

African white elephant

Should Australian taxpayers finance a South African coal mine?

The Australian Government's export credit agency, Efic, is considering a loan to a South African coal mine that will provide little benefit to Australians and will compete against Australian coal exports.

Discussion paper

Tony Shields, Rod Campbell and Luke Fletcher
May 2017

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE - 'RESEARCH THAT MATTERS'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, 1 Franklin St, Manuka
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@tai.org.au
Website: www.tai.org.au

ABOUT JUBILEE AUSTRALIA

The Jubilee Australia Research Centre protects and promotes human rights and prevents environmental destruction for impoverished individuals and groups adversely impacted by the actions of Australian companies, financial institutions and the Australian government. It engages in research exploring options for policy reform of the global economy and global financial system. It also explores new Australian frameworks for responsible international financing, global poverty reduction, ecologically sustainable development in developing countries.

In 2016, the Jubilee Australia Research Centre became an affiliated part of the Australia Institute.

Summary

Australia's export credit agency, Efic, is a government-owned, taxpayer-backed organisation that aims to assist Australian exporters with financial services.

Efic is currently considering a loan to a South African coal project. The Boikarabelo coal project has approval to produce 32 million tonnes of raw coal each year. The development of this project would likely contribute to the development of other projects in the enormous Waterberg coal basin, a resource of around 75 billion tonnes.

These projects would further the development of coal-fired power in South Africa and around the world as the owners of Boikarabelo intend to export much of the coal. Aside from the contribution this would make to greenhouse gas emissions, Efic's involvement with the project raises many other questions.

Firstly, the proponent company, Resgen, does not have strong links to Australia. While listed on the Australian stock exchange, it is majority foreign-owned, with a South African CEO and mainly South African board. It appears to have no activities based in Australia – its 'Australian office' has a South African phone number.

While Resgen's links to Australia are minor, its South African coal would compete with Australian coal in international markets, particularly in India. Efic has not consulted with Australian government or industry bodies on how a potential increase in South African coal exports would affect production and employment in the Australian coal industry, describing such consultation as "not applicable".

Investors in coal need to be aware of financial risks. The outlook for world coal markets is uncertain and Resgen's share price is volatile. Resgen's only major asset is the Boikarabelo project.

While Efic has expertise in assessing financial risk, its capacity to assess environmental and social risks is limited. South Africa's mining industry has a poor record on accountability, human rights and environmental issues, raising the risk of Efic, an Australian Government entity, being linked to these problems. Efic has provided finance to some of the worst social and environmental catastrophes in the Asia Pacific region, including the Ok Tedi Mine, the Porgera mine, the Panguna mine, and the PNG LNG project.

Efic is party to an OECD agreement not to fund new coal-fired power stations. Even though Resgen publicly states that it will build a power station that would use coal from Boikarabelo, Efic has told the Australian Senate that this "has not been proposed,

nor is Efic considering providing support in relation to a coal fired power station.”
While Efic may not break the letter of the OECD agreement, financing a mine that feeds a new power station would certainly be against its spirit.

Given the financial, economic, environmental and social risks of the Boikarabelo mine, Australian taxpayers should not be providing finance to this project.

Introduction - The Export Finance and Insurance Corporation

Most developed countries and many developing countries have an Export Credit Agency (ECA), which works to promote that country's exports. The financial services provided by ECAs generally include loans, guarantees and insurance.

Australia's ECA is the Export Finance and Insurance Corporation (Efic), a Commonwealth Government statutory corporation. Although a government-owned entity, Efic manages its own finances with relative autonomy. It is governed by a board of directors, who are from the private sector, with one representative of the Department of Foreign Affairs and Trade.

Efic has been in existence since 1957. Efic provides dozens of loans to exporters every year, mainly in small quantities; however, the bulk of its exposure has historically been made through very large loans and other financial services to large corporations.¹ Research in 2009 found that over the previous three decades, approximately one quarter of Efic's financing by values went to mining, oil and gas companies.² In 2015-16, Efic was involved in 194 transactions worth \$390 million. Over half of this value was accounted for by just one project, a loan relating to Rio Tinto's Oyu Tolgoi copper mine in Mongolia worth \$206 million.³

This trend looks set to continue, with the Efic board currently considering a loan to a large South African coal mine, owned by a company listed on the South African and Australian stock exchanges called Resource Generation, or Resgen.

¹ Productivity Commission Inquiry Report No. 58 (2012) Australia's Export Credit Arrangements, <http://www.pc.gov.au/inquiries/completed/export-credit/report>

² Fletcher, Hickie and Webb (2009) *Risky Business: Shining a Spotlight on Australia's Export Credit Agency*, Jubilee Australia.

