KPMG

Australian Mining Risk Forecast 2022/23

Extracting the key insights from Australian mining leaders

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Executive Summary

It seems the world in 2022 is poised on the brink of abundant opportunity – and abundant risk.

This year's survey of Australian mining executives is particularly interesting. So many risk factors will be considered relevant, and all are interconnected, but which ones rank top of mind?

Commodity prices, of course, never stray far from primary consideration and they retain their spot at the top this year. The rest of the list, however, is far more dynamic.

COVID-19 is slipping as a concern in Australia, although not as rapidly as we have seen in our global results. Understandable, perhaps, when you consider the different pace of the pandemic domestically. However the effects of the pandemic are still very much flowing through to **supply chain** risk, which is now playing on the minds of Australian executives more than it did this time last year. There is, perhaps, a growing realisation that the issues created by COVID-19 are not going to be swiftly resolved by policy intervention.

The **skills crisis** affecting mining has rocketed up the list, with concerns about the availability of on the ground employees as well as top-level executives. A relative scarcity of both is seen by survey respondents as a risk factor affecting the growth prospects of Australian mining in the short to medium term.

The 'people problem' is tied closely to perceptions regarding mining when considered through an **ESG** lens. Ultimately, it's the question of what is expected to maintain a **social licence to operate**. Whilst Australian mining has an unquestionably pivotal role to play in the transition to a zero-carbon world, optics around mining's impact on the environment and cultural heritage continues to make this path a rocky one. In resolving this, a number of miners are reporting how they have learnt from the past and transparently reflecting on improvements being made in response. This rebuilding of trust is important, not just for these organisations, but for the industry as a whole, as the corner is turned and the industry leans into leading an ESG response.

Caron Sugars
Australian Mining and Metals Risk Assurance Leader

Behind the risks in this report sits a backdrop of general global uncertainty, accentuated by war in Eastern Europe, but underpinned by broader geopolitical tensions, environmental concerns, and political instability.

Unfortunately in the year since this report was last released, trust in the industry has taken another blow as stories of widespread **sexual assault**, **sexual harassment and bullying** were uncovered. The industry has reacted promptly with investigations, action plans and most importantly transparency. With the report from the resulting West Australian Parliamentary Inquiry into sexual harassment against women in the FIFO mining industry recently released, the **culture** of the industry is once again being questioned. In the short term, this may result in further difficulties in attracting staff to the industry. However, as always there are opportunities for the fast movers and those who have already publicised reforms and safety agendas to address these issues will likely be well placed to attract much needed talent.

Behind the risks in this report sits a backdrop of general **global uncertainty**, accentuated by war in Eastern Europe, but underpinned by broader **geopolitical tensions**, environmental concerns, and **political instability**. It's an unsettling state of affairs and one Australian mining executives are certainly keeping a wary eye on.

And perhaps just as interesting as what made the list this year is what factors missed out. **'Health, safety and security risks'**, a top ten stalwart, misses out in 2022, perhaps simply due to the number of other novel risks that have forced it from the list. Similarly, **cyber security** risk has fallen from the top ten, a factor to keep watching as KPMG cyber specialists advise that the actual threat is in fact growing larger.

Top Industry Risks

We asked Australian mining executives to identify the leading risks facing the mining industry - their collective responses and ranking vs 2021/22 is shown below:

2022		RANK	2021
—	Commodity price risk	1	Commodity price risk
NEW	Financial risks – decarbonising the value chain	2	Community relations and social licence to operate
NEW	War for talent	3	Global pandemic
↓	Community relations and social licence to operate	3	Global trade war
↑	Environmental risks, including new regulations	5	Economic downturn/uncertainty
↓	Global pandemic	6	Environmental risks, including new regulations
↑	Supply chain risk	7	Health, safty & security risks
↑	Political instability / nationalisation	8	Access to key talent
↓	Access to and retention of employees	9	Regulatory & compliance changes/burden
↓	Economic downturn	10	Cyber and IT security risks

Global Trends

This year has shown a different picture in the global survey as commodity price risk lost its place at the top of the risk radar, overtaken by environmental risks and regulations. The environmental, social and governance (ESG) agenda looms large – the third top risk globally (community relations and social license to operate) is also related to ESG.

Another dramatic difference this year internationally, which is also different to the Australian result, is that the pandemic has disappeared from the top ten, after leaping in at number two last year. Now it seems like globally the industry regards COVID-19 as something it can incorporate into business as usual as global demand for commodities to power the economic recovery builds. The difference for Australia regarding how COVID-19 has ranked is likely due to the lag Australia experienced in transmission compared to other countries.

