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SPECIAL REPORT

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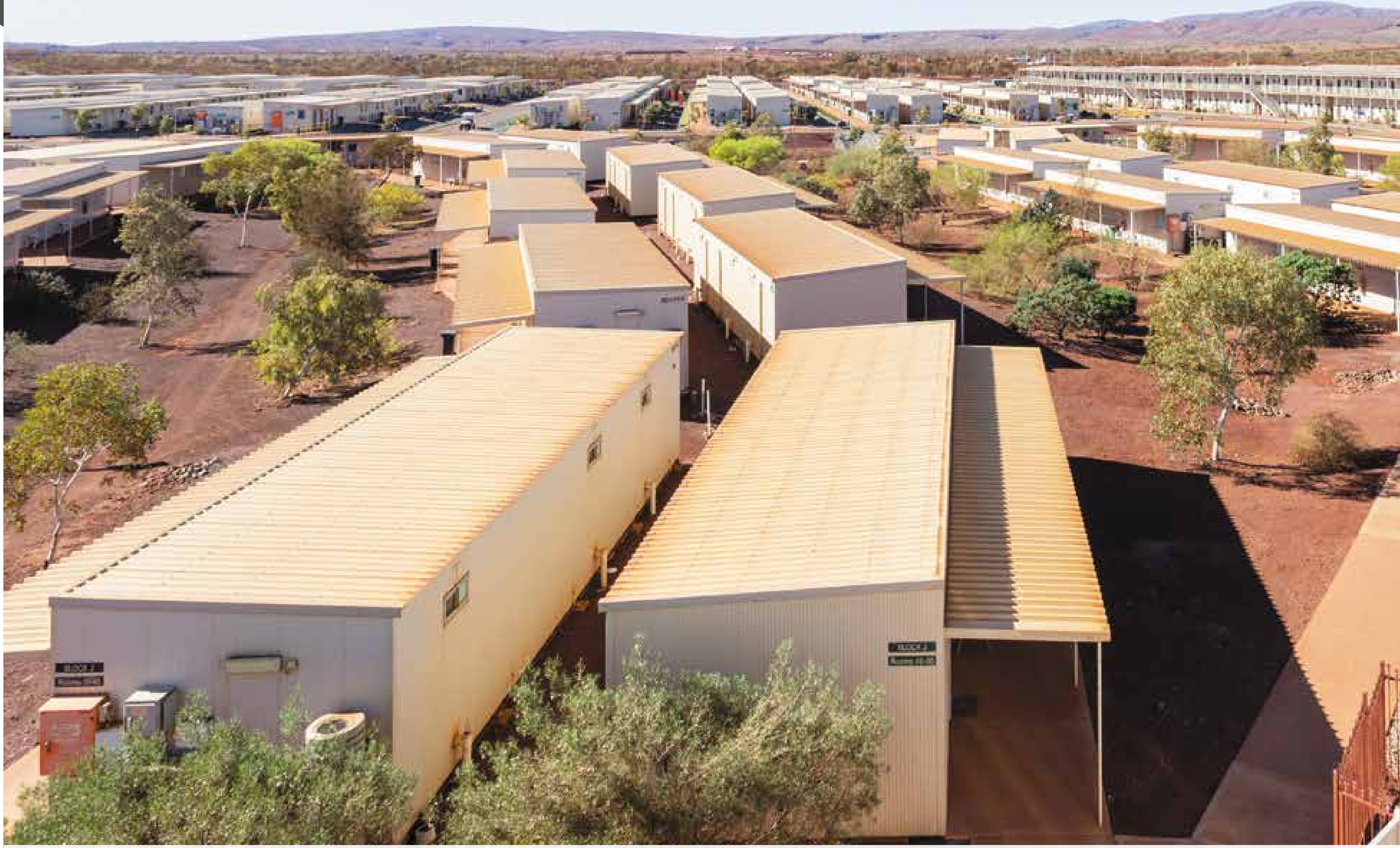
EXPORTERS



PRIORITY: Keeping workers safe from COVID-19 in mine camps was critical to the industry's performance. **Photo: Gabriel Oliveira**

Exporters surge, hurdles loom

Expansion plans are in the works for some of WA's biggest exporters, but commodity prices and projects face uncertainty.

