Australian Mining Risk Forecast 2024

Extracting the key insights from Australian listed mining companies' reported material risks

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Executive summary

In a world increasingly shaped by rapid environmental, regulatory, technological and political changes, the Australian Mining Risk Forecast 2023/24 outlines the new and evolving challenges the sector must grapple with over the coming year – as well as some significant opportunities.

This year's analysis reveals some notable shifts in the risks perceived by the industry as most relevant compared to previous years, reflecting the dynamic global and local environment. Just as interesting, however, are the continuities, as well as the interconnections between the key risks identified.

For the first time, **'climate change'** has emerged as the top-ranked risk confronting the mining sector, signalling a growing awareness among companies and executives of the extent and magnitude of its potential impact on future operations.

Alongside climate change itself, numerous other related risks also feature. These highlight the impact of the **2050 net zero target** and accompanying changes to the regulatory landscape as well as more stringent **financial disclosure requirements**. Combined, these factors contribute to the ongoing challenge of balancing compliance with operational and financial sustainability. Underlying all these risks, the direct **physical impacts of climate change** continue to be critical areas of focus.

Closely linked to climate change risks are other **environmental, social and governance** (ESG) challenges, including **'community relations and social licence to operate'**, which this year returned to #2 on the list after declining slightly during the COVID-19 crisis. Notably, however, when the analysis is restricted to ASX Top 200+ companies this risk is ranked considerably lower, hinting at potential future vulnerabilities for these, typically smaller, companies.

Overall, the mining sector's ability to adapt to evolving **community expectations and cultural heritage concerns**, while maintaining respectful relationships with **First Nations rightsholders and local communities**, will be critical to securing social licence, and successful companies will adopt a proactive stance to navigate this complex terrain. Key to overcoming these and other hurdles is the ability to **attract and retain a skilled workforce**, a challenging task amid rapidly shifting social norms and evolving expectations from employees. However, companies that demonstrate an authentic commitment to staff **safety, wellbeing and professional growth** will position themselves favourably to attract top global talent.

Caron Sugars
Partner, Risk Consulting
KPMG Australia

'Cyber and IT security risks' once again fail to register in the top 10. The potential for these issues to impact mining operations certainly warrants careful consideration.

While climate and ESG-related concerns have nudged **'commodity price risk'** from first to third place this year, its fundamental importance to the sector remains undiminished. Commodity price volatility will continue to exert downward pressure on margins, as will escalating operational and capital expenditure cost pressures. Faced with staffing shortages of 20 percent or more, companies will need to **ruthlessly prioritise activities and chase operating and cost discipline** to successfully tackle the top-ranked risks. This challenge becomes increasingly pronounced for smaller companies, those reliant on a single project and those further from starting production.

Focusing on the top-ranked risks is essential, but there are also insights to be gained from noting those deemed less urgent. Geopolitical concerns, including those related to the COVID-19 pandemic, as well as ongoing conflicts in Europe and the Middle East, were notably absent in 2023. Further, **'cyber and IT security risks'** once again fail to register in the top 10. The potential for all these issues to impact mining operations certainly warrants careful consideration.

Methodology

Following many years of surveying the global mining community, a different approach has been taken this year. This year's forecast is based on an examination of the self-reported material risks of designated mining companies in the ASX 300. This has enabled a comparative analysis of different commodities, as well as of the differing risk perceptions between companies in the ASX 100 and 200 versus those in the ASX 200+. Graphical representation of these findings is included in the Appendix with insights gleaned shared below.

Top industry risks

Based on reporting in annual reports and related governance reports, in 2023 ASX listed companies have indicated that the following are their top risks.

2024	RANK	2022/23
NEW Climate change	1	Commodity price risk
↑ Community relations and social licence to operate	2	Financial risks
↓ Commodity price risk	3	War for talent
NEW Health, safety and security risks	4	Community relations and social licence to operate
— Environmental risks (including new regulations)	5	Environmental risks (including new regulations)
↓ Financial risks	6	Global pandemic
NEW Operational risk	7	Supply chain risk
NEW Access to resources	8	Political instability/nationalisation
NEW Regulatory and compliance change/burden	9	Access to and retention of employees
— Talent attraction and retention	10	Economic downturn

"As we look forward into 2024 we expect the recent squeeze in operating margins, from lower commodity prices and higher costs, will lead to corporate M&A through consolidation of both operators and developers of projects."