³ Efic (2016) *Annual Report 2015-16*, <https://www.efic.gov.au/media/3484/efic-annual-report-2015-2016.pdf>

Resgen is a small mining company listed on the Australian Stock Exchange (ASX code RES) and the Johannesburg Stock Exchange.

Resgen is majority foreign owned and controlled. Six of Resgen's seven biggest shareholders are foreign entities; together they own 57% of the company.⁴ Foreign ownership could be higher still if smaller shareholdings are taken into account.

At time of writing Resgen appears to have no activities based in Australia. Its website lists an Australian office, but with a South African phone number. The address is that of a financial advisor in Brisbane.⁵

Resgen's main asset is the Boikarabelo mine proposal in South Africa. According to the Resgen website, Boikarabelo means 'to be responsible' in the local language.⁶ The Boikarabelo tenement is enormous – it has a 200+ year lifespan with a 7.4 billion tonne resource.⁷ It would be the first export project in in the Waterberg Coalfield potentially opening up one of the biggest coalfields in the world, a resource of around 75 billion tonnes.⁸

Resgen acquired the rights to develop Boikarabelo in 2008,⁹ and its share price rode the highs and lows of the coal price in the years that followed, as shown in Figure 1 below:

⁴ See Appendix 1 for details of Resgen's largest shareholders.

⁵ See <http://www.resgen.com.au/contact-us2>

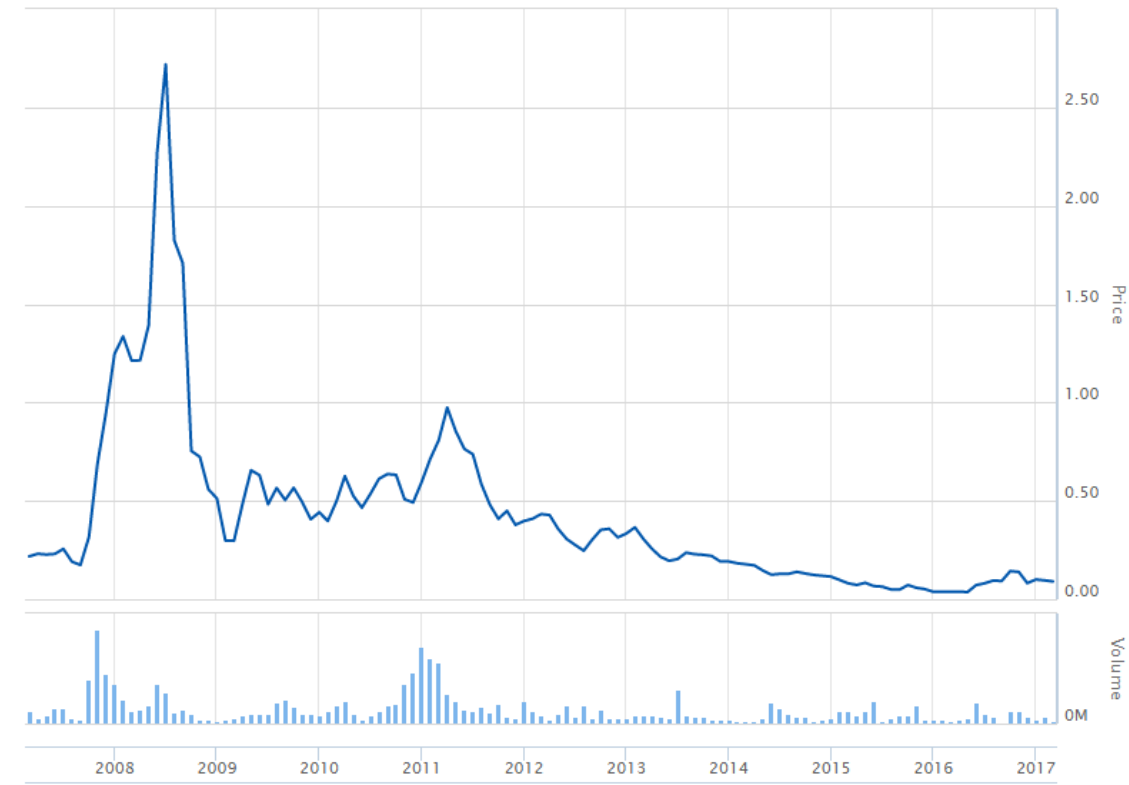
⁶ <http://resgen.com.au/our-business/boikarabelo-mine>

⁷ Cornish (2016) *Resource Generation 'South Africanises' Boikarabelo*
https://www.miningreview.com/magazine_articles/resource-generation-south-africanises-boikarabelo/

⁸ Theunissen (2012) *Waterberg Coalfields: Land of Plenty*
http://www.srk.co.za/files/File/South-Africa/pressreleases/2012/11_November_2012/mining_mirror_waterberg_coalfields_land_of_plenty_01_nov_2012_p26-29.pdf

