THIESS CONTRACTORS PTY LTD

SUBMISSION TO THE INDUSTRY COMMISSION

BLACK COAL INDUSTRY INQUIRY

1 INTRODUCTION

Thiess Contractors Pty Ltd is pleased to be able to continue to contribute to the development of the Black Coal Industry in Australia, which has been a significant element in the development of Thiess as a major Australian employer and a key participant in the Australian mining industry for over 50 years.

The role of Thiess in opening up and supporting the export market for Australian coal places us in the position to observe the broad sweep of the development of most of the Australian Black Coal Industry (ABCI) over the last half century from the perspective of an owner, operator, contractor and infrastructure constructor to the industry.

In terms of our current operations, Thiess is not significantly involved in coal marketing but has substantial black coal operations in both New South Wales and Queensland (as well as Indonesia) and significant non-coal mining operations across, and beyond the country.

We trust that some observations from this diverse operational base, incorporating both underground and open cut methodologies in both coal and non coal sectors, will assist the Commission in identifying sound proposals for the further development of the industry.

2 SUMMARY

Thiess has played a substantial role in the coal industry at various critical crossroads and, in our observation, another such juncture has been reached. The difficulties of management systems, work practices and legislative impediments that pervade the ABCI are largely born of the application of an island mentality to the industry as a special case requiring special solutions. These special solutions have generated a legacy of inertia that ill-serves the industry and the nation in an era of increasing international influences and pressures.

Despite the significant role of the ABCI and Thiess in each other's developments, we contend that the industry is not such an island.

To ensure that the nation garners the maximum benefit from the resource base of the industry there is substantial need for improvement in:

- co-operative efforts to eliminate all safety hazards and incidents.
- the estimation, prediction and measurement of the productivity of mining equipment, methods and personnel.
- the proper measurement and allocation of costs.
- work methods that affect the manner in which work is done during a shift and the number of people required to perform any particular function.
- the development of common goals among employers and employees.
- the adoption of an employment relationship that recognises and rewards the full capacity of the workforce to contribute to the operation.
- the simplification of employment arrangements to avoid disputes that distract from the main game.
- issues of hours of work and their structure.
- levels of productivity and efficiency that would justify the additional labour cost compared to other mining sectors or the community overall.
- mine design specifications and construction processes with a view to minimising the capital and time involved in the establishment of operations.
- inappropriate regulatory intrusions (beyond that required for the community at large or other mining sectors) including special statutory superannuation and long service leave schemes.

3 THIESS IN THE BLACK COAL INDUSTRY

3.1 HISTORICALLY

The pioneering Thiess family came to mining after a tough early apprenticeship in farm contracting, grain and wood haulage, dam sinking and road building. Thiess was positioned post-World War II to venture into open cut coal mining operations, shaping the development of many of the ABCI's most productive fields.

Thiess first became involved in surface coal mining in 1944 to meet an acute nationwide coal shortage. Commencing at Blair Athol in Central Queensland and Muswellbrook in New South Wales, mining operations were soon extended to Callide in Qld and Ben Bullen in NSW. During the 1950's, Thiess developed five new open cut coal mines and operated the most productive mines in the nation.

Thiess pioneered the use of large mining shovels, bulldozers, scrapers and draglines for stripping overburden and mining coal. The large diameter drills Thiess used for drilling and blasting were the largest known in Australia at that time.

In the 1950's Thiess was one of the first to export coking coal from Queensland to Japan. Over the next two decades, Thiess undertook extensive coal exploration programs throughout Qld and NSW, discovering and developing coal deposits for many of the current mines in the Bowen and Callide basins and the Hunter Valley.

In the last fifteen years, Thiess has been involved in the construction of infrastructure and providing contract mining services for major coal mines in NSW, Victoria, Qld, Indonesia and Malaysia. Our personnel have played key roles in many of Australia's modern large scale surface coal mining operations.

3.2 TODAY

Thiess commands a strong profile in all disciplines of contract mining. Support from Thiess opens alternatives for mine owners to initiate or effectively continue mining without the significant burdens of capital expenditure.

Thiess is currently engaged in major mining contracts in coal and metalliferous projects in both open cut and underground sectors. Thiess also undertakes access drift and shaft construction for underground development.