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6-PAGE FEATURE

A TWO-WEEK period in March made all the difference for Western Australia's export sector, which has outperformed much of the world during the COVID-19 crisis.

In that fortnight, flights to mine sites were doubled to ensure social distancing on planes, and temperature checks became a pre-boarding requirement.

Rosters were changed to reduce travel and those workers who could stay home did so.

While local resources companies did their best to prevent a virus breakout at their sites, mines were shut down in Brazil, WA's biggest competitor in seaborne iron ore production.

That contributed to a big increase in the price of the steel-making commodity.

Association of Mining and Exploration Companies chief executive Warren Pearce told *Business News* the sector had made a huge effort to continue operations safely during the pandemic.

"It was incredible," Mr Pearce said.

"Once it became clear what was going to happen … [businesses] changed the way they worked."

Those changes came with an additional cost for companies and a cultural change for employees, he said.

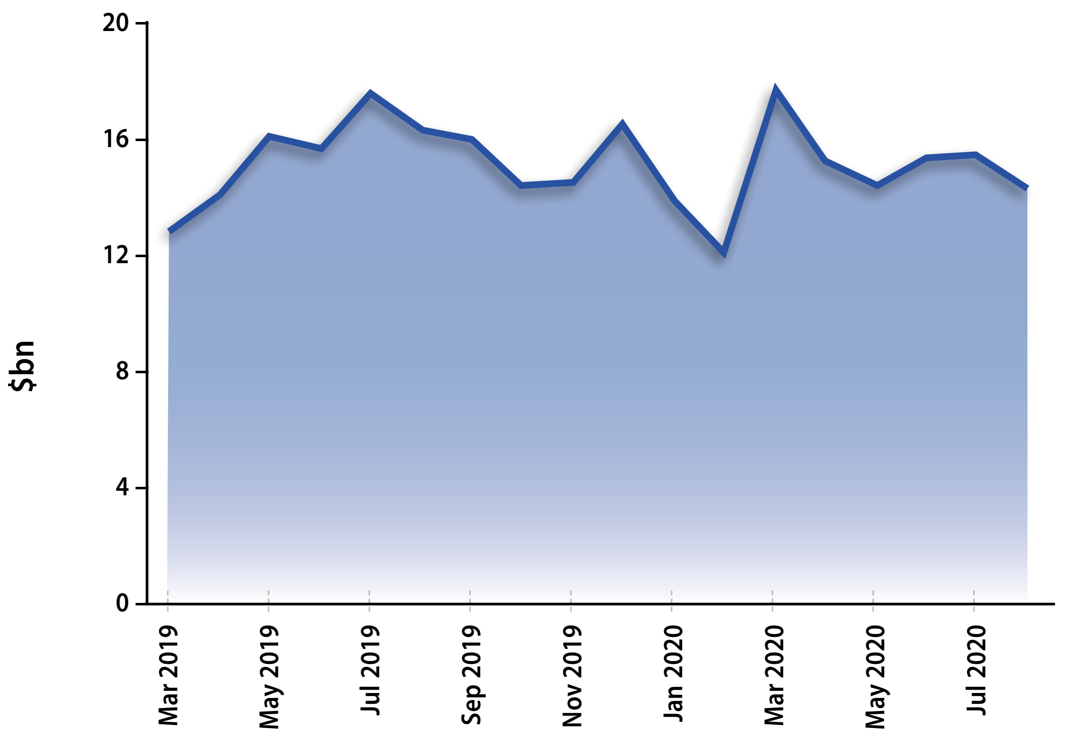
Nonetheless, any spread of coronavirus in workforce accommodation would shut mines and hit the economy, so governments and businesses worked together to keep the industry open, Mr Pearce said.

For Treasurer Ben Wyatt, iron ore royalties were expected to be $2.3 billion more this financial year than what was forecast in the December mid-year review, with the industry in position to make the most of high prices.

The economic impact of the resources sector on the

> Once it became clear what was going to happen ... [businesses] changed the way they worked - Warren Pearce

Monthly WA merchandise exports



Source: ABS

$US120.23/t IRON ORE PRICE, OCTOBER 15

state's overall economic health stretches far beyond its effect on the budget bottom line.