⁹ <http://resgen.com.au/component/jdownloads/send/3-2016/451-chairman-s-address-to-2016-annual-general-meeting>

Figure 1: Resgen share price 2004-2017



Source ASX (2017) <http://www.asx.com.au/asx/share-price-research/company/RES>

If developed, Boikarabelo will be the largest mine developed in South Africa in the last 25 years. \$208 million has been spent to date in developing the mine.¹⁰ Yet despite the size and money spent, the market value of the company at time of writing was only around \$50 million. Despite eight years passing, Resgen has not been able to develop Boikarabelo and the share price declined to a low of \$0.035 in early 2016, as shown in Figure 1 above. From June 2016 the share price improved as the prospect of developing Boikarabelo was seen to increase, with the share price reaching a high of \$0.19 in October 2016. This has also coincided with the thermal coal price increasing from around \$USD55 per tonne in June 2016 to around \$USD81 per tonne at time of writing, as well as the increased interest of financiers including Efic. The increase in share price experienced by Resgen in 2016 is shown in more detail in Figure 2 below:

¹⁰ <http://resgen.com.au/component/jdownloads/send/3-2016/451-chairman-s-address-to-2016-annual-general-meeting>

Figure 2: ResGen share price Jan 2016 - 2017



Source ASX (2017) <http://www.asx.com.au/asx/share-price-research/company/RES>

Figure 2 shows that the Resgen share price is volatile. Its value doubled in June 2016 and doubled again in October as the market assessed the involvement of various lenders, including Efic. At its 23 November 2016 AGM, Resgen’s chairman announced another delay in funding stating:

Our preferred project lenders are currently undergoing their respective credit committee approval processes, which are expected to be completed by February 2017. Assuming financial close in March 2017 we will be in a position then to commence construction of the mine, with delivery of first product coal by the first quarter of 2019.¹¹

In March 2017 Resgen announced a further delay in funding stating a full funding agreement is now “based on a new target date of mid-2017”. Furthermore the rail provider, Transnet Freight Rail, is now unable to fund the building of a rail line to the mine and that it would instead partner with Resgen to raise the R550 million (\$A55

¹¹ Gately (2016) *Chairman’s address to 2016 Annual General Meeting*, <http://resgen.com.au/component/jdownloads/send/3-2016/451-chairman-s-address-to-2016-annual-general-meeting>

million) required to build the link. This means Resgen now has to raise funds not only for the coal handling plant but also for a rail link.¹²

Figure 2 shows that Resgen's share price has dropped half to what it was in October 2016 following these delays in funding.

Arranging finance has been the critical obstacle to developing Boikarabelo. In August 2016, Resgen announced it had agreed commercial terms with:

- Rand Merchant Bank division (RMB);
- Industrial Development Corporation of South Africa Limited (South Africa Government owned);
- Public Investment Corporation (South African Government owned); and
- Noble Resources International Pte Limited (Noble).

The financing syndicate was to perform due diligence before lending funds. Resgen had also held discussions with Efic with a view to them joining the syndicate. Efic had been included in discussions of the terms and was also conducting due diligence.¹³ Credit approval and close was targeted by end October 2016.¹⁴ Funding was for R5.52 billion (approx. \$A530 million).

Despite the rise in the coal price, potential lenders HSBC and UK Export Finance, appear to have left the financing syndicate.¹⁵

The two remaining private sector financiers have other interests in the project. RMB will receive a fee for arranging the finance, while Noble has signed an offtake agreement to:

Purchase all of the coal from the mine for sale to South African clients for a period of eight years, as well as purchasing a portion of the export component of the output. On top of the offtake agreements is a thirty-five-year marketing contract to market coal that Noble does not have access to through the offtake agreements.¹⁶

¹² Resgen (2017) *Shareholder Update*, <http://www.resgen.com.au/component/jdownloads/send/53-2017/460-shareholder-update>

¹³ Resgen (2016) *Quarterly report for the three months ended 30 September 2016* <http://resgen.com.au/component/jdownloads/send/3-2016/448-quarterly-report-for-the-three-months-ended-30-september-2016>

¹⁴ This deadline has since been twice extended to mid-2017.

¹⁵ Resgen (2016) *Quarterly Report for the three months ended 31 March 2016*, <http://resgen.com.au/component/jdownloads/send/3-2016/3-quarterly-activities-report-appendix-5b-march-2016>

¹⁶ Dick (2015) *A punch-up in the Waterberg*, <http://www.mineweb.com/articles-by-type/analysis/a-punch-up-in-the-waterberg/>

It appears that no independent private sector entity is simply providing a loan and receiving interest in return.

Resgen is popular with small Australian stockmarket traders. The Resgen discussion on the share market internet forum, HotCopper, is very active whenever there is news around the Boikarabelo project.