The similarity between the global and the Australian results is that COVID-19 has left its legacy in the way that it has impacted other risk areas. Supply chain issues have become more prominent. Political instability, nationalisation and the global trade conflict threat have all become front-line factors too. With the survey carried out before the events in Ukraine unfolded, it would be expected that these risks would be appreciably higher still in respondent's minds in the current environment.

The top five risks as identified by executives from the international mining community were as follows:

2022		RANK
↑	Environmental risks, including new regulations	1
↓	Commondity price risk	2
↑	Community relations and social license to operate	3
↑	Political instability/nationalization	4
↑	Global trade conflict	5

Source: Global Mining Outlook 2022

Volatility: the one certainty

Commodity prices fundamentally dictate the industry's outcome, so it's never a surprise to see it installed in top spot.

"From what we've observed, commodity prices are sky high – if volatile – and this is generally underpinning industry confidence," observes Trevor Hart, Global Head of Mining, KPMG International.

For Australian executives, volatility has kept **'commodity price risk'** in its traditional #1 slot. We have seen marked swings in the last year challenging established London Metal Exchange trading systems, including a temporary suspension of nickel trading. Meanwhile, an increasingly uncertain world weighs on mining executives' considerations when assessing the risk landscape.

In 2022, global instability abounds, whether driven by rising geopolitical tensions, genuine conflict, or sector-wide energy transition. This instability will drive volatility in prices.

Interestingly, however, concerns around **'economic downturn'** have fallen five places from last year's report to be #10 on this year's list. This likely reflects the transition out of the most acute stage of the pandemic to the current recovery phase.

However, it is worth noting that just outside the top 10 hovers **'inflation risk'** – with upward pressure on prices returning to global economies for the first time in over a decade. Energy costs for businesses are rising sharply and there is also upward pressure on wages. Over half (54 percent) of global executives agreed that some consolidation is needed in the industry to manage costs – rising inflation and cost of capital may accelerate this.

Meanwhile, significant structural changes within the mining sector are underway as the transition to renewable energy sees critical mineral dominated producers become increasingly important. It seems the tide has turned for lithium with producers able to move past the lower prices of the last few years and, together with the nickel producers, focus on how to make the most of a stellar price climb. As with many of the risks discussed in this report, this good news story for minerals, like these, involved in battery production is linked to the increased focus on ESG. Conversely, those commodities that are not viewed as being as supportive of a net-zero future continue to focus on how to manage a less certain future whilst taking advantage of higher commodity prices in the short term.

While the eventuality of the global shift to renewable energy provides a baseline of demand, the possibility of a slower pace of transition does create headwinds particularly given the energy issues created by the Eastern European crisis. With changes in the external environment such as interest rates increasing and possible slowdown in Chinese construction demand may be lumpy and prices will fluctuate in response.

The challenge for the industry is creating meaningful collaboration with government to ensure a smooth transition to a low carbon world with stable access to the metals and minerals which will deliver what is needed along the way.

Decarbonisation is a double edged sword

In the energy transition, countries and businesses that move first – and move decisively – will gain the advantage. In the current geopolitical environment, developing and building up Australia's green energy industry has scope to bring a myriad of benefits for businesses and the economy.

But decarbonisation brings uncertainty and operational challenges. So, despite the upsides for the sector, Australian mining executives rank it second among their chief risks.

In the wake of last year's COP26 Summit, countries have committed to ambitious net zero and decarbonisation targets (including around deforestation). For these to become a reality, industries with a high carbon footprint and environmental impact, such as mining, are under pressure to deliver.

A majority of executives (87 percent) believe technology has a key role to play in solving decarbonisation and related ESG challenges. Nearly half of executives (46 percent) believe technological innovation will be a source of major disruption in the industry over the next three years. Nearly everyone is determined to jump on this as an opportunity rather than a threat.

It is not difficult to see how the adoption of new technologies could help mining companies reduce their operational carbon emissions. Australia has been leading the way in trialling hydrogen power on mine sites. However the actions of an individual organisation alone are not enough to secure carbon-free status, the supply chain must also be taken on the journey. Mining is extremely reliant on technology.

KPMG's own survey of the technology sector[1] found many in this sector were challenged with translating aspirations into actions. This delay in adopting decarbonisation in just one component of mining's supply chain, captures just how complicated this shift is.