That's reflected in the latest Data & Insights biggest exporters list, which shows WA's top 10 exporters are shipping nearly $165 billion annually between them (see page 40).

Those numbers do not fully reflect the COVID-19 period, as some businesses report on a year-to-December basis.

All up, WA's merchandise exports totalled $184 billion in the 2020 financial year, according to the Australian Bureau of Statistics.

That was 13 per cent higher than in 2019.

The numbers diverge from many big economies around the world, and highlight the uniqueness of WA.

US exports were about 17 per cent lower in the first six months of 2020 compared to the same period in 2019, while UK exports in the 12 months to July were down 6.5 per cent on the prior corresponding period.

Japan's exports reportedly fell 15.4 per cent in the first half of 2020, compared to the same period in 2019.

The drop was the largest in more than 10 years.

So it's clear WA has bucked the trend.

But the shock of COVID-19 also shows that the shadow of possible risks always looms.

Upside

AMEC's Mr Pearce said a strong infrastructure pipeline around the world, driven by government stimulus packages, was promising for the mining industry.

In addition, junior miners had raised substantial funds for exploration in recent months, which he said would bring long-term benefit.

The state budget estimated an iron ore price of $US92.90/t for the year to June 2020, compared to more than $US120/t at the time of writing.

Rio Tinto reported an average realised price for iron ore of $US85.40/wet metric tonne in the first half of 2020, an 8 per cent increase on the company's price for calendar 2019.

That highlights some of the potential upside for exporters, with a possible $200 billion annualised rate no longer a distant possibility.

Three of the biggest miners on the list plan to sell an additional 70 million tonnes of iron ore per annum over the longer term, an increase of about 8 per cent in iron ore sales.

It would mean BHP, ranked second on the list, could close in on Rio Tinto's long-term position as WA's top exporter.

Production at BHP's WA iron ore operations was 281mt, which was worth about $38 billion.

In May, the company applied to lift its licence for capacity at Port Hedland from 290mtpa to 330mtpa.

That's an increase of about 13 per cent.

Fortescue Metals Group has its own expansion plans, approved by the Environmental Protection Authority in September.

FMG will increase port capacity from 175mtpa to 210mtpa.

While a portion of that will be growth in supply of hematite ore, the main growth source will be magnetite ore, which will be mined at the Iron Bridge project and processed into a concentrate.

Magnetite sells for a higher price than hematite ore, because the concentrate has a higher iron content, often earning a premium of 20 or 30 per cent.

However, costs of production are usually higher.

The third big iron ore miner planning an expansion is Roy Hill Holdings, controlled by Hancock Prospecting, which has obtained approval to lift shipments from 55mtpa to 60mtpa, it is now aiming for 70mtpa.

At Hancock subsidiary, Atlas Iron, there will be a slight decrease in production as the Corunna Downs and Miralga Creek mines come on line.

Sustaining production will be between 6mtpa and 7mtpa, down from 7.8mtpa to 8.5mtpa.

Outside of the top 10, 12th ranked Mineral Resources has particular potential to move up the list.

It plans to build new export berths at South West Creek in Port Hedland, and has a growing lithium operation.

In an August results briefing, chief executive Chris Ellison said he expected iron ore production to double in 2021 to about 20mtpa.

That reflects operations producing at full capacity.

There could be more to come in the year following, through the Marillana and West Pilbara projects, which will ship through Port Hedland.

"We hit a run rate of 12.5mtpa at Koolyanobbing in June and Iron Valley has been steady at 6.7 million tonnes," Mr Ellison said.

"[Koolyanobbing] probably can do a little bit better than that, but we won't be going too much higher than that.

"We originally announced last year, we were aiming for 15mtpa.

"We're not going to get there because of the rail restrictions."

Mr Ellison also said a joint venture with Albemarle Corporation, which will produce lithium hydroxide from a refinery in

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Exporters surge, hurdles loom

From page 39

$184bn
WA MERCHANDISE EXPORTS FY20 Source: ABS

Kemerton, was expected to begin commissioning processing trains in the second half of next year.

US-based Albemarle said it would have an initial capacity of 50,000 tonnes of lithium carbonate equivalent when the refinery started up.

Mineral Resources, Fortescue, Roy Hill and BHP would all be shipping higher iron ore production through Port Hedland.

