THE WEEKEND AUSTRALIAN

BUSINESS REVIEW

JANUARY 25-26, 2020 P15

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On a mission to Mission Beach {P23-23}
PLUS Lisa Allen's Trophy Homes

ALAN KOHLER
Our banks will be smaller and less profitable
{P28}

Coonan takes charge in Crown shake-up as Alexander throws in his hand

JOHN STENSHOLT

Crown Resorts executive chairman John Alexander will step back from running the casino business, and will be replaced by Helen Coonan as chair and Ken Barton as chief executive in a move the company said happened without the direct approval of major shareholder James Packer.

The changes come as an inquiry gets under way in Sydney looking at whether a planned buyout of a portion of a majority stake in Crown by Lawrence Ho's Melco from Mr Packer raises probity issues.

The succession changes, outlined late on Friday after an hour-long Crown board meeting in Melbourne, will see Mr Alexander, who has been called as a witness to the Sydney inquiry, remain on Crown's board as an executive director for 12 months on a $3.54m salary.

Alexander

Ms Coonan, a former federal communications minister, said the move had been in the works for about 12 months but the Crown board delayed its finalisation as it had been dealing with several inquiries, an aborted potential takeover by Wynn Resorts and Melco's proposed buyout of half of Mr Packer's Crown stake.

"This is a very clear example of the independent directors really stepping forward and taking a leadership role at the company," Ms Coonan said, while stressing the rationale for the move was shareholder concerns about the Crown board and executive structure, including calls to split the chair and CEO roles.

"We don't have a tin ear and we have been accused of staunchly defending something that we should otherwise direct our attention to.

"John had done a pretty good job of stabilising the company after the detention of our employees in China (in 2016). JA led the process and he has very active in encouraging the board in looking at how we would make our governance more aligned with modern practice."

When asked whether Mr Packer, the billionaire and biggest shareholder in Crown who is a former executive chairman and director of the company, had any influence over her or Mr Barton's appointment, Ms Coonan said: "He certainly has not been involved in the process."

But Mr Packer endorsed the move, saying that "these initiatives have my full support" and that the "new governance structure announced ... was driven by the Crown board, responding to evolving shareholder and market expectations."

He said he was "grateful" to Mr Alexander, who has had a long-term relationship with the Packer family, for his work as Crown executive chair over the past three years and also paid tribute to Ms Coonan and new deputy chair

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Serving up more than just tennis

Fine dining, shopping and even yoga classes are boosting revenue

JOHN STENSHOLT

It is the secret speakeasy bar hidden in an old ticket office next to Rod Laver Arena which encapsulates just how tennis has become a sports business behemoth.

The bar, where a select group of 20 invite-only VIPs, sponsors and corporate heavyweights drink until midnight each evening during the Australian Open in Melbourne, has dedicated bar staff serving cocktails in a dimly lit space fitted out to look like an illicit Prohibition-era establishment.

Similarly, there is a new jazz bar fitted out at the top of the Tennis Australia headquarters for the two-week event. Invitees access drinking and eating facilities run by a rotating cast of Melbourne's most famous inner-city bars nightly, in what is office space the rest of the year.

It is all part of a strategy by Tennis Australia designed to make the Open look and feel like an event for corporate guests and general attendees like no other sport or event in this country.

Take the Founders Club. Billionaires like John Gandel — a big tennis fan who attends most sessions — and Gina Rinehart are among only 70 members of the most select "club" at this year's Open. For about $70,000 each over three years — which means Tennis Australia makes almost $5m revenue from the venture — members are wined, dined and pampered in a unique offering.

"There's a full concierge service. (If they say) I'd like a helicopter or a riverboat back to Crown Casino, or a babysitter, that is what we do," says Tennis Australia's chief revenue and experience officer, Richard Heaselgrave.

Courtside seats on Rod Laver Arena are complemented by bespoke dining and hospitality facilities on a specially fitted out top floor of the Tennis Australia HQ.

The Founders Club is part of a range of corporate facilities, unique sponsorship deals and retail outlets and signage which have changed the face of Melbourne Park in the past three years — and reaped Tennis Australia hundreds of millions in additional revenue in the process.