Thiess also translates its keen understanding of the mining industry into all mine establishment areas including the design and construction of processing and civil infrastructure from initial planning to final landscaping of rehabilitated areas.

Existing ABCI operations include:

- Alliance Colliery
- Burton Mine
- Collinsville Open Cut
- Mt Owen Mine
- South Walker Creek Mine
- Highwall mining at various locations

4 PRODUCTIVITY AND COSTS

4.1 Mine Performance

It is true that comparisons between mines in terms of productivity performance are problematic. However the estimation, prediction and measurement of the productivity of mining equipment, methods and personnel are integral to the achievement of commercial outcomes in a mining contracting organisation. Because our commercial outcomes are typically not directly affected (apart from the availability of projects within the industry overall) by commodity prices and foreign exchange movements, Thiess adopts a very focussed approach toward the direct operational parameters that may be obscured within the many external influences impinging on many mining companies.

In general terms Thiess monitors and predicts mine performance based on the following factors:

4.1.1 Equipment Productivity

In this regard, measurements are made of the productivity of equipment in terms relevant to the machine. For example a particular model of major excavator will be tracked in terms of the number of bank cubic metres of material per hour it loads into trucks. Given that one of the many factors impacting on this figure is operator competence, we are necessarily also tracking and comparing operator productivity between our various operations.

Our experience has been that, with proper attention to operating practice, there is no discernable pattern of lower equipment productivity in our ABCI operations compared to our other mining operations. Even so, in some cases the operational skills and knowledge of personnel recruited from within the ABCI have needed to be upgraded to match our operating methods and requirements.

4.1.2 Equipment Availability

This measure is notoriously difficult to compare between different organisations with almost invariably different treatment and definitions of operating and available time. Nonetheless it is a fundamental element in the development of our plant cost structures and is carefully tracked in our management system. As with productivity, this figure is impacted by the effectiveness of our personnel and reflects the performance of our people, as well as the reliability of our equipment.

Our experience has been that engineering personnel drawn from within the ABCI are not as skilled in some significant regards as those in other sectors, despite widespread recognition of substantial post trade training and qualifications. Where we have recruited personnel from within the industry there has been a substantial need to improve equipment specific knowledge and diagnostic skills as well as reinforce the urgency of breakdown response.

Despite these concerns, we have been able to keep equipment availability in ABCI operations broadly in line with our overall mining experience.

4.1.3 Mining Methods

The diversity of our projects in mining and also in civil construction means that Thiess brings to any mining challenge a range of solutions and expertise beyond that often available to an individual mining company. Accordingly we and our clients have seen the advantages that can be gained from adopting mining methods that cross over from a more metalliferous style operation and even techniques that stem from our civil engineering expertise.

If some deposits are to be developed, and other resources operated to their potential, there is a need for the ABCI to embrace alternative techniques and methods in technical areas. Of course such alternatives need to be assessed based on the nature of the resource and its appropriateness to more typical operating methods.

4.2 Management Systems

The control of productivity and costs is fundamental to the development of excellence in mining operations and it is our observation that traditional ABCI operations have not implemented systems that provide the necessary rigour in these areas.

Of particular significance is the development of reliable equipment cost data to enable effective comparisons of alternative mine configurations and facilitate a proper appreciation of the true cost of operations. The treatment of capital costs within financial systems and the inadequate allocation of, and provision for, costs to equipment (both "consumables" and maintenance/overhaul costs) are areas which, in some systems, obscure the true cost of operations.

4.3 Mine Planning and Scheduling

Because of the nature of Thiess' business and contractual arrangements, the accurate and detailed planning and scheduling of mine operations is core to the achievement of satisfactory commercial outcomes. This is true from early pre-tender work through formal estimation, contractual negotiations and eventually ongoing operations.

In some instances we have encountered potential ABCI mining clients whose planning processes are insufficiently detailed to enable a true assessment of future costs of operations and a proper evaluation of the most appropriate operating configuration.