Pilbara Ports Authority's annual report shows the port hit a record throughput of 538mt in the 2020 financial year, up 5 per cent.

It will be a tight squeeze.

In September last year, the government said a completed expansion project had lifted capacity by 40mtpa to 617mtpa.

The authority is also planning a new cargo facility at Lumsden Point, in Port Hedland.

Downside

There's plenty of optimism about the potential for continued growth of resources exports, but threats always loom.

Despite the possible lift in iron ore capacity, it's widely expected the price will fall in coming years.

Brazilian giant Vale is reportedly expecting to lift capacity from 318mtpa to 400mtpa, with potential to grow to 450mtpa in the medium term.

That would put downward pressure on the iron ore price.

Longer term, there's the potential threat of Simandou in Guinea, which Chinese investors see as an alternative supply source.

The state budget estimates a price of $US64/t for the 2022 financial year, which would reduce revenues for some of vthe biggest exporters.

It's also possible some projects may not proceed.

So while there is much promise that iron ore revenues can continue to smash records, it is far from a certainty.

The obvious threat is a potential second wave of COVID-19.

"If our country goes into significant community transmission, we'll have to work hard to keep it out of our industry," Mr Pearce said.

He added that the labour market was expected to tighten, with some interstate FIFO workers who had moved to WA during the crisis to avoid the hard border likely to return home during Christmas and stay.

The oil and gas industry offers a good example of how quickly things can change.

Producers facing a low oil price environment are also dealing with an aggressive competitive approach from countries including Qatar.

Business News estimates Shell shipped $540 million of petroleum from the Prelude FLNG operation in calendar 2019.

That number is calculated by referring to the annual report of one of its venture partners.

Prelude's first LNG cargo was in June 2019.

This year, the floating LNG processing vessel was out of action for nearly six months.

At Chevron's Gorgon, a phased shutdown will be needed to inspect heat exchangers at the LNG trains.

Woodside Petroleum is still developing the Scarborough project, which will supply gas for a second liquefaction train at the Pluto facility near Karratha.

In March, Woodside delayed a final investment decision, which is now expected next year.

At a recent *Business News* forum, chief executive Peter Coleman suggested front-end engineering and design would get under way early next year.

Pluto Train 2 would add about 5mtpa of capacity to the 22mtpa already operated by Woodside.

In September, consultancy Wood Mackenzie said uncertainty about demand from Asia would cloud opportunity for new investments.

Deloitte national oil and gas leader Bernadette Cullinane said there was reduced potential for expansion because of the economic downturn.

Nonetheless, she was positive. "Global energy demand will continue to increase, much of that will be coming from Asia and non-OECD economic growth," Ms Cullinane said.

Biggest exporters- 100%, operational basis

Rank	Company		Export revenue ($)	Balance date	Revenue ($) previous FY
1	**Rio Tinto**	**Total**	**42bn**	Dec	30.7bn
		Pilbara Iron Ore	**41.5bn**		
		Dampier Salt	**569m**		
2	**BHP**	**Total**	**38.1bn**	Jun	29.6bn
		WA Iron Ore	**36.3bn**		
		Nickel West	**1.8bn**		
3	**Gold Corporation**		**22.3bn**	Jun	16.3bn
4	**Fortescue Metals Group**		**18.6bn**	Jun	14.2bn
5	**Woodside Petroleum**	**Total**	**15.1bn**	Dec	14.8bn
		Australia Oil	**1.1bn**		
		North West Shelf Venture	**11.3bn**		
		Pluto	**3.3bn**		
6	**Chevron**		**12.5bn**	Dec	14.8bn
7	**Alcoa of Australia**		**5.5bn**	Dec	4.1bn
8	**Roy Hill Holdings**		**5.2bn**	Jun (19)	3.8bn
9	**CBH Group**		**~2.8bn**	Sept (19)	3bn
10	**CITIC Pacific Mining**		**2.7bn**	Dec	WND
11	**South 32**		**1.9bn**	Jun	2.7bn
12	**Mineral Resources**		**1.7bn**	Jun	1.2bn
13	**Tronox**		**963m**	Dec	634m
14	**Glencore**		**955m**	Oct (19)	745m
15	**Karara Mining**		**939m**	Dec	771m
16	**Iluka Resources**		**870m**	Dec	970m
17	**Talison Lithium**		**690m**	Dec	-
18	**Sandfire Resources**		**633m**	Jun	589m
19	**Shell**		**540m**	Dec	NA
20	**Santos**		**450m**	Jun	-

Numbers are sourced from annual reports and *Business News* estimates

DOCKSIDE: CBH Group exports grain through this port in Kwinana, among other locations in WA. **Photo: Gabriel Oliveira**

Grain industry delivers despite disruption

The grain industry is sharpening its strategy with new markets, new products and a focus on supply chain costs.