The Open has gone from a

Continued on Page 19

SMALL FIRMS TOLD TO PAY UP FOR EARLY PAYMENT

ACCC probes Rio Tinto's supplier rort

EXCLUSIVE

JARED LYNCH
NICK EVANS

Rio Tinto is pushing its 10,000 Australian suppliers to discount their bills if they want to be paid on time, delivering hundreds of millions of dollars to the cashed-up mining giant but sparking an outcry from small businesses and an investigation from the competition watchdog.

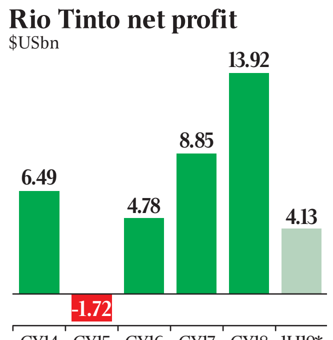
Rio's so-called "dynamic discounting" scheme targets small and medium-sized suppliers, according to company documents, offering to pay invoices before the due date in exchange for a discount of up to 2 per cent from its total — putting their margins under renewed pressure while delivering big savings to Rio's Australian operations.

Small suppliers say Rio is "aggressively" pushing a payment platform provided by San Francisco-based financial services company Taulia to businesses that have little choice but to take the discount to protect their own cash flow. Rio introduced the platform after shifting the payment centre for all its global suppliers to India, creating a bottleneck for invoices and triggering a wave of complaints.

The move has angered suppliers, who are facing increasingly tighter margins, with some labelling the scheme nasty, cheeky and not fair.

One medium-sized business, which relies on Rio work to stay afloat, estimated it would cost

Rio Tinto net profit
$USbn



* Interim   Source: Bloomberg

more than $20,000 a month if it wanted all of its bills paid on time. Another supplier told The Weekend Australian they waited almost five months to receive payment — and it only came after multiple calls to Rio's India office — before they received an email from Rio urging them to use the Taulia platform and take a financial hit if they wanted to be paid more quickly.

Australian Competition & Consumer Commission chairman Rod Sims has launched an investigation into Rio and its payments program, focusing on whether it equates to unfair contract terms or unconscionable conduct under Australian consumer law.

"Payment terms of say four or five months are outrageous and it doesn't make them any better that you pay a discount to get your money earlier," Mr Sims told The Weekend Australian.

"You just shouldn't have a term of that length in the first place. This whole system looks like it's a large player in a very dominant position taking advantage of that position to the disadvantage of small players. We are certainly going to investigate it."

A Rio spokesman said the company paid all its "eligible small business suppliers within 30 days of receipt of invoice", in line with Rio's commitments to the voluntary Australian Supplier Payment Code.

"To assist our suppliers to manage their cash flow we introduced additional measures. In 2019 we introduced a portal so suppliers can view invoices and run remittance reports, tracking when their cash will be received. This is a free and voluntary service for any supplier," the spokesman said.

"Via this portal, suppliers can voluntarily elect a financing option to accelerate payments and receive their cash faster than the agreed 30 days. This is at the full discretion of the supplier."

If all of its Australian suppliers signed up to the new program, which cuts the amount owed on invoices by up to 2 per cent, this would equate to a windfall of up to $200m a year for Rio.

Timely payment is a critical issue for small businesses, which cannot dictate terms to their own suppliers and staff, and are often required to pay their own bills on shorter terms than major companies — and must make those payments whether the big companies they work for pay on time or not.

The Australian Securities &

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CHEQUERED HISTORY P18

How Botten built an energy empire

ADAM YIP

Analysts say Oil Search boss Peter Botten 'is a legend of the industry'

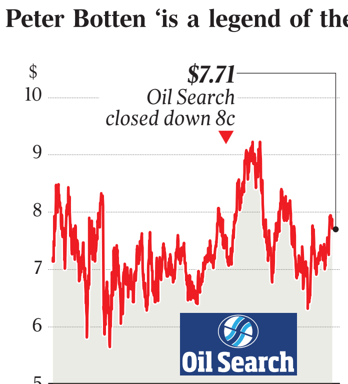
EXCLUSIVE

PERRY WILLIAMS

By any measure, Peter Botten's quarter-century reign leading Oil Search ranks as one of corporate Australia's success stories.