Australian involvement in Boikarabelo

Prior to 26 November 2015, Resgen had an Australia-based board and management team. On 26 November 2015 shareholders led by international commodities trader, Noble Group, and the South African based, Altius Group:

...rolled the board of coal play Resource Generation in a tight shareholder vote....Resgen’s incumbent board, including managing director Paul Jury, were all removed and replaced by Noble’s nominees after almost two months of tension between the group and its largest shareholder.¹⁷

Noble Group, Altius and the South African Government Employees Pension Fund together own 44% of Resgen.¹⁸ They replaced the board with predominantly South African nominees, put in place a South African management team and moved headquarters to South Africa. Resgen’s new CEO, Rob Lowe, is Altius’ CEO and is on a \$1.2 million salary package.¹⁹ The current board members are shown in Table 1 below:

Table 1: Resgen Board of Directors

Name	Based in	Background
Dennis Gately, Chairman	Australia	Ex resources lawyer, board member of other mining companies.
Lulamile Xate, Deputy Chairman	South Africa	Founding member of Altius. Business background
Rob Croll	South Africa	Mining engineer
Collin Gilligan	Australia	Mining Engineer
Papi Molotsane	South Africa	Business background
Dr Konji Sebati	South Africa	Trained and worked as a doctor and worked for multinational pharmaceutical companies, also ex-South African Ambassador

Sources: Resgen (2017) <http://resgen.com.au/about-us/board>, Resgen (2016) Annual Report 2016, p10 <http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

¹⁷ Garvey (2015) *Resource Generation’s board ousted in Noble Group coup* <http://www.theaustralian.com.au/business/mining-energy/resource-generations-board-ousted-in-noble-group-coup/news-story/d3aabb3ef6826e5b91d80543635bb131>

¹⁸ See Appendix 1 for more detail on Resgen’s major shareholders.

¹⁹ Resgen (2016) Annual Report 2016, p39-46 <http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

The main cause of the reshuffle was the very slow progress developing Boikarabelo, particularly arranging finance.²⁰

The former Resgen management did not leave empty handed, as noted in the Resgen Annual Report:

On 25 November 2015, the day prior to the General Meeting, the former Managing Director of the Company approved the retrenchment of all Sydney office staff. In addition, the former Board approved the payment of termination benefits to the two Executive Directors in their expectation that their position as directors would be terminated at the General Meeting to be held the following day. Termination benefits totaling \$2,303,504 were paid to the former Board members, executives and staff on the same day. The new Board is seeking legal advice in relation to the payment of the termination benefits.²¹

EFIC AND AUSTRALIAN INTERESTS

While ResGen and the Boikarabelo project have little link to Australia, Efic can lend money to non-Australian projects so long as there are other benefits for Australian exporters. In other words, Efic can lend to projects where the lead company is not an Australian entity if there is sufficient benefit for Australian companies. The various 'local content' requirements that Efic must meet are set out in the Efic Act, in the OECD Arrangements on Export Credits (Common Approaches) and in the various 'Statement of Expectations' given to Efic by the Trade Minister. Efic routinely audits the Australian content of transactions after they are signed, but they are not required to disclose this analysis publicly.

From information that is publicly available, it is unclear what Australian content the project will use. In May 2016 an agreement was signed between Resgen and Sedgman Limited for the construction of a coal handling plant for US\$141 million.²² Sedgman is Queensland-based and was Australian owned until February 2016 when it was taken

²⁰ Garvey (2015) *Resource Generation's board ousted in Noble Group coup* <http://www.theaustralian.com.au/business/mining-energy/resource-generations-board-ousted-in-noble-group-coup/news-story/d3aabb3ef6826e5b91d80543635bb131>

²¹ Resgen (2016) *Annual Report 2016*, p39 <http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

²² Mining-technology.com (2016) *ResGen signs EPC deal with Sedgman for Boikarabelo mine in South Africa*, <http://www.mining-technology.com/news/newsresgen-signs-epc-deal-sedgman-for-boikarabelo-mine-south-africa-4886836>

over by the Spanish-controlled CIMIC Group and delisted from the ASX.²³ While Sedgman could use Australian staff and sub-contract some of the work to Australian companies, it has a Johannesburg office and it will be economic for them to use as much local labour as possible. Any profits Sedgman makes will belong to its Spanish head office.

In October 2016 ResGen signed a contract with a South African contract miner, Stefenutti Stocks,²⁴ further limiting potential Australian involvement.