4.4 Work Arrangements

Much attention is placed on the nature of work arrangements in the ABCI as a source of inefficiency and cost imposts. These effects are manifested in a number of areas, some of which are "universal", others of which are very much site specific. They can be broadly assessed under the following headings:

4.4.1 Work Practices

In this category fall the broad sweep of work methods that affect the manner in which work is done during a shift and the number of people required to perform any particular function. This is an

arena in which the owners, managers, unions, employees, governments and industrial authorities all have significant historical responsibility.

Traditional examples of issues in this arena within the ABCI are:

- over "manning" of particular equipment e.g. Shovels, Draglines.
- over "manning" of particular functions e.g. Workshop, Office.
- unnecessary restriction of duties e.g. Plant Operator v Truck Driver, Fitter v Boilermaker.
- extended "tolerance time" providing for early "knock off" each shift.
- seniority in allocation of people to functions, shifts or rosters.
- artificial creation of overtime beyond that strictly required for the performance of necessary work.

Thiess' recent experience has been that all parties accept that such practices require modification and the industrial agreements applicable to our operations do not recognise such practices and such practices do not in fact operate on our ABCI sites. Greenfield sites do not typically attract such restrictions today but many existing operations are no doubt struggling with these and similar issues as a result of the historical legacy of the industry.

It needs also to be noted that most of the poor work practices in the ABCI were not mandated by the relevant industrial awards and partly arose out of poor management on site. It is inappropriate to lay the blame for such practices solely on unions and employees when they were simply pursuing what was available from management that was suffering from cash flow priorities, poor cost control, a siege mentality and a herd mindset within the ABCI. Although the industrial authorities may from time to time have resisted employer moves to clean up some of these issues, they were rarely involved in their inception and such resistance arose largely from the perceived power relationships within the industry, whereby the employers would generally not stand up to any determined resistance from the mining unions.

Thus, the fact that such practices are not enshrined in Greenfield agreements is no cause for complacency as the motivations that led to their historical development may re-emerge and the same practices could no doubt resurface unless attention is given to:

- the development of common goals among employers and employees.
- the adoption of an employment relationship that recognises and rewards the full capacity of the workforce to contribute to the operation.
- the simplification of employment arrangements to avoid disputes that distract from the main game.
- ongoing management vigilance.

It is not appropriate for Thiess to seek to espouse some packaged solution to achieving these outcomes as each operation or prospect must be assessed in its own context for the most appropriate tools and structures to facilitate the optimal work environment. We would not even claim to have met these ideals fully in every aspect of our own ABCI operations but see them as the key to developing an advancing culture rather than one with all parties in the trenches.

4.4.2 Work Patterns

This area encompasses all issues of hours of work and their structure. Certainly in this arena the role of industrial authorities and awards has been fundamental to the restrictions that the ABCI has faced. Up until the end of the 1980's the industry suffered restrictions such as:

- Compulsory production shutdowns, at least for three weeks at Christmas, in some case a week at Easter and August as well.
- Inability to undertake production on weekends.
- Restrictions on production on overtime.
- Restriction to 7 ordinary hour shifts.

These restrictions progressively disappeared from late 1988 to 1990 as a result of a combination of arbitrated and negotiated changes to the industry awards, triggered by economic difficulties confronting the ABCI leading up to that period.

However the following framework remains in place:

- Average of 35 ordinary hours per week (award provision).
- Maximum 8 hours per shift without agreement of employees (award provision).

- Average of 48 total hours per week (union policy).

The application and implications of this framework vary between regions and operations in terms of the real restrictions faced by employers. While Thiess has been able to implement innovative work patterns at our ABCI sites, these patterns are different, as a result of this overall framework, from those typically operating in other mining projects.

Work patterns are a key ingredient to be assessed in the establishment of an operation, impacting as they do on the source and availability of labour as well as the cost of operations and the capital required for the establishment of accommodation in remote areas.

There is no single ideal pattern, but it can be said that ABCI faces a substantially more restrictive framework than other Australian mining operations. The removal of such restrictions would provide an enhanced capacity of the industry to optimize the match between work patterns and resource parameters and thereby maximize the potential for future development of new resources and efficient extraction of existing reserves.

4.4.3 Labour costs

There are a combination of factors that impact on labour costs, including of course the previous two elements of work practices and work patterns. Other factors relate to the basic terms and conditions of employment applicable to employees in the ABCI well beyond the standard generally enjoyed in the Australian community or other mining sectors.