The Papua New Guinea focused gas producer has grown from a $250m minnow in 1994 with just seven staff and sustained by a single oil project to a $12bn powerhouse today.

Much of that value came via an audacious bet: tapping the impoverished Pacific nation's energy rich but remote gas fields, piping the product to the Port Moresby shore where massive tankers await to export the fuel as



Source: Bloomberg

LNG to some of Asia's biggest utilities.

Then there's Botten himself.

The average Australian boss lasts just short of five years in the top job, with a decade considered a long stint, often reflecting the value of that leader to their organisation.

But for many shareholders, Botten and Oil Search are all they've known.

"It's incredibly rare to have a run like this and to play a part in building something greater than most of us could have imagined," the British-born petroleum industry veteran told The Weekend Australian.

"Being on the ground in PNG and delivering on our promises has been hugely fulfilling."

Oil Search owns 29 per cent of the PNG LNG plant operated by ExxonMobil, which produces nearly 9 million tonnes a year of gas for export, with plans to double that amount through an expansion currently the subject of tense negotiations with the PNG government.

Some investors had questioned the drawn-out timeline for Botten's departure after he indicated a preference to remain boss through to the sign-off sometime this year of the $16bn investment. An added complication was Oil Search's unexpected jump into Alaska in a bid to diversify revenues and deliver different faster returns to shareholders.

"There was a feeling for a while there the Oil Search board were waiting for Peter to lay down a timeline and leave when it suited him," a top 10 investor said.

"But after it became clear it wouldn't necessarily be smooth

Continued on Page 19

ERA bid hinged on 'tax breaks'

NICK EVANS

Rio Tinto plotted a strategy of "increasing pressure, aggression and risk" to win quick control of uranium miner ERA, partly because it would get tax breaks from the transaction, according to the Takeovers Panel.

The Takeovers Panel ruled last year that ERA's $476m equity raising, to fund its rehabilitation liabilities at the Ranger uranium mine, was made in "unacceptable circumstances" — but allowed the Rio-backed raising to go ahead for fear the uranium miner would go bust if it was blocked.

The panel published its decision reasons in the matter on Friday, revealing that dissident shareholder Richard Magides was blocked from making an alternative offer to fund the rehabilitation because Rio, in part, wanted full control of ERA so it could use the company's tax losses to offset profits across its other Australian operations. Codenamed "Project Emu" by Rio, the plan is now likely to result in minority shareholders being bought out for 15c a share — the same price as the rights issue that will put Rio in a position to seize full control of ERA.

Mr Magides' Zentree Investments has long argued that Ranger's life should be extended, or its Jabiluka growth project built, to take advantage of an expected return to strength of global uranium markets in the 2020s — despite longstanding opposition from traditional owners of the land under which it sits.

The panel's decision reasons reveal Mr Magides signed a confidentiality agreement with ERA to explore options to fund Ranger's rehabilitation in May last year that would potentially allow ERA to build its undeveloped projects in the future.

But ERA was already deeply locked into discussions with Rio over a funding package and the panel's deliberations suggest Zentree was effectively excluded from participating in that process.

Options put to Rio by its corporate advisers included buying Ranger from ERA, paying a takeover premium to acquire the 31 per cent of ERA shares it did not already hold, lending ERA the money to complete the rehabilitation, or backing a rights issue likely to dilute minority shareholdings to below 10 per cent and then acquiring their holdings under Corporations Act provisions. Rio settled on the rights issue as the best option after being told it would be a "less expensive option than a minority take-out at market pricing", and after receiving advice that the estimated rehabilitation costs would be fully tax deductible if Rio won complete control of ERA.

"The purchase by Rio Tinto of ERA or the Ranger mine would bring it into Rio Tinto's Australian consolidated tax group and would permit future expenditure on rehabilitation to offset taxable profits generated from the consolidated tax group," said a report to Rio's investment committee, quoted in the panel's reasons for decision.

According to internal calculations put to Rio's board, pricing a rights offer at a point where minority shareholders were unlikely to take up their entitlements — allowing Rio hit 90 per cent control and buy them out on a compulsory basis — would save the company up to $210m.

