complexities in the transport chain, with much of the production handled four or more times before it reaches the port. Appendix 3 provides a diagram outlining the current transport system.

The majority of BHP Collieries' raw coal production is transported by truck to O'Briens Drift, an underground conveyor which takes coal down through the escarpment to the Kemira Valley below. The coal is then loaded onto rail wagons and transported along the BHP owned Kemira Valley rail line to the Coal Preparation Plants at the Port Kembla Steelworks. Raw coal production from Elouera Colliery (east of the escarpment) is transported to the Preparation Plants via the BHP owned Wongawilli rail line.

Clean coal from the Preparation Plants is then either used in the steel making process or transported by private road to the Port Kembla Coal Terminal for export.

Clean coal production from the West Cliff and Appin mines is trucked by public road, either to the Port Kembla Steelworks or the Port Kembla Coal Terminal, depending on its final destination.

The ability to truck export coal direct to the Port Kembla Coal Terminal was achieved through the recent inclusion of the Company's mines in Schedule 1 of State Environment Planning Policy 7. This inclusion has reduced multiple handling, thereby reducing clean coal transport costs. This is a significant first step, however there are still restrictions that allow only delivery of clean coal on public roads to the coal terminal for 11 hours per day, 6 days per week. These restrictions result in inefficient use of capital and therefore increased transport costs.

In addition, the complex and therefore costly coal transport chain must be streamlined in order to achieve a cost effective transport system. Such a system is integral to the viability of BHP Collieries mines.

Among the matters which must be addressed is the Kemira Valley rail transport system which is characterised by an aging rail line and equipment near the end of its

life cycle. Several options are being evaluated to provide the most effective transport system, including upgrading the existing rail line or replacing it completely. An

effective buffer zone of a minimum of 500m around the existing transport infrastructure is required to ensure operational effectiveness of the system.

Preliminary evaluation work is underway on an overland conveyor, which would replace the rail system. This conveyor system would have an anticipated route similar to the line of the. current rail line..

Whether the existing rail system is upgraded or replaced by another technology, the transport corridor must be protected.

A government planning instrument is therefore required to ensure an effective coal transport corridor is maintained. This planning instrument is even more important when seen in light of the major investment required for a possible new transport system.

The coal reserves accessed from east of the Illawarra escarpment are all but exhausted, and must now be replaced from existing or new mines to the west. As the Company pushes for world class productivity, it must review transport capabilities and configuration for its operations west of the escarpment.

New operations west of the escarpment will place further pressure on already limited transport resources. The only current transport alternatives for coal from further west of the escarpment to the Port are by road, or rail via Sydney or Moss Vale. Both these options are complex and costly, with double handling and community impacts.

The only feasible alternative would be a rail link between these areas of prime coal resources and the port. Such a rail link would provide a streamlined transport system with community benefits over the currently available alternatives.

Port Kembla Coal Terminal

As overall production levels in the Southern and Western Districts decline, the Government owned Port Kembla Coal Terminal becomes more reliant on BHP Collieries' throughput. Similarly, as coal prices decline and market pressures increase, competitive loading charges become more important.

Charges at Port Kembla of approximately $4.70 per tonne ($4.10 with recent relief) are high, when compared with what are already high coal handling costs at comparable Australian ports. Loading charges at Newcastle are approximately $2.90 per tonne and around $3.20 per tonne (plus a capital component of around $0.85 a tonne*) at the state Government-owned Dalrymple Bay terminal in Queensland. Costs at the adjacent BHP Coal operated Hay Point terminal are significantly lower.

Recent lease relief has resulted in a reduction in loading charges at the Port Kembla Coal Terminal, however this relief was due to end in September 1997 with negotiations on an extension still underway.

* Users have an option of a per tonne payment or up front capital contribution.

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Further and ongoing lease relief by reducing Government lease payments to well below the current average of approximately $2.00 per tonne is required to keep the Port Kembla Coal Terminal loading charges competitive and therefore maintain the viability of the region's mines

It should also be noted that competitive rates for individual companies will depend upon the maintenance of overall volume throughput. Any decrease in that volume, for example through mines losing competitiveness, will have a flow on cost effect for other producers.

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7. **RESOURCE SECURITY**

New South Wales Collieries Resource security - the need for planning certainty"

New South Wales has an extremely valuable resource of some of the best coking coal reserves in the world, however future development is at risk without appropriate planning processes in the face of urban encroachment.

Sixty per cent of the state's coal reserves have already been made uneconomic due to competing land use and this figure is steadily increasing. Decisions relating to urban expansion and land use must be made in the context of potential coal resource development.

The Company has identified, for its future operations, areas of prime interest in its leases and exploration authorities. The Company needs appropriate planning instruments to preserve access to these valuable coal reserves and to provide adequate buffer zones around key facilities, such as transport, necessary to access these resources. If these cannot be assured, there is no long term future for BHP Collieries or the Illawarra coal industry.

Competing land use and the importance of the State's coal resources also make it essential for a single authority for mining approvals. In order to confidently proceed with its future operations, BHP Collieries needs an efficient, prompt and streamlined process of approval.

The Company believes it is appropriate for the Department of Mineral Resources (DMR) to be the key government body for mining approvals and that other government departments should have their input into the process through the DMR

Finally, given the level of investment in the coal mining industry, one to two years of approvals for longwall extraction is not sufficient security, and results in a piecemeal approach to mine planning.

A minimum of five to seven years would be required to justify the purchase of a new longwall. A prime example of this is **the Company's** plan to move into a new area of Appin Colliery. This is a multimillion dollar investment, which is made extremely risky with the possibility of restrictions arising within as little as one year under the current approval regime. The Company requires longer approvals to provide the necessary security for longwall extractions

Environmental Issues - Regulations affecting the industry

Approval processes have been complicated by overlap and unnecessary layering of environmental regulations.

The Commonwealth Environmental Protection (Impact of Proposals) legislation of 1972 was paralleled with similar legislation in New South Wales but not in Queensland.

The Commonwealth has added to the environmental protection legislation with more specific legislation such as the Endangered Species Act (1994) and New South Wales has also continued to add similar legislation.

Queensland, in the l990s, moved to introduce similar legislation so that both States have legislation which essentially duplicates that of the Commonwealth

The Commonwealth recognised the prospect of this duplication in 1994 and sought accreditation of State environmental regulation regimes. The Queensland Department of Mines and Energy prepared a draft submission for accreditation of the environmental regime required under the Mineral Resources Act 1989 and subsequent amendments.

However the gazettal of the Queensland Environmental Protection Act in 1994, which introduced a new, complementary regime, resulted in that submission not being proceeded with by the Department of Mines and Energy.

Hence, there remains the potential for environmental assessments to be called for by both levels of government and for separate approvals to be required. That this does not

frequently occur is because of cooperation by the State and Commonwealth bureaucracies; but it is by goodwill.

BHP Coal's most recent experience is on the South Walker Creek Project where, although not formally required, it was decided to seek Commonwealth endorsement of the State approvals of the project. The endorsement was slow, and therefore potentially costly.

BHP Coal therefore seeks to have the Commonwealth endorse the Queensland and New South Wales environmental approvals process so that a single process is used to meet the requirements of both levels of Government It is acknowledged that this would hold only where FIRB approvals are required for a project.

(Note: The Commonwealth review of environmental assessments of all exporting coal mines in 1995-96 did not lead to a call for additional assessments to meet the Commonwealth requirements for the now suspended Export Approvals).