The size of Efic's potential loan is unknown, but given the \$530 million loan package it is likely to be at least \$50 million and possibly more than \$100 million. Efic mostly makes much smaller loans. To date in 2016/17 it has provided over 50 loans worth a total of \$150 million, one was for \$85 million, the rest were for less than \$10 million and many were for less than \$1 million²⁵. In 2015/16 it provided one large loan for over \$200 million but the vast majority of the loans were also for \$5 million or less.²⁶

²³ Wiggins (2016) *Sedgman board accepts CIMIC's \$256m hostile takeover bid*, <http://www.smh.com.au/business/sedgman-board-accepts-cimics-256m-hostile-takeover-bid-20160211-gms851.html>

²⁴ Odendaal (2016) *Resgen selects preferred mining contractor for Boikarabelo*, http://www.miningweekly.com/article/resgen-selects-preferred-mining-contractor-for-boikarabelo-2016-10-05/rep_id:3650

²⁵ Efic (2017) <https://www.efic.gov.au/about-efic/our-organisation/transaction-register-20162017/>

²⁶ Efic (2017) <https://www.efic.gov.au/about-efic/our-organisation/transaction-register-20152016/>

Human Rights, Transparency and Accountability in South Africa

Transparency International ranked South Africa 61st out of 168 countries in its 2015 corruption perception index with a score of 44/100. (Denmark was least corrupt with a score of 91/100. Australia was ranked 13th with a score of 79/100.)²⁷

The mining industry in South Africa has been associated with a number of human rights abuses. In August 2012, the Marikana massacre saw 34 striking platinum mine workers shot by South African police, and the South African Human Rights Commission has identified a number of human rights risks posed by the coal mining industry.²⁸ Other research has pointed to human impacts in the sector: health problems including black lung disease amongst coal workers, noise and air pollution from mining operations, shallow and insufficient community consultation processes by mining companies, groundwater contamination, and loss of farmland due to groundwater pollution and land acquisition. Women are often the most affected members of communities.²⁹

Significant human rights concerns related to the coal industry have arisen in the Limpopo region, the proposed location of the Boikarabelo mine. Reporting has unearthed a swath of negative impacts, such as improper land acquisition, the undermining of social cohesion, destruction of sites of cultural significance, and environmental degradation including pressure on water supply. Additional coal mines such as the Boikarabelo mine could worsen these human rights concerns.³⁰

²⁷ Transparency International (2015) *Corruption Perceptions Index 2015*
<https://www.transparency.org/cpi2015/>

²⁸ ActionAid South Africa, MACUA & MISEREOR (2016) *When only the coal counts – German co-responsibility for human rights in the South African coal sector*,
http://actionaid.nationbuilder.com/german_co_responsibility_for_human_rights_in_the_south_african_coal_sector

²⁹ ActionAid South Africa (2014) *Dirty power: At whose cost?*
http://www.actionaid.org/sites/files/actionaid/dirty_power_copy.pdf ; WoMin Alliance (2015) *Declaration: Women stand their ground against big coal*, <https://womin.org.za/images/docs/women-stand-their-ground.pdf>

³⁰ Macua and Miseror (2016) *When only the coal counts – German co-responsibility for human rights in the South African coal sector*
http://actionaid.nationbuilder.com/german_co_responsibility_for_human_rights_in_the_south_african_coal_sector

Efic claims that it is ‘committed to supporting the growth of Australian businesses internationally - in a way that is ethically, environmentally and socially responsible.’ It continues:

We are committed to our stakeholders: our clients, employees, the Australian Government as our shareholder and the wider community. We take our responsibilities to these stakeholders seriously. Our corporate responsibility strategy outlines the ways in which we fulfill these responsibilities.³¹

Efic has recently adopted a human rights policy and the OECD Working Group on Export Credits Common Approaches document also has language on human rights.³²

However, Efic’s human rights commitments are weak. Both the Common Approaches document and Efic’s Human Rights Policy cite the UN Guiding Principles on Business and Human Rights, yet the commitments are non-binding and contain opt-out clauses. Moreover, as with the rest of its benchmarking, Efic’s assessments of its human rights commitments are made behind closed doors and are not publicly released; there is little scrutiny or accountability. It is therefore difficult to say whether this new inclusion of human rights language in its policy statements will mean a change in Efic’s human rights record when it comes to the extractive industry sector. Since the early 1980s, Efic has provided finance to some of the worst social and environmental catastrophes in the Asia Pacific region, including the Ok Tedi Mine, the Porgera mine, the Panguna mine, and the PNG LNG project.³³

³¹ Efic (2016) *Our corporate responsibility* <https://www.efic.gov.au/about-efic/our-corporate-responsibility/>

³² Efic (2015) *Statement on Human Rights*, <http://www.efic.gov.au/about-efic/our-corporate-responsibility/business-ethics/human-rights-statement/>; OECD, Working Group on Export Credits (2016) *Recommendation of the Council On Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The Common Approaches)* [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=tad/ecq\(2016\)3&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=tad/ecq(2016)3&doclanguage=en)

³³ Fletcher, Hickie and Webb (2009) *Risky Business: Shining a Spotlight on Australia’s Export Credit Agency*, <http://www.jubileeaustralia.org/page/reports>