"Underwriting a $500m entitlement offer where 20 per cent of shareholders participate would cost Rio Tinto $400m, but underwriting a $500m entitlement offer where Rio Tinto exceeds 90 per cent and proceeds to compulsory acquisition would cost Rio Tinto $289m (given the deductibility of rehabilitation expenditure)," the Takeovers Panel said.

Rio denied offering the rights issue as the only way it would fund ERA's rehabilitation costs at Ranger because it wanted to win full control of the company, saying its offer was purely about the best way to fund the clean-up and "there is no hidden agenda or secret conspiracy to be uncovered or inferred".

But the Takeovers Panel said it was "prepared to infer from the materials as a whole that Rio Tinto sought to consolidate control and acquire ERA".

Rio has been approached for comment.

Rio Tinto's chequered history of bleeding suppliers

JARED LYNCH
NICK EVANS

The last time Rio Tinto tried to use payment terms to put the squeeze on its suppliers, the global mining giant walked into a storm of political and community outrage.

In 2016, as commodity prices tumbled, outgoing chief executive Sam Walsh joined BHP in pushing out payment terms to tens of thousands of suppliers, doubling their payment wait to 90 days from the end of the month the invoice was submitted, and pushing the time frame for payment out to as much as four months.

The move was part of Mr Walsh's ongoing campaign to improve Rio's working capital position, and came after he stripped billions from the miner's costs, cutting jobs and pressuring contractors to cut their own costs and profit margins.

But the shift in payment terms was a step too far, effectively using Rio's suppliers as a bank to improve its own balance sheet and preserve its credit rating.

It caused an enormous backlash from smaller suppliers who, despite being exempted from the longest payment terms, were still struggling with their own problems as they lost business as the mining boom ended.

Rio was forced to overturn that policy after mass supplier outcry and heavy political pressure, including from then prime minister Malcolm Turnbull and the WA government.

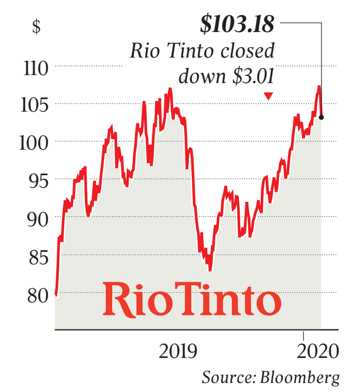
WA premier Colin Barnett threatened to legislate minimum 50-day payment terms in the mining industry if Rio did not come to heel, and Mr Turnbull offered to raise the issue directly with Rio after being bailed up by small businesses on a tour of the Pilbara.

The anger eventually led directly to a WA Nationals push to slap BHP and Rio with a $5 a tonne levy on ore moved down their own rail lines.

Rio was forced into a humiliating backdown within a month of announcing the move, readjusting its terms on the eve of the company's London annual shareholders meeting at which Mr Walsh was expected to be confronted by a delegation of angry suppliers and contractors.

And suppliers were already facing delays in payment after Rio shifted its global payments centre to Pune, India, which is also home to the company's Analytics Excellence Centre.

Launched in March, 2015, the analytics centre was a place where Rio would mine big data in an effort to bolster productivity across its entire global operations.



"This is a world first for the mining industry and is all part of Rio Tinto's relentless pursuit of productivity gains across our businesses," Rio group executive technology and innovation Greg Lilleyman said at the time.

"The centre will help us predict the future through the use of advanced data analytic techniques to pinpoint with incredible accuracy the operating performance of our equipment. Our aim is to run more efficient, smarter and safer mining operations and provide greater shareholder returns."

That relentless pursuit of productivity gains also meant every invoice — from Port Hedland to 200km south of the Arctic Circle in Diavik, Canada — would go through Pune, blowing out payment times and triggering a wave of complaints from suppliers. One supplier told The Weekend Australian they had waited up to five months to be paid after Rio had shifted its global payments centre to India.

"Once everything started going through Pune, it became agony," the supplier said. "I used to get paid in three to four weeks (after submitting an invoice). Then it became months and months."

Then a couple of months ago the supplier, like thousands of others, received an email from Rio, offering a solution of sorts. Rio hatched another plan to bolster its balance sheet at the expense of suppliers — this time partnering with San Francisco-based financial technology company, Taulia.