NICK HARRIDGE
National Mining & Metals Leader

Navigating the climate challenge

'Climate change' has arrived as the new number one risk to be reckoned with in 2023 as Australian mining companies begin to recognise the significant role it will play in their operations, resource selection and project timelines.

'Climate change risks continue to increase as action lags behind ambition,' says Adrian King, partner in charge of ESG Assurance and Advisory in Australia. 'The mining sector is one of the most exposed sectors to both transitional and physical risks. Given the introduction of mandatory climate reporting in Australia, the transparency of how this risk is being managed and the ability of external parties to benchmark this preparedness is about to increase significantly.'

The election of a new government in 2022 saw a significant shift in Australia's climate policy and regulatory landscape, adding a number of challenges for the sector to grapple with. A net-zero target date of 2050 is now enshrined in law and an array of supporting legislation, targets, regulations and initiatives has been introduced. This represents a rapid acceleration in the country's stance with supply chains, regulators and industry needing to step up to match pace. The mining industry is in many respects ahead of the curve, having already recognised that its social licence to operate is connected to its impacts, not only on the environment but also on communities. The new laws provide clarity that was previously absent and enables the industry to take the opportunity to lead the way in decarbonisation.

Despite the opportunity presented, civil penalty proceedings against companies accused of greenwashing have created a degree of unease in the industry. While companies want to demonstrate ambition in setting climate-related goals, in many instances the technology and strategies to do so are still being worked through. One of the biggest opportunities available to the industry over the next year is to focus on developing comprehensive strategies and implementing technology and systems to facilitate authentic representation of decarbonisation commitments. A recent KPMG survey of global metals and mining companies[1] found that roughly 40 percent of mining executives described plans to do this by accelerating investment to transform the industry in ways that help the global economy meet its ESG goals; however, only 30 percent said they had integrated ESG goals into enterprise strategy.

1 Sustainability on the horizon: The prospects of a net-zero future for metals and mining companies. KPMG 2022.

The risks inherent in the above help explain the re-entry of **'regulatory & compliance change/burden'** at #9, after having dropped off the list last year, as well as the continued prominence of **'environmental risks (including new regulations)'**, which holds its #5 ranking from last year. This risk also encompasses a greater focus on nature risk through the Taskforce on Nature-related Financial Disclosures (TNFD), which has developed further over the last year. The core of the TNFD is a four-pillar approach to disclosure, requiring companies to report how they consider nature-related risks and opportunities in their governance, strategy, risk and impact management, along with any metrics and targets that have been established. While this too is an opportunity to demonstrate the investments being made into ESG more broadly, and clarity in required reporting is something that industry has been seeking, the resources required to enable rigorous reporting cannot be underestimated. Mining leaders are needing to rebalance capital allocations to find the crucial equilibrium between achieving conformance while still meeting operational performance to remain financially sustainable for investors and shareholders.

While **'climate change'** related risk appears across all levels of the ASX analysed, it is interesting that **'environmental risks (including new regulations)'** does not appear in the top 10 for companies within the ASX 100 and yet it is the #1 risk for companies in the ASX 200+. This may represent the maturity of systems and processes of the larger, and potentially more mature, companies in that segment of the ASX. There is thus an opportunity for the ASX 200+ to work to enhance systems and processes over the next year to reduce uncertainty in this growing area of focus.

Greater clarity regarding what regulators are seeking may have contributed to 'financial risks' moving from second place last year to sixth this year. There remains an inherent risk concerning how financiers and investors more broadly assess risks through a climate-related lens during credit assessment processes, which may affect financing of projects. Further, according to the World Economic Forum's Global Risk Report 2024, climate-related challenges are the four most severe risks facing the world over the next 10 years.[2] The potential for physical impacts such as flooding, cyclones, droughts and high temperatures to disrupt mining operations and reduce productivity will be top of mind for Australian executives and their investors and insurers.

For those companies that successfully navigate these varied challenges, opportunities are plentiful. Demand for critical minerals needed to enable the world's shift to renewable energy is already outstripping supply and, given Australia's natural abundance of these key resources, local companies are well placed to not only meet the current demand but also position themselves as strategic contributors to the future of sustainable and low-carbon economies.

[2] World Economic Forum Global Risks Report 2024 (19th edition), p.8

Community matters

Risks related to the COVID-19 crisis and the war for talent, as a result of border closures, pushed **'community relations and social licence to operate'** down to fourth place last year, but as the pandemic recedes it returns to the 2021 survey's #2 position this year.