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SAUDI Arabia has become a prime destination for Western Australian barley after the imposition of tariffs by China in May and, more recently, phytosanitary restrictions.

Growers will still take a hit to their incomes, given China bought premium malt barley and the Saudi market is for the lower-priced feed barley.

As a result, WA growers will be as much as $200 million worse off, CBH Group chief executive Jimmy Wilson told *Business News*.

Before the tariffs were introduced, Australia shipped between 4 million and 6 million tonnes of Australian barley to China annually, Mr Wilson said, much of which had now been diverted to Saudi Arabia.

The 80.5 per cent Chinese tariff, levied following accusations of dumping, has led to an unusual distortion in barley markets.

Mr Wilson said Thailand and Japan would join Saudi Arabia as alternative markets for WA.

"The Black Sea countries [and France] used to go into those markets, they've diverted to China," he said.

"It's a lucrative market.

"Shipping companies are becoming a little bit richer because of this impost.

"It's not a natural movement."

The Black Sea region, which includes Ukraine and Russia, is a highly competitive grain producer, given its rising quality and protein content.

Mr Wilson said improving Australia's relationship with China would be critical, and CBH was working with the government on that.

In the longer term, farmers could rethink their cropping rotations if the dispute was not resolved.

Work from the Australian Bureau of Agricultural and Resource Economics and Sciences suggests national barley production could be 30 per cent lower by 2025, reducing sales by about $720 million.

However, increased production of other crops would add $220 million to farmers' coffers, while livestock profits would rise $250 million due to cheaper feed costs.

In WA, farmers have made modest moves.

Data from the Grain Industry Association of Western Australia forecast barley production will be 3.6mt in the season ahead, down 6 per cent on this time last year.

Canola production will be 67 per cent higher, while oats output will be up 27 per cent.

Speaking at a recent Grain Industry Association event, Agriculture Minister Alannah MacTiernan highlighted lupins as a potential alternative to barley.

Ms MacTiernan said the government had been working on international agreements to sell lupins.

"Lupins is a very interesting case,"she said.

"We've gone from one million tonnes a year at one stage to about 300,000 tonnes a year, and it's fading from popularity."

There would be an opportunity to turn that around, Ms MacTiernan said.

Supply chain

Mr Wilson said CBH's primary focus was on keeping its supply chain costs competitively internationally.

That required continual investment in the storage and handling network.

"The costs we charge growers remain flat in comparison to [prices] charged to growers on the east coast, which continue to go up," Mr Wilson said.

"We're way ahead of anyone else in Australia, and very competitive in world markets as well."

Costs were particularly important because only 15 per cent of WA grain was bespoke, Mr Wilson said, meaning the remainder was reasonably able to be substituted.

In the past three years, CBH has added 2.5mt of new storage, compared to 1.8mt in the previous eight years.

Many storage sites had been oversubscribed, Mr Wilson said, which meant rapid movements of grain were needed to keep capacity available.

"We were running a push-type network, rather than a pull-type network," he said.

Mr Wilson said CBH would now have better control over grain flow and could move grain based on demand.

The cooperative was also working with the state government on the Revitalising Agricultural Region Freight Strategy, which could include the government pitching in about $500 million to reopen some tier-three rail lines, the sections of the grain rail network with low utilisation.

Australian Competition and Consumer Commission data shows CBH was the dominant WA presence in the 2019 financial year.

Among traders, CBH had a 49 per cent share, with Glencore and GrainCorp at 13 per cent each.

CBH operates four ports, which ship almost all of WA's grain production, while US giant Bunge owns the Bunbury grain facility, which represents 2 per cent of throughput.