Taulia specialises in supplier finance, offering what it describes as two "solutions" for its clients — supply chain financing and another service called dynamic discounting. Rio opted for the latter, which sees it paying suppliers before the due date on their invoices, provided they take a financial hit of up to 2 per cent.

If all Rio's Australian suppliers signed up to the program it would deliver Rio a windfall of up to $200m a year — then there is the interest which comes, "as Taulia's clients liberate working capital from your global supply chain".

"By investing your cash to capture discounts, you can earn risk-free returns that are much higher than traditional investments," Taulia says on its website.

"Our customers achieve double-digit returns and there is no risk as you're committed to pay at invoice maturity anyway."

Such discounting was raised briefly at a parliamentary inquiry in 2018. Industry group Resource Industry Network (RIN), told the committee its members had mixed feelings towards dynamic discounting, with some highly critical of the practice.

"Financing packages that take 2 per cent off the invoice total are paid in 30 days. Some overseas companies are bidding for projects on that basis, which slashes margins — very nasty," one RIN member said.

RIN suggested government legislate 30-day payment terms as a minimum requirement of doing business in Australia "in light of the ongoing cost to the regional economy in terms of lost jobs and investment" that stem from longer payment terms.

A Rio Tinto spokesman maintained it paid "all eligible small business suppliers within 30 days of receipt of invoice", which he said was in line with the company's commitments under the voluntary Australian Supplier Payment Code.

ACCC probes miner's supplier invoice rort

Continued from Page 23

BLOOMBERG

Rio Tinto stands to gain up to $200m a year from its controversial payment scheme

Investment Commission's latest figures on business failures show cash flow problems are responsible for about half of company collapses, with the figure on the rise over the last three years.

Many small suppliers say they must take the discount if they want to get cash through the door to pay their own bills.

Rio purchased $6.8bn on goods and services from more than 2500 suppliers in Western Australia, and another $3.2bn from another 2500 suppliers in Queensland, according to a company statement to a parliamentary inquiry in 2018.

During a presentation in May last year, Rio's vendor relationships manager, Dirk Fourie, and short-term liquidity risk manager, New Zi Xuan, said the company's dynamic discounting program specifically targeted its small and medium-sized suppliers. Under a headline stating 'Why dynamic discounting?' the pair wrote it was a "competitive financing option to suppliers, particularly smaller to medium-sized firms or those unable to access supply chain financing'.

Mr Fourie and Mr Zi Xuan said the economic benefits to Rio were an "alternative investment option for group surplus cash at low risk" and "reduces cost of unit purchase".

But the US-based Taulia offers its clients much more. Taulia touts the benefits of machine learning and artificial intelligence to model the discounts a supplier may be prepared to accept. This includes an analysis of the supplier's own borrowing costs to work out what discount they might be prepared to wear in order to access early cash.

Taulia boasts its dynamic discounting service delivers a risk-free, high return for its clients. "By investing your cash to capture discounts, you can earn risk-free returns that are much higher than traditional investments. Our customers achieve double-digit returns and there is no risk as you're committed to pay at invoice maturity anyway," the company states on its website.

Taulia added that a survey from all its clients found that 39 per cent of their suppliers were paid late, creating fertile ground to cut invoices in exchange for early payment.

"This underlines the considerable opportunity for early payment programs to provide suppliers with much-needed working capital support, while tackling the issue of late payments," said Taulia's vice-president of customer success, Bob Glotfelty.

> 'Governments should lead by example and if suppliers do the work, they should expect to be paid in a timely manner'
>
> BEN WYATT
> WA TREASURER

Like other major mining companies, Rio began trying to cut supplier costs as the mining boom ended in the early part of the last decade, slashing its own workforce and pushing contractors to cut costs and waste at the same time.

Rio has cut the cost of producing a tonne of Pilbara iron ore from about $US24 a tonne in 2012 to $US13.30 in 2018, trying to stay ahead of the falling price to preserve its profit margin, with cuts to supplier payments helping drive cost reductions.