'In the current environment, community relations and social licence to operate remains as one of the key risks for extractive operations,' Mel Sutton, KPMG Banarra's Director of Human Rights and Social Impact, explains. 'The regulatory environment has failed to keep pace with the expectations of First Nations rightsholders, investors or the broader Australian community, leaving companies exposed unless they take a considered "beyond compliance" approach. Investors are asking questions and undertaking deeper due diligence to understand how operators are addressing these risks in practice.'

In this context, considering how the risk was ranked across the ASX 300, it is worth noting that while community relations and social licence to operate risk was the highest ranked across all companies within the ASX 200 (i.e. #1 risk), among ASX 200+ companies it drops to seventh position. While this may reflect a prioritisation of operational and project-specific concerns, potentially driven by resource constraints or a focus on immediate challenges, lack of focus on this core licence to operate risk could result in difficulties regarding approvals and other vulnerabilities going forward.

Cultural heritage management and First Nations engagement also came to the fore this year, with significant amendments to Western Australia's Aboriginal cultural heritage legislation coming into effect and then being repealed less than three months after the legislation fully commenced. This uncertainty continued with further legal challenges in relation to project impacts on cultural heritage and what constitutes appropriate consultation and engagement with Traditional Owners in the context of extractive development projects. As the sector continues to wait for co-designed federal cultural heritage reforms, many operators are continuing as though the 2023 legislative changes had not been repealed, looking for opportunities to demonstrate respect for the Traditional Owners of the land on which they are working and sharing project benefits.

Effective engagement with the communities in which they operate is clearly a crucial concern for mining companies and linked to this is strategic management of the workforce, hence the inclusion of **'talent attraction and retention'** at #10 in our list. While its relatively low placement signals that the **'war for talent'** (#3 in 2022 but not featuring this year) has subsided due to the post-Covid resumption of skilled migration and proposed reforms to the immigration system, issues around talent risk remain dynamic.

As Dan Hodgson, KPMG Partner, Workforce Advisory, observes: 'The pandemic, geopolitical events, evolving social attitudes, and technology have transformed the way we work and expectations toward employers. To attract and retain the best talent, there is an expectation that employers provide global career opportunities and extend the necessary duty of care under rapidly evolving ways of work. Successful organisations are those keeping up with this pace of change, and establishing ways of working that deliver on these demands.'

As described in KPMG's series on *A new dawn for human capital in energy and natural resources*, to help ensure success under changing expectations and norms, mining companies will need to manage their workforce as a strategic asset to be optimised, creating employee value propositions that are authentic and deliver what is promised as well as investing in strategic talent management. This shift in viewing the workforce as 'human capital' rather than 'labour cost' requires leadership commitment at all levels, starting from the CEO, to ensure that current and future human capital needs are met and productivity is maximised.[3]

'Health, safety and security' returns to the list at #4 this year, after dropping out altogether last year. Renewed attention to this risk may reflect the reputational toll that recent cases of sexual assault, sexual harassment and bullying have had on the sector. Additionally, the newly introduced Respect@Work legislation[4] puts a positive duty on employers to proactively prevent workplace sexual harassment, sex-based discrimination and victimisation, and, from December 2023, the Human Rights Commission has increased powers to investigate and enforce compliance with the positive duty. Ultimately, culture, safety, talent and community relations risks are highly interdependent with other ESG concerns such as climate change. Companies that adopt successful ESG strategies, prioritising the development of safe and inclusive workplaces and underscoring positive impacts on local communities, are likely to attract a greater share of the skilled talent they need to successfully decarbonise and meet the net zero challenge.

3 For more on this topic refer to KPMG's articles on A new dawn for human capital in ENR

4 In December 2022, legislation was introduced to eliminate workplace sexual harassment, sex-based discrimination, and victimisation. This means employers have a positive duty to proactively prevent workplace sexual harassment, sex-based discrimination, and victimisation as far as possible – rather than respond after they have occurred. The Australian Human Rights Commission's powers to investigate and enforce compliance with the positive duty commenced in December 2023. More info available here.

The 'great generational commodity pivot'

Commodity price risks are always a key consideration for the sector, and while climate change has pushed it out of top place this year (where it has been for three years), commodity price uncertainty remains front of mind.