Capacity utilisation at Bunbury was 31 per cent, the report said.

> **Shipping companies are becoming a little bit richer because of this impost ... it's not a natural movement** - Jimmy Wilson

ECU builds for future growth

NEW STRUCTURE: Steve Chapman argues now is the best time for ECU to pursue a major relocation of its campus. **Photo: Gabriel Oliveira**

With the question of when international students will return to Australia still up in the air, ECU is preparing for a return to normal.

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THE beer was plentiful and the rooms were cheap when Steve Chapman attended the University of Newcastle (UK) in the early 1980s.

The campus, which is integrated into the city centre of Newcastle upon Tyne, about 450 kilometres north of London, merged with the streets, with the spoils of the city and the school seamlessly connected.

Unlike in Western Australia, where only one of the state's five major universities – the University of Notre Dame Australia – is located in an inner-city area, the ideal European university defines the city, connecting railway stations, entertainment precincts and swaths of parkland.

So when Professor Chapman, now vice-chancellor of Edith Cowan University, proposed relocating ECU's central campus 10 minutes down Fitzgerald Street and into Perth's CBD, the objective was clear.

Performing arts schools such as RADA in London and New York's Julliard were not tucked away in suburbs, he reasoned, far away from the bustle of the cafe strips and major public transport lines. They were in city centres.

"Why do people go to [study in] London? [It's because] they want to be in London," Professor Chapman told *Business News*.

"They don't want to be in some parkland in Rochford. They want to be in the city."

The state and federal governments appear to agree with Professor Chapman, making a combined $395 million pledge in September to fund more than half of the cost of relocating ECU into Perth's CBD by 2025.

While the news was to be expected – the signing of the Perth City Deal between the Commonwealth and state governments in April 2018 signalled as much – the announcement was nevertheless monumental, given the context.

During the past six months, Australia's university sector has undergone an upheaval so dramatic that the business model to which many subscribe has been rendered close to unsustainable.

International students, who brought $507 million in fees to WA in 2019, are barred from entering the country, given Australia's containment of COVID-19 has hinged on tight border controls.

Few would argue with the results of that strategy, with Australia's economy having avoided the deep recessions now plaguing most developed nations.

In WA, the job losses and economic pain that have beset other states have been mitigated by the state's mining royalties income.

Universities, however, have not been so lucky.

Without international students, the sector is expected to contract significantly in 2021, as already-limited support from the federal government is scaled back.

While federal wage subsidy schemes will be tapered off in the New Year, universities, already facing comparably high hurdles to qualify for funding, will receive little in the way of additional funding or support.

What was once the third-largest export industry in the country will receive a modicum of handouts, but too little to restore the sector to its pre-pandemic scale.

For comparison, income from onshore, fee-paying international students accounted for about 17 per cent of the total revenue reported by WA's five major universities in 2019.

Close to zero international students commenced study in Australia in semester two of this year. If that trend persists, the impact it would have on the sector's recurrent revenue would be significant.

Many universities in WA are already struggling to cope.

Attempts by the higher education sector and the National Tertiary Education Union to head off job losses and industrial action in May failed, after a number of universities, including ECU, declined to accept a framework that would have traded pay cuts of up to 15 per cent for greater job security.

The University of Western Australia's interim vice-chancellor, Jane den Hollander, had helped negotiate that deal, and supported it on the principle it would likely lessen job losses.

Nevertheless, its failure has left the likes of Murdoch University and Curtin University to embark on a series of cost-cutting measures, seeking savings of up to $45 million and $25 million, respectively.

Staff members are likely to bear the brunt of those measures in both instances; in the case of Murdoch, efforts to eliminate face-to-face lectures in 2021 have drawn the ire of the NTEU, which said it expected the university to shed 100 jobs by next year.

That doesn't augur well for the 16,000 people employed across WA's five major universities, according to Data & Insights.

Meanwhile, the federal government's Job-Ready Graduates (and Supporting Regional and Remote Students) Bill, which passed the Senate by a single vote earlier this month, is likely to dramatically reduce funding for the sector.

While the Bill will provide an additional 100,000 placements for domestic students under the Commonwealth Grant Scheme (CGS) by 2030, changes to the overall funding scheme will halve the cost of science, technology and mathematic degrees while doubling the cost of many humanities degrees.