Such factors include:

- 35 hour week.
- Annual Leave typically one week per year beyond community standards.
- Long Service Leave of 13 weeks after 8 years portable industry service.
- High base wage rates.

- Superannuation entitlements well beyond Superannuation Guarantee legislation standards.
- Weekend penalties above many award standards where weekend work is typical.
- 3 weeks sick leave per annum from commencement of employment.
- severance and retrenchment pay of 3 weeks per year of service without a set maximum payment.
- Substantial bonus payments.

All but the last of these are award based conditions that constitute the standard against which any new employment arrangements are tested in the current IR legislative regime. Even the last of these (bonus) has been the subject of determinations by industrial authorities, despite its over-award nature, that go to the requirement for a substantial payment to be made.

These standards constitute a substantial additional labour cost compared to other Australian mining operations and necessarily limit the reserves which can be economically extracted. In the case of one comparison Thiess has run within its own operations the loaded labour cost of a typical coal operation is up to double that of a comparable non-coal operation.

The ABCI does not generally reflect levels of productivity and efficiency that would justify the additional labour cost compared to other mining sectors or the community overall.

4.4.4 Employment Entry/Exit

Much attention has been given to the processes of recruitment and retrenchment applicable within the ABCI in recent well-publicized disputes.

It would seem reasonably clear that the award provisions relating to the extension of preference in employment to individuals on a general retrenched union members list are void under current legislative regimes. Again, it should be appreciated that such practices were not solely the creature of the industrial authorities, but such authorities nonetheless strongly supported that approach.

While it may be arguable whether most recruitment "systems" employed by ABCI employers actually produce a more highly skilled and motivated workforce, the retrenched list system was clearly perceived by employers as a real impediment to the implementation of innovation and cultural change within the industry.

Thiess has utilized in much of its recent ABCI (and other mining sector) recruitment systems that seek to objectively identify safety awareness, industry knowledge and real skill levels (as opposed to simple qualifications). While these systems are no doubt capable of further development, Thiess believes that its approach has borne fruit in the formation of project teams that are well matched to the needs of the operation.

The vexed issue of the process whereby individuals are selected for retrenchment is one which has not in recent history been of any significant application in our ABCI operations. Where employment has been reduced it has usually been in circumstances of the completion of a project rather than any partial reduction of hands.

Were such an issue to arise, our first priority would necessarily be to the maintenance of the skills and abilities required by the ongoing operation.

4.5 OCCUPATIONAL HEALTH & SAFETY

Arising from a combination of the age of our projects, the selection of our workforce and the implementation of our comprehensive safety systems, Thiess has an enviable record in mine safety in the ABCI. This record includes a hat trick of highly commended awards for various of our ABCI operations in the annual Minerals Council of Australia Minex safety awards from 1995 to 1997. These awards are judged from amongst mining operations across all mineral sectors and we are justifiably proud of the recognition given to ourselves in that arena. Queensland coal industry safety statistics reported by the Department of Minerals and Energy for the year 1996/7 show the three top performing mines in both Underground and Open Cut sectors were all Thiess projects.

This is not to say that Thiess is satisfied with its performance. Although our surface operations in Qld run at a nil rate of lost time injuries, there is constant

attention on site to co-operative efforts to eliminate all safety hazards and incidents, as well as improve our underground performance which, while well below incident rates in the industry generally, remains unacceptable.

A primary reason that Thiess has been successful in managing health and safety in the mining industry is directly related to our ability to cross pollinate management practices within our broad range of disciplines. It is recognised that the industry's isolationist approach to health and safety management supported by Government's separate mining legislation, has had a negative effect for ongoing improvement. Although it is appreciated that the industry has some unique hazards, so too have many other industries. It is also appreciated that regulation and codes of practice differ from industry to industry, however management practices largely remain the same.

There is no doubt that many sections of the industry support reform from the present prescriptive legislation, presently in place in a number of states, to a more self regulatory system. A preferable position would be to amalgamate the mining legislation with the occupational health and safety legislation. The question must be raised as to why 90% of Australia's industries can be successfully managed with occupational health and safety legislation, why not mining?