But last year's surging iron ore price has exacerbated supplier anger about Rio's squeeze. Despite operation problems at its Pilbara mines that drove up costs and reduced shipments, consensus analyst estimates indicate Rio will book underlying after-tax earnings of about $US9.7bn ($14.16bn) from its iron ore division at its February annual financial results.

The Rio revelations come only a week after the WA state government banned departments and trading enterprises from using a similar scheme, after complaints that the state government-owned Water Corporation was urging contractors to take a financial hit if they wanted bills paid within 28 days. WA Treasurer Ben Wyatt said on Wednesday that suppliers should expect to be paid in a timely manner if they had done the work.

"Governments should lead by example and if suppliers do the work, they should expect to be paid in a timely manner," he said.

"The issues raised last week by Water Corporation suppliers were rightly deemed unacceptable by the Premier. As the Premier made clear last week, we don't believe this is acceptable and have moved swiftly to ensure suppliers are paid within 30 days or sooner when possible."

The federal government has also been progressively lowering its payment terms to Australian businesses that provide its services, most recently cutting to five-day terms on small business invoices billed through its own electronic payment system.

Amid wider concerns about the fast growth of other forms of supply chain financial engineering, federal small business ombudsman Kate Carnell is undertaking an inquiry into claims companies have been pressing suppliers to use external financiers to manipulate their working capital positions.

Do you know more?
lynchj@theaustralian.com.au

NOTICES

www.theaustralian.com.au

NORTHERN TERRITORY GOVERNMENT | Department of PRIMARY INDUSTRY AND RESOURCES

Rum Jungle Mine Rehabilitation Project

Draft Environmental Impact Statement

The Northern Territory Government (represented by the Department of Primary Industry and Resources (DPIR)), in partnership with the Australian Government (represented by the Department of Industry, Innovation and Science), proposes the rehabilitation of the former Rum Jungle Mine site located 6 km north of Batchelor, Northern Territory. The primary objective of the project is to create a safe and stable environment onsite and reduce environmental impacts downstream of the site within the east branch of the Finniss River.

The proposal is being assessed as an Environmental Impact Statement (EIS) by the Northern Territory Environment Protection Authority (NT EPA) under the *Environmental Assessment Act 1982* (NT) and the *Environment Protection and Biodiversity Conservation Act 1999* (Cth), in accordance with the assessment Bilateral Agreement. The relevant Matters of National Environmental Significance are listed threatened species and communities (sections 18 and 18A) and protection of the environment from nuclear actions (sections 21 and 22A). DPIR has submitted a Draft EIS for assessment and has made the draft available for public comment.

Public review period

The draft EIS is available on the NT EPA website at ntepa.nt.gov.au/envirocomment. Hard copies of the Draft EIS are also available for viewing from 25 January 2020 to 6 March 2020 at the following locations:

- NT EPA, Level 1, Arnhemica House, 16 Parap Road, Parap
- Department of Primary Industry and Resources, 3rd floor, Paspalis Centrepoint, 48 Smith Street Mall, Darwin
- Northern Territory Library, Parliament House, Darwin
- Environment Centre Northern Territory, Unit 3, 98 Woods Street, Darwin
- Northern Land Council, 45 Mitchell Street, Darwin
- Coomalie Community Government Council, 141 Cameron Road, Batchelor
- Charles Darwin University, Palmerston campus
- Adelaide River Post Office
- Batchelor Institute of Indigenous Tertiary Education, corner of Awilla Road and Nurndina Crescent, Batchelor.

Public comment is invited. Interested persons and organisations wishing to comment on the Draft EIS are invited to make a submission before 6 March 2020. All submissions will be treated as public documents unless confidentiality is requested. Comments can be sent to:

Environmental Assessments
Northern Territory Environmental Protection Authority
Postal: GPO Box 3675, Darwin NT 0801
Email: eia.ntepa@nt.gov.au

ntepa.nt.gov.au/envirocomment

DEATH & FUNERAL NOTICES

BEDDISON
Anthony John AC

A funeral service for
Mr Anthony John Beddison AC
will be held at St John's Anglican
Church, Clendon Road, Toorak on
Tuesday 4th February 2020
commencing at 2:00pm.
Private Cremation.

ALLISON MONKHOUSE Funeral Directors
Brighton 9592 7011