The changes are intended to provide a pathway for students into more readily employable roles.

Opponents of the reforms include Australian National University economist Bruce Chapman, one of the leading architects of the higher education contribution scheme (HECS), who went on record in June questioning the wisdom behind the changes.

Similarly, The University of Sydney told students in August that funding changes would have the unintended consequences of incentivising universities to enrol students into more expensive and, conversely, less employable degrees.

According to Bankwest Curtin Economics Centre's submission to the Senate inquiry into the Bill, the legislation, if enacted against current enrolments and course selections, would likely result in a $900 million loss for the sector, with the federal government contributing less and students contributing more to the overall cost of their degrees.

All of which makes ECU's decision to relocate its campus at a cost of $300 million over five years so curious.

According to the vice-chancellor, the financials behind the decision are sound, given the cost of upgrades to the existing Mount Lawley campus would likely have been more than the cost of relocating.

Ongoing operational costs would likely remain the same, he said, and would not have been offset by millions of dollars in additional public expenditure.

"Would we have got $245 million from the federal government and $150 million from the state government in a time when universities were doing well and there was less demand to see infrastructure investment reenergising the economy?" Professor Chapman asked.

> **The state and federal governments got it and that's why they're putting the money in**
>
> – Steve Chapman

The flow-on economic effects will include a suite of construction jobs in the short-term, while a greater student presence in the CBD will likely boost visitation to pubs, cafes and restaurants in the surrounding area.

In the longer term, having an entire campus centrally located and integrated into the city's infrastructure will be a drawcard for domestic students.

Professor Chapman particularly credits Finance Minister Mathias Cormann with understanding the economic rationale as it applied to WA's economy broadly.

"Go to major cities around the world where you have a large student population, [and] it thrives," he said.

"There's just a buzz you get that you don't when you just get city workers coming in.

"They don't hang around in parks reading books or flood into bars.

"The state and federal government got it and that's why they're putting the money in."

The move to emulate the layout of global universities also appears to be aimed at attracting overseas students, once restrictions on the international border are eased.

Professor Chapman told *Business News* there was already sufficient capacity to meet demand from international applications and that, if the international border was to relax by semester two of next year, ongoing financial operations should not be significantly affected.

The federal government's budget, however, assumes the international border will not reopen until late 2021 at the earliest, and even then assumes a COVID-19 vaccine will be widely available.

Limited travel with New Zealand and some countries throughout South-East Asia has already been proposed, and pilot programs to fly select groups of international students into Northern Territory and South Australia are already under way.

It is not yet known whether the WA government is considering a similar plan.

Beneath all of this is the assumption that, when international travel resumes, the federal government will want universities to return to their pre-pandemic structure.

Professor Chapman said Education Minister Dan Tehan understood the challenges universities now faced and was advocating the case for the sector within federal cabinet.

He is, however, conscious of the ambiguities ahead.

"Am I absolutely confident that the [federal] government is wedded to going back to the way we were before … as a location of choice for international students? I would love it if they were, clearly, as would everyone in the sector," Professor Chapman said.

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Data & Insights

Showing 6 of 6,879

China swine virus an export opportunity

during 2019. Australian beef and sheep meat producers benefited enormously during last year, as export ... within China, and higher export flows of pork, chicken, beef and sheep meat, it is estimated that China ... place, with meat export volumes to China up 544 per cent. While the phase-one trade agreement is having ...

Emanuel Exports enters avocado sector

Yvonne Power: Village Energy Zane Jones: Jones Welding Solutions Alterra Emanuel Exports Nicholas Daws ...

Connecting isolated exporters

Isolation may have helped Western Australia navigate COVID-19 so far, but many agribusiness exporters have used federal help during the pandemic to maintain market access. ...

Perth Basin gas to be exported

Project partners Beach Energy and Mitsui & Co are planning to export half the gas produced ...

Port Hedland ore exports to peak at 547mt

A report backed by the Pilbara's big miners has found that iron ore exports are expected to grow modestly over the coming decade, well below the extra port capacity the miners themselves are seeking. ...

Green light for solar export plan

produce enough cheese for export. But it has got approval to export cheese to China, where owner Shanghai ...

Photo: FMG