

ALPHINITY INVESTMENT MANAGEMENT

BHP Spotlight: 2030 Mt Arthur closure and the just transition considerations

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The Mt Arthur Coal mine located in the Hunter Valley region of New South Wales is the largest thermal coal mine in the State and has been in operation since the 1960s. BHP began operating the mine in 2002 and last year, after failing to secure an acceptable buyer for the asset, decided they would close the mine in 2030, 15 years before schedule.

We believe that closing this asset is a better outcome for the climate and mitigates the risk that the asset could have been sold into the private market or to a lower-quality operator. However, it's important to recognise that although this closure is good for the environment, it will also have a significant impact on the 2000 employees who currently work at the mine and the communities around where the mine is located.

In August 2022, our Head of ESG and Sustainability visited the Newcastle region and met with key stakeholders to discuss the impacts to the community and local economy from the closure of assets like Mt Arthur. She heard perspectives from NGOs who advocate for better workforce outcomes, the Port of Newcastle which is the largest coal port in Australia, the Northern Mining and NSW Energy Union representatives, and local industrial manufacturers who want to see the region change into a place for new energy investment.

One of the most material insights that came out of the trip is that most stakeholders accept the region is changing, can see why this is the best outcome for the global climate, and welcome the opportunity. The reality however, is that through this transition many people will be detrimentally impacted, either through direct loss of work, significant reductions in incomes, or through forced redundancies or redeployments. At the end of the day, these workers accept the transition, but they want it to be equitable and fair.

Along with the La Trobe in Victoria, the NSW Hunter Valley region is one of the most coal reliant regions in Australia. In the next 10 years, the following significant assets are planned to close as part of the transition to renewable energy outcomes:

- Liddell power station: 2023 closure, 180 employees
- Eraring power station: 2025 closure, 400 employees
- Mt Arthur coal mine: 2030 closure, 2000 employees

So, when we think about the impacts of the Mt Arthur closure on the employees and their families, we also

need to consider the cumulative impact on the wider economy and community.

After recently engaging with the company on this issue, looking deeply into the just transition and consolidating insights from the Newcastle trip last year, we believe the following elements will be important for BHP to address as part of its closure and transition plan. Addressing these aspects will help to manage the negative impacts to workers and the communities and also manage reputational and social licence risks for BHP:

1. **Coal production now until close:** As part of the 2022 results, BHP included some forward guidance on production at Mt Arthur from now until 2030. It stated that production will not increase above 15 million tonnes per year, and that it doesn't intend to increase production between now and the closure. Reputationally, it will be important for BHP to deliver on this commitment, regardless of the thermal coal price.
2. **Relationship with unions:** We heard from the Union representatives that BHP do not have a good history of engaging with the Unions. We believe it is in BHP's best interest to establish a consultative group with Union representatives and work closely with them to meet the needs of employees. We understand that this is underway.
3. **Transition plans for employees:** BHP told us that a transition plan for the asset will be finalised by end of this financial year. BHP will need to do two things in regards to its workforce—keep the asset operating well until closure with skilled and reliable staff, and retrain its staff base to support the transition into a new role. We heard from the Union representatives in Newcastle that generally, older workers (close to retirement) will stick around to the end and take a redundancy, however younger workers (without good incentives) are more likely to forfeit a redundancy and just get out. We believe that establishing individual transition plans for all employees will help to manage this dynamic and confirm requirements for retraining, redeployment, planned redundancies, and employment incentives until close. It will also build good faith with employees and Unions.
4. **No forced redundancy commitment:** We believe this will be a challenging but important commitment for BHP to make. By making this commitment, the company will demonstrate they intend to support all employees on the transition pathway that is most suitable for them, rather than just forcing them to take a redundancy. We believe this will be challenging for BHP because of the lack of re-deployment opportunities operated by BHP in the region. Most likely we expect BHP will need to partner with other businesses in coal and alternative industries to offer the most suitable re-training and redeployment opportunities for employees.
5. **Mental health support:** Some organisations in Newcastle identified mental health impacts as a concern for workers and communities in the region. During our engagement, BHP stated that there is heightened awareness of this issue and it will be working closely with employees and families. We will engage further with BHP on this issue as the site closure plan is finalised. A suggestion will be to integrate an organisation like Mates in Energy into the workforce and family assistance measures.
6. **Community and stakeholder engagement:** The Hunter Valley is a region which is highly dependent on coal. Mt Arthur is just one of many assets which is closing in the region and as such, it's important that BHP considers the cumulative impact on employees and the community. As a large, listed Australian company, BHP has the opportunity to work closely with stakeholders and the community between now and 2030 and identify initiatives to support the region longer term. Given BHP's messaging about the 'just transition', we believe it is a reasonable expectation that it considers the broader impacts for the changing region.
7. **Site remediation and post-remediation land use:** We engaged with BHP recently to understand the site

remediation requirements. Our understanding is that the site closure plan will be submitted to the Government by the end of this financial year for approval and then signed off in full once the mine rehabilitation is complete. Obligations for mine closure include the removal of all infrastructure, preservation of any biodiversity offsets, and land use outcomes that are environmentally stable and provide for agriculture or biodiversity land uses. BHP have indicated that it intends to seek inputs from local stakeholders for alternative, higher value land use options (for example, renewable energy or recreation). To achieve this, BHP would be required to seek additional approvals, however we think that identifying site options with environmental and social co-benefits may help to streamline the closure sign-off process and maintain its social licence in the region.

We have shared this note with BHP and will continue to engage with the company to support the above outcomes to be achieved.

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