Future of thermal coal and competition with Australian mines

The future of thermal coal has become more uncertain over the last eight years as governments look to enact climate change policies and competition from renewable energy sources and gas has intensified. While the thermal coal price has increased since June 2016, long term demand is uncertain as solar power generation continues to get cheaper. Chinese coal use appears to have peaked in 2013 and India has set a goal of eliminating coal imports altogether.³⁴

This situation is faced not only by Resgen and the Boikarabelo project, but also by Australian coal exporters. Supporters of the Australian coal industry have often pointed to India as a promising future market, for example the Federal Government's Chief Economist:

While the focus of energy and coal market analysis in the past decade has been on China, India is now emerging as a key consumer. India's thermal coal imports have increased from almost zero in the 1990s to having it overtake Japan as the world's second largest importer in 2013.³⁵

India's demand for coal is routinely stated as the justification for controversial mine proposals in Queensland's Galilee Basin, such as the Adani Carmichael mine and the Kevin's Corner and Alpha mine proposals by another Indian energy conglomerate, GVK. India's policy of eliminating coal imports, and to date its success in doing so,³⁶ creates major problems for these projects and other Australian mines.

The Boikarabelo project and the Waterberg Coalfield would not only compete with Australian projects for the Indian market, but would do so with a major advantage in terms of shipping days to India. South Africa's Richard's Bay port is closer to India than

³⁴ Loh (2016) India's Energy Minister Wants to Cut Coal Imports to Nothing, www.bloomberg.com/news/articles/2016-04-25/india-s-energy-minister-wants-to-cut-coal-imports-to-nothing

³⁵ Office of Chief Economist (2015) *Coal in India*, p5, <https://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Coal-in-India.pdf>

³⁶ PTI (2017) *Coal imports down 25 per cent at 14 MT in December*, <http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/coal-imports-down-25-per-cent-at-14-mt-in-december/articleshow/56559499.cms>

Australian coal ports. Shipping from Richard's Bay to Mumbai takes 11 days compared to 17 days from Abbot Point and 18 days from Newcastle.³⁷

Following a Senate Estimates hearing in October 2016, NSW Greens Senator Lee Rhiannon asked Efic "Does Efic believe that new South African coal exports would have no impact on Australia's exports?" Efic's answer was simply to tell the Senator to "Refer to the Department of Industry, Innovation and Science website for an outlook on the coal market." It is clear that Efic has not conducted any analysis on how the project would impact the Australian coal industry and considered consultation with industry groups such as the Minerals Council of Australia and Queensland Resource Council to be "not applicable".³⁸

³⁷ Searates.com (2017)

<https://www.searates.com/reference/portdistance/?D=20220&G=22149&shipment=1&container=20st&weight=1&product=0&request=0&weightcargo=&>

³⁸ Efic (2016) Senate Foreign Affairs, Defence and Trade Legislation Committee Supplementary Budget Estimates 2016, 20 October 2016 QUESTIONS ON NOTICE/IN WRITING,

www.aph.gov.au/~media/Fmedia/Committees/Ffat_ctte/Festimates/Fsup_1617/Fdfat/FDFAT_Responses.pdf&usg=AFQjCNGG4ho8UXer53GyBfSSExogZdaY7Q

Boikarabelo and electric power generation

Resgen is also aiming to develop a coal-fired power plant to transform from being a mining company to “become a truly integrated energy company.”³⁹ Resgen’s CEO, Rob Lowe stated regarding the power station:

This project component will happen, it is part of our plans and the necessary work to deliver on this is well underway.⁴⁰

Resgen already has environmental and land use approvals for a 245 MW IPP power station but is also considering a 600 MW power station. Resgen has also started engaging with potential power plant contractors and funders.⁴¹

Despite these public statements from Resgen, Efic told Senate Estimates that a coal-fired power station “has not been proposed, nor is Efic considering providing support in relation to a coal fired power station.”⁴²

It is clear that Efic is trying to distinguish the part of the project it is being asked to finance – a mine and processing facilities – and the entire project that Resgen is trying to develop. The reason Efic creates this distinction is that they are party to an agreement of the OECD Export Credits Working Group, which has agreed that export credit agencies will no longer support the construction of new coal fired power stations.⁴³

Clearly the mine and power station projects are interrelated. By claiming to only support the mine Efic breaks the spirit if not the letter of the OECD agreement.