'Australia's great generational commodity pivot has begun and, along with the rise of critical minerals against the backdrop of decarbonisation and energy transition, the future looks as bright as ever,' says Vic Jansen, Director KPMG Treasury Services.

An interesting point is that while **'commodity price risk'** concern dominates, there is little evidence of a substantial increase in commodity hedging activities among mining companies over this time frame.

Several lines of thought may help explain this phenomenon. First, derivative markets linked to new-growth critical minerals such as lithium, cobalt, nickel, copper and graphite are either illiquid or difficult to access, hindering the effective management of future price risk. Second, in markets with an established history of hedging, such as iron ore, there has been a reluctance to hedge price risk due to the nature of the underlying iron ore forward curve used to price these derivatives. The iron ore forward curve remains in a state of backwardation, meaning that the longer the term to expiry of the hedging time frame the lower the price of the forward rate. This tends to penalise Australian producers during pricing assessment and complicates the evaluation of hedging alternatives.

Finally, boards have historically shown an aversion to hedging activity, driven by negative feedback from shareholders, who seem to prefer to embrace the upside risk to commodity price outcomes. This approach tends to leave the volatility of corporate earnings outcomes to the markets themselves, hence the resultant concern over market volatility by mining executives without the intent to do anything about minimising its impact.

Also linked to challenges around climate change and decarbonisation – as well as a broad range of other factors – is **'operational risk'**, which enters the list this year at #7.

While analysis by KPMG and the Australian Institute of Project Management[5] found that the energy and natural resources sector scored the highest in overall project management process maturity, challenges remain, as Christiane Brendel, Partner Infrastructure and Projects, notes:

'The mining/metals and natural resources sector comprises mainly large, well-established, asset-intensive heavy-industry operations with substantial OPEX and growing capital project expenditure,' she says.

[5] Australian Institute of Project Management - Project delivery scorecard: How is your industry performing?

'With ongoing decarbonisation, decreasing returns from fluctuating commodity prices, and a decrease in the rate of discovery of new high-quality resources, this sector is challenged by making harder choices – in which projects to execute and/or how to execute the projects in the portfolio more effectively while conserving cash. Executives' decisions will increasingly be data driven, and project governance will be ramped up – yet I wonder if we are doing enough in effective front-end loading and planning and construction productivity in this sector, which is rapidly changing and is still battling with talent shortage.'

CHRISTIANE BRENDEL
Partner, Infrastructure and Projects

This too is a risk where we see a difference in view across the ASX. The companies within the ASX 100 are focusing more on expansion and growth (evidenced by **'need for a robust growth strategy'** as #10 risk for the ASX 100 and **'operational risk'** not being included in the top 10 risks) than those in the ASX 200+ where **'operational risk'** and **'access to resources'** hold positions #4 and #5.

On an overall basis, **'access to resources'** is another new entry this year, debuting at #8. With diminishing mining reserves presenting an escalating risk over time, future growth hinges on exploration. It is also likely that some local companies will contemplate expanding their operations into foreign jurisdictions for the first time, which will bring a spectrum of political and social risks.

In comparing risks across primary industries, only gold focused companies include **'access to resources'** (#4 risk) enough for the risk to feature in their top five risks. According to a 2023 study by S&P Global Market Intelligence, overall mining exploration budgets fell in the last year for the first time since 2020, dropping 3 percent to $12.8 billion.[6]

Whilst gold related budgets dropped by 16 percent year-on-year to just under $6 billion, the exploration budgets for gold remain 46 percent of the global total (54 percent in 2022). The study identified that the reduction is a result of higher spending on critical minerals, copper and uranium. This aligns to the KPMG analysis which identified that when the largest eight critical minerals focused companies are extracted from the Diversified Metals & Mining Primary Industry list that these companies also have **'access to resources'** in their top five risk list together with **'need for a robust growth strategy'** tying for third place with **'commodity price risk'**.

An upsurge in the World Bank's Base Metals Price Index is expected to push profit margins for the mining sector overall to historic highs. One-third of global metals and mining executives surveyed[7] forecast that they will significantly change their portfolio will significantly change their portfolio of products toward commodities and metals used to accelerate the transition to cleaner energy, suggesting that exploration into this area will only increase in the next year.