While the implementation of decarbonisation poses risk, inaction would be catastrophic. The sector is alert to the impact a changing climate is already having.

'Environmental risks, including new regulation' – but also the direct impacts of a more unpredictable and extreme climate – have edged up in the minds of mining executives for the second year. This risk now sits at #5 on our list.

This is not a surprise given that the top three most severe risks on a global scale over the next ten years in the World Economic Forum's Global Risk Report 2022 (17th edition) are environmental (namely, climate action failure; extreme weather; biodiversity loss).[2]

Operations may also be disrupted not just by extreme heat, but also the likelihood of more cyclones. Longer droughts will restrict water supply, and torrential rains will sap productivity and impact on tailing dams and other core infrastructure.

The election of a new government means that Australia's regulatory environment which has historically lagged international standards is unlikely to remain. Looking to international jurisdictions when it comes to environmental protections is a good indication for what may soon be coming to Australia.

This changing regulatory environment creates financial risk as well. For many mining companies, mine closure is the biggest balance sheet liability and this liability continues to increase as expectations (from regulators and others stakeholders) increase.

An added concern pertaining to environmental risk and regulation is that it appears class actions are increasingly the tool being used to ensure that ESG related targets reported are accurate and achievable. This 'regulation' by action groups and investors will mean that organisations need to have a level of certainty and confidence in the robustness of their ESG data, and in what has been committed to so as to avoid 'greenwashing' claims.

1 Decarbonising the technology industry - KPMG Australia (home.kpmg)
2 Source: World Economic Forum's Global Risk Report 2022 (17th edition), page 14

People matter

The new entry into the top ten, and the biggest mover into the top three risks, both relate to people. **'War for talent'**, debuting at #3, together with 'access to and retention of employees', debuting at #9, reflect the pain the sector is feeling in relation to the current lack of people.

There is sentiment that the industry needs a new wave of talent to fulfil a range of specialised and/or technology-centric roles. These needs are only getting broader: data analysts, computer scientists, environmental scientists, heritage experts, water management specialists, and more.

The number of mining jobs may be growing, but the slow relaxation of Australia's strict border controls during the pandemic have seen the sector battle for talent. This shortage of talent ranges from engineers to truck drivers, and has impacted production and expansion.

The sector has been vocal about the impact the skills shortage is having and the Minerals Council of Australia has warned tertiary enrolments of students studying mining engineering have been on the decline for the past six years.

But the talent crunch isn't all about lack of access to labour wanting to work in the sector. The mining sector's ability to attract talent was already diminished due to the view of some that they would prefer to work in a 'cleaner, greener' industry. The sector's image has been further tarnished by the unearthing of sexual assault, sexual harassment and bullying on Australian mine sites.

Safe and inclusive workplaces don't just secure much-needed talent in a competitive market, it's also something investors are looking at too. The Latest Edelman Trust Barometer Special Report: Institutional Investors[3] found investors value empowered employees. With trust in organisations at a low, efforts to demonstrate a company is focusing on the wellbeing of its workforce as well as building diversity therein is growing in importance.

To a degree, this is where key issues merge. Operations that pursue successful ESG strategies that highlight moves to decarbonisation, focus on safe and inclusive workplaces, and emphasise positive community impacts will attract more of the talent needed.

Of course, many ESG concerns are nothing new for the industry. For decades, mining companies have been used to complying with complex environmental regulations and health and safety rules whilst engaging and investing in communities where they operate. Yet there is no doubt societal expectations are growing both in intensity and breadth. So it is perhaps unsurprising to see **'community relations and social licence to operate'** ranked as tied #3 risk on the list.

Inability to attain, and retain, a social licence to operate will bring miners to a standstill. Already we are seeing a tension regarding how to balance community expectations and get the environmental and social aspects of ESG right. The need for expansion to enable increased production of certain commodities, like copper, to support the energy transition sought after by the community is being hampered by slower environmental approvals as environmental and community impacts are weighed up more carefully. Hurrying either may have unwanted repercussions but industry will need to work with the community and policy makers to navigate how best to achieve the balance needed.

For the first time this year, the survey asked whether respondents **"expect major disruption in the sector in the coming three years as a result of ESG"**, 80 percent agreed with this statement. ESG reporting standards and requirements are actively being developed by various bodies and should be finalised in the coming years[4].