³⁹ Resgen (2016) *Chairman’s address to 2016 Annual General Meeting*
<http://resgen.com.au/component/jdownloads/send/3-2016/451-chairman-s-address-to-2016-annual-general-meeting>

⁴⁰ Cornish (2016) *Resource Generation ‘South Africanises’ Boikarabelo*
https://www.miningreview.com/magazine_articles/resource-generation-south-africanises-boikarabelo/

⁴¹ Ibid

⁴² Efic (2016) Senate Foreign Affairs, Defence and Trade Legislation Committee Supplementary Budget Estimates 2016, 20 October 2016 QUESTIONS ON NOTICE/IN WRITING,
www.aph.gov.au/~media/Committees/Factsheets/Estimates/Supp_1617/Fdfat%2FDFAT_Responses.pdf&usg=AFQjCNGG4ho8UXer53GyBfSSExogZdaY7Q

⁴³ See OECD (2016) *Annex VI: Arrangements on Official Supported Export Credits*, 1 February 2016, p. 120. <http://www.oecd.org/tad/xcred/theexportcreditsarrangementtext.htm>

The viability of Resgen and Boikarabelo

There are concerns about the viability of Resgen and its Boikarabelo project.

Even now, without the \$530 million loan that Resgen is seeking for a coal handling plant and the \$55 million being sought for a rail line, Resgen heavily relies on borrowed money. At 30 June 2016, Resgen had total borrowings of \$40 million from two sources. The company building the electricity sub-station at Boikarabelo has provided \$6 million in funding. Noble Group has provided \$34 million via a USD20 million loan facility which Resgen has fully utilised and also accrued interest on the loan of USD4.9 million⁴⁴.

Resgen has been running down its cash reserves and its December 2016 Quarterly report indicated that it had cash on hand of only \$A4.5 million and was planning on spending \$7 million in next three months.⁴⁵ The Resgen Annual Report 2016 stated that:

there are material uncertainties as to whether the Company and the Consolidated Group will be able to continue as going concerns and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the annual financial report.⁴⁶

In March 2017, Noble Group extended a lifeline by agreeing to increase its loan facility to fund Resgen's operations.⁴⁷

The fact that in eight years Resgen has failed to raise the finance for Boikarabelo raises the question about what is different this time. Despite the size of the Boikarabelo coal deposit there are clearly big obstacles including water scarcity; complex geology; high mining costs; the size of the deposit from a major port; the uncertain future coal price; the infrastructure (rail, road, power source) needed to exploit the deposit; and the South African political and economic climate (including potential for corruption).⁴⁸

⁴⁴ Resgen (2016) *Annual Report 2016*, p74,75 and 79

<http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

⁴⁵ Resgen (2017) *Quarterly Report for the three months ended 31 December 2016*

<http://www.resgen.com.au/component/jdownloads/send/53-2017/459-quarterly-activities-report-appendix-5b-31-december-2016>

⁴⁶ Resgen (2016) *Annual Report 2016*, p57 <http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

⁴⁷ Resgen (2017) *Shareholder Update*, <http://www.resgen.com.au/component/jdownloads/send/53-2017/460-shareholder-update>

⁴⁸ Theunissen (2012) *Waterberg Coalfields: Land of Plenty*

The cost of major projects often blows out, especially one like this with so many challenges.

If the project has cost over-runs or proves to be uneconomic, it will be difficult for financiers to avoid major losses, as there will be little collateral, except for a coal deposit which has been proven to be difficult to exploit and a possibly useless, stranded (maybe half complete) coal handling plant.

Resgen, has no record of developing a mine, let alone developing a mine such as Boikarabelo that would be the largest developed in South Africa in 25 years.

None of the Resgen directors, apart from the chairman who has a holding worth only \$40,000, have any shares in Resgen in their own name. This does not indicate confidence in the project.

No private entity without additional incentives (ie fees from arranging finance or the supply agreements that Noble Group has signed with Resgen and its shareholding in Resgen) appears willing to provide a loan.

The stock market's valuation of the Resgen at only some \$50 million possibly indicates it thinks that the successful development of Boikarabelo is less than likely. Presumably if Resgen was to develop what would be the largest mine developed in South Africa in 25 years then Resgen would be worth in the order of hundreds, if not, billions of dollars.

http://www.srk.co.za/files/File/South-Africa/pressreleases/2012/11_November_2012/mining_mirror_waterberg_coalfields_land_of_plenty_01_nov_2012_p26-29.pdf

Conclusion

The Boikarabelo project raises the question of whose interests Australia's export credit agency works towards. If it proceeds, the project could benefit Sedgman, an engineering company with Australian operations, but it will probably employ many of its South African staff on the project and any profits it makes will ultimately belong to its Spanish head office.

It could simultaneously have negative effects on Australia's coal industry, expose taxpayers to financial risk, increase greenhouse gas emissions and impose other environmental and social impacts on vulnerable people. None of these outcomes are in the interests of Australian residents.

Efic's involvement in Boikarabelo only makes sense if Efic's leadership considers its role to be furthering the interests of exporters under any circumstances. On the other hand, if Efic's role is to act in the interests of Australians, and arguably in the interests of the local and global communities, Efic's involvement in this project should be ruled out.