Australian executives also have reason to be optimistic, with the economic shift towards a low-carbon future presenting a range of domestic opportunities. Australia has an abundance of the critical minerals needed to help reduce the carbon footprint, with lithium in particular presenting a potential opportunity. Although global prices for lithium have fallen over the past year due to a sustained period of surplus supply, the longer-term outlook is for an undersupply, which Australian operators are well-positioned to benefit from, given the nation's large reserves and reputation as a stable place to invest.

6 https://www.spglobal.com/marketintelligence/en/topics/metals-mining-topic

7 Sustainability on the horizon: The prospects of a net-zero future for metals and mining companies. KPMG 2022.

Under the radar

Exploring the top risks this year provides valuable insights, however, it's also worthwhile to consider what has shifted away from the forefront of concern.

The cluster of risks associated with the COVID-19 crisis and other global challenges has dropped off the top 10 list this year, as climate change and other ESG issues come to prominence.

This includes **'global pandemic'** (#6 last year) together with **'supply chain risk'** (#7 last year), suggesting the continuance of a trend identified in last year's survey, in which COVID-19 is increasingly incorporated into 'business as usual' operations, rather than regarded as a critical issue.

Another continuing trend is **'cyber and IT security risks'** not being included since dropping out of the top 10 in 2021. This may be explained by the tendency for mining organisations to incorporate this risk into their overall approaches to digital innovation and supply chain management, recognising it as one of several operational risks that need to be managed collectively, rather than individually.

However, as noted last year, the cybersecurity threat landscape continues to expand and the World Economic Forum Global Risks Report for 2024 identifies Cyber Insecurity as the fourth most severe risk over a two year time frame and eighth most severe over ten years.[8] In relation to this, Craig Morris, Director Operational Technology and Cyber, comments:

> 'Cybersecurity threats are increasing for those miners who are looking to leverage digital technologies such as artificial intelligence, Internet of Things and automation to improve operations, safety and performance. Those organisations that do not consider cybersecurity holistically will be challenged to maintain resilient operations in the face of increasing threats.'

Interestingly, **'political instability/ nationalisation'**, which ranked eighth last year, has also dropped off the list. The current situation in the Middle East occurred too recently to be incorporated in this year's analysis, but the potential for this to develop into a sustained conflict in the region is another factor to monitor.

8 World Economic Forum Global Risks Report 2024 (19th edition), p8.

Appendix: Analysis of 2023 Reporting

Comparing top 10 risks across ASX

Top 10 mining companies as per ASX list

	Risk categories
1	Climate change
2	Community relations and social licence to operate
3	Commodity price risk
4	Health, safety and security risks
5	Economic uncertainty
6	Financial risks
7	Supply chain risk
8	Need for robust growth strategy
9	Geopolitical/political risk
10	Talent attraction and retention

ASX top 100 compared to 200+

Risk categories		Risk categories
ASX 100		ASX 200+
Community relations and social licence to operate	1	Environmental risks (including new regulations)
Climate change	2	Climate change
Commodity price risk	3	Commodity price risk
Financial risks	4	Operational risk
Health, safety and security risks	5	Access to resources
Economic uncertainty	6	Health, safety and security risks
Talent attraction and retention	7	Community relations and social licence to operate
Supply chain risk	8	Regulatory and compliance change/burden
Regulatory and compliance change/burden	9	Financial risks
Need for robust growth strategy	10	Talent attraction and retention

Comparing top five risks across primary industries[9]

Diversified metals and mining

Risk categories
1 Climate change
2 Community relations and social licence to operate
3 Commodity price risk
4 Environmental risks (including new regulations)
5 Economic uncertainty

Gold

Risk categories
1 Community relations and social licence to operate
2 Health, safety and security risks
3 Talent attraction and retention
4 Access to resources
5 Climate change

Iron ore (Steel)

Risk categories
1 Commodity price risk
1 Economic uncertainty
3 Health, safety and security risks
4 Climate change
5 Community relations > social licence to operate

Coal and consumable fuels

Risk categories
1 Climate change
2 Community relations and social licence to operate
3 Commodity price risk
4 Health, safety and security risks
5 Environmental risks (including new regulations)

[9] According to designation on ASX

Considering top five risks for critical mineral focused companies[10]

	Risk categories
1	Climate change
2	Community relations and social licence to operate
	Commodity price risk
3	Need for robust growth strategy
	Health, safety and security risks
	Economic uncertainty
4	Ethical and sustainable operations
	Environmental risks (including new regulations)
	Financial risks
5	Access to resources

[10] Largest eight listed companies on the ASX focused purely on critical minerals

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