Thiess manages occupational health and safety throughout all of its disciplines using a singular occupation health and safety system. All supervisory staff receive the same occupational health and safety management training. It is suggested that a unilateral approach to planning, implementation and training has brought many benefits to Thiess which could produce the same benefits to all industry stakeholders.

4.6

4.7 INFRASTRUCTURE

Infrastructure issues within the ABCI include the capital costs and time constraints involved in the establishment of operations. In this regard, the industry now includes some operations that are labouring under substantial burdens of capital charges that are inflated by inappropriate design specifications and construction processes.

The prospects of some operations achieving a rate of return on such investment that would justify continued development of the ABCI are slim, not only due to operating costs but also due to the inflated capital burden.

A recent Thiess greenfield coal project was brought on stream from "paddock to production" within 100 days with commensurate capital savings to the client and is accordingly providing a superior return on investment to many other operations. This was not achieved at the expense of quality of product or the environment, with the project being the recipient of a major resource industry environmental award and exhibiting excellent safety performance.

The capability of a contractor like Thiess to integrate the design, construction and operational aspects of a new project provides substantial synergies in terms of both capital cost and speed of development.

5 GOVERNMENT EFFECTS

5.1 REGULATIONS

The tendency by Governments to treat the ABCI as a special case in a range of areas has led to some inappropriate regulatory intrusions (beyond that required for the community at large or other mining sectors) including in the following regards:

5.1.1 Management Qualifications/Coal Mine Regulations

See Occupational Health and Safety above.

5.1.2 Long Service Leave

The existence of a portable long service leave arrangement is a combination of award prescription establishing entitlements and federal legislation establishing funding arrangements. The difficulties with this approach are as follows:

- it is inconsistent with any intended link between service with a particular employer and the entitlement to long service leave.
- the quantum of benefit far exceeds the community standard.
- it necessarily involves elements of cross subsidisation where service has been recognized for which contributions to the fund have not been made.
- the levy payment extracted is far beyond that required to fund an individual employer's obligations with respect to ongoing accruals.
- where an employer has operations outside the ABCI, contributions made on behalf of an employee who transfers out of the industry but remains with the employer are not generally refunded to that employer, leading to a double cost (in fact even higher because of the exorbitant levy rate paid in the first place) to that employer to provide for the relevant leave.

This latter point has particular relevance to Thiess and will be an increasing cost. The perception of the ABCI as some sort of special island of regulation is not consistent with the realities of modern business where employers operate across a range of industry sectors.

5.1.3 Superannuation

This has likewise been treated as a special case in the past with the Statutory Coal Super funds operating a legislated monopoly when it may well be in the interests of the individual employee to choose to make payments to an alternative fund including an employer sponsored fund which forms part of an overall package of remunerating and motivating employers and provides future benefits for employees and dependents.

Again, the issues arising from cross-industry employers & employees are not well handled by the industry funds.

The statutory superannuation arrangements need to be scrutinised in light of the prospective new rules concerning superannuation choice to

ensure that choice is implemented without losing any taxation advantages that currently accrue to employees under current schemes.

6 CONTACT DETAILS

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7 ATTACHMENTS

7.1 MINE PROFILES

7.2 MINE SAFETY DATA

THIESS CONTRACTORS PTY LIMITED

COAL OPERATIONS – SAFETY PERFORMANCE SUMMARY

TWELVE MONTH ROLLING AVERAGE

AS AT 17 OCTOBER 1997

QLD/NT/PACIFIC

PROJECT	*FREQUENCY*
BURTON	0
SOUTH WALKER CREEK	0
COLLINSVILLE	0
CHM	0
NEWLANDS U/G	30
ALLIANCE COLLIERY	10
MORANBAH NORTH	7
QLD/NT/PACIFIC TOTAL	2

VIC/SA/TAS

PROJECT	*FREQUENCY*
YALLORN	
LOY YANG	0
MORWELL	

SUPPORT SERVICES O/BURDEN REMOVAL, BELT CHANGES REHABILITATION

NSW

PROJECT	*FREQUENCY*
MT OWEN	26

AUSTRALIA	3