3 Special Report: Institutional Investors | Edelman
4 Comparing Sustainability Reporting Proposals

This maintains the status quo of uncertainty with regard to expectations. Last year 46 percent of respondents agreed that **"Investor ESG expectations and measures are clearly understood and consistent across the market"**, whereas this year this has decreased to 35 percent. This uncertainty may be delaying action. A new question in the survey as to whether the respondent's organisation **"has a well-defined and comprehensive ESG strategy and has the resources necessary to execute on it"** identified that only 49 percent felt that this was the case. Interestingly 29 percent neither agreed nor disagreed which suggests a lack of clarity and/or confidence in relation to the strategies being developed. This is consistent with the global outcome where 52 percent agrees and 27 percent neither agreed nor disagreed.

Since the survey was completed, we have seen war in Eastern Europe which has resulted in priorities being reconsidered. Societal impact of mass migration may not impact Australian miners directly but energy pressures, whilst greater in Europe, are impacting Australia. Decisions on moving to decarbonise the supply chain are different in this environment and we expect to see greater focus on the balance between environment and social concerns in the coming year.

With all this change, and in the absence of clarity on expectations, mining companies will need to continue to actively engage with investors and other stakeholders, to ensure they are communicating clearly around their ESG efforts, targets, and measures and are pivoting as expectations change. In a social media age, the repercussions of not meeting expectations can spread globally at lightning speed and this risk is thus only expected to increase.

Scanning the global horizon

While the **global pandemic** was absent as a perceived risk factor in KPMG's global mining report, here in Australia it has only been slightly demoted – from #4 in last year's survey to #6 this year.

Much of this will owe to the contrasting progress rates of the pandemic, which was still very much a top of mind issue when the survey was compiled domestically, especially in Western Australia.

Currently, it seems Australia is moving closer to the global mindset where COVID-19 is regarded as something incorporated into business as usual, as demand for commodities to power the economic recovery builds.

Yet as the direct effects of COVID-19 start to shrink from prominence there is no shortage of global risk factors to take its place in the minds of Australian mining executives.

'Political instability' has moved into the top ten at #8 this year, likely due to a combination of domestic and international factors.

At the time of writing this report Australia has seen a change in government at a national level. At the time that the survey was completed the potential for a government change was on executive's minds and such change is inevitably accompanied by a level of uncertainty.

Looming larger than political instability however is **'supply chain risk'** (#7). Whilst KPMG had expected this to feature in previous years' surveys, as a result of COVID-19, it is possible executives were buoyed by emergency measures working effectively. This year however the entrenched reality of the global supply chain crisis appears to have sunk in, with the microchip shortage in particular biting hard, given how much technology enabled equipment and vehicles are rely on their availability.

Missing the cut

While it is illuminating to consider the risks that have made the list this year it is also well worth noting what has dropped from the top of mind.

After debuting on the list in tenth position last year, this year **'cyber and IT security risks'** has dropped out of the top ten altogether. This development is surprising given that the threat landscape is expanding. Cybercriminals are as entrepreneurial as ever and using increasingly sophisticated tools and technologies. Mining operations are considered high-value targets for high-impact cyber attacks, including cyber conflict and ransomware.

There may be a couple of factors that have affected cyber and IT security risks prominence.

First, we may be witnessing something of cyber fatigue. The threat has been hyped for a long period of time, and to date there has been no major (publicly reported) incident of a large Australian mining operation being successfully attacked.

The sector may also have a sense that because they were driven to invest in additional cyber controls as a result of the pandemic, the necessary steps to secure their environment have already been taken. In addition, from an executive perspective, cyber security may be perceived as a managed risk. Whilst this is reassuring on one hand, on the other, this presents the risk that what is not understood is that cyber is broader than IT and has a significant operational aspect.

The other notable omission from the top ten this year is **'health, safety and security risks'** having moved up the list from 10 to 7 in 2021's survey but dropping out altogether in 2022. There is no doubt that the industry continues to prioritise safety but with only ten spots on the list, the complex risk environment may have resulted in this more business as usual risk making space for risks which executives are less comfortable managing. Further, mining operators may well be feeling confident after successfully navigating a global pandemic that threatened mass devastation when it first arrived on the horizon.

Couple this with significant advances in mine safety on site, and well established protocols for dealing with safety failures, and it is perhaps understandable to see the slip this year.

Notwithstanding this, the wellbeing of the industry's workforce has and will continue to get strong focus - as it should. This will enable it to continue to drive strategies to address the pressures of a FIFO workforce and immediately respond to the cultural issues seen across the industry.

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July 2022. 827559581ENR