Appendix 1 - Resgen significant shareholders

As at 6 September 2016⁴⁹

Government Employees Pension Fund (GEPF) controlled by Public Investment Corporation – 19.5% ownership share

This South African Government pension fund is the largest pension fund in Africa and the seventh largest in the world. It is managed by Public Investment Corporation which is wholly owned by the South African government.⁵⁰ According to the website sri-connect.com - The GEPF is among the leaders in socially responsible investment in South Africa and has been a signatory to the United Nations Principles of Responsible Investment since 2006. As such, we take environmental, social and governance (ESG) issues into account when making investment decisions.⁵¹

Noble Group – 13.7%

Noble Group is listed on the Singapore Stock Exchange and headquartered in Hong Kong. The stock market values it at \$5.5 billion. It is backed by China's sovereign wealth fund. Its financial position is not pristine and it has been selling assets to pay down its large debt.⁵² Noble led the boardroom coup with Altius and Public Investment Corporation which resulted in a new board and management for Resgen in November 2015. The Noble Group has incentives apart from its shareholding to see Resgen succeed. It has lent Resgen \$33 million on which it is earning an attractive 10.75% interest rate.

Altius Investment Holdings Pty ltd through its subsidiary Shinto Torii Inc – 10.7%

This is a South African company. According to its website, "Altius is a new generation black economic empowerment investment holding company centred on commodity businesses. Through success of these businesses, we create strong cash flows,

⁴⁹ Resgen (2016) *Annual Report 2016*, p91 <http://resgen.com.au/component/jdownloads/send/36-2016/442-annual-report-2016>

⁵⁰ GEPF (2017) *Who manages our investments* <http://www.gepf.gov.za/index.php/investments/who-manages-our-investments>

⁵¹ SRI Connect (2016) *Government Employees Pension Fund of South Africa* http://www.sri-connect.com/index.php?option=com_comprofiler&task=userProfile&user=1030176&Itemid=4

⁵² Ng (2016) *Noble Group Reports Loss as Debt Pile Shrinks \$503 Million* <https://www.bloomberg.com/news/articles/2016-11-10/noble-group-reports-second-quarterly-loss-on-hunt-for-liquidity>

maintain little debt, and passionately facilitate low key but profound improvements in social conditions for disadvantaged Cape Town communities.⁵³ Its CEO and founder is Rob Lowe. He became the Resgen CEO after the November 2015 boardroom coup.

Calcutta Electric Supply Corporation Limited (CESC) through its subsidiaries Integrated Coal Mining Limited and Bantal Singapore Pte Ltd - 5.3%⁵⁴

CESC is privately owned. It owns coal thermal power plants and supplies electricity to Calcutta and surrounds. It invested \$10 million in 2011. At the same time, Integrated Coal signed an agreement to buy 139 million tonnes of coal to use in a power plant CESC planned to build in South Africa. CESC's shareholding is now worth around \$2.5 million.⁵⁵

Yapp Pty Ltd – 4.2%.

The sole shareholder and director of Yapp is Patricia Jury – possibly she is the wife of Paul Jury - the CEO who was deposed in the November 2015 boardroom coup.⁵⁶ The company is registered in Sydney, Australia.

Valu Investments Pte Ltd – 3.9%

Valu is an Indian based special purpose vehicle. When it became a shareholder in 2013, it also signed a contract to buy coal from Boikarabelo and obtained the right to develop a power station adjacent to the Boikarabelo mine.^{57 58}

Ivanovic and Company Ltd – 3.4%

Ivanovic and Company is headquartered in London, UK.⁵⁹

⁵³ Altius (2017) <http://www.altiusholdings.com/>

⁵⁴ Bloomberg (2017) *Overview of Integrated Coal Mining Limited* <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=58900776> and Wikipedia (2017) *CESC Limited* https://en.wikipedia.org/wiki/CESC_Limited

⁵⁵ Livement (2011) *CESC picks up 4.8% stake for \$10mn in Aussie Coal Mine* <http://www.livemint.com/Companies/mgUwGJH5XCI9kLkZxgFh4M/CESC-picks-up-48-stake-for-10-mn-in-Aussie-coal-firm.html>

⁵⁶ ASIC (2016) *Company search of Yapp Pty Ltd*, extracted 1 December 2016.

⁵⁷ Miningne.ws (2016) *Two arrangements for Resource Generation* <http://www.miningne.ws/2013/07/10/two-arrangements-for-resource-generation/#>

⁵⁸ ASX (2016) *Resource Generation Limited – Non Renounceable Entitlement Offer* <http://www.asx.com.au/asxpdf/20130701/pdf/42gsm1sbrf7rwt.pdf>

⁵⁹ Endole (2016) *Ivanovic and Company Limited* <https://www.endole.co.uk/company/00464247/ivanovic-company-limited>