

United Wambo Mine

Submission to Planning Assessment Commission

Submission

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INTRODUCTION

The Australia Institute welcomes the opportunity to make a submission to the Planning Assessment Commission on the United Wambo Open Cut Coal Mine Project. We have previously made submissions on *Wambo Mine - Modification 12* and also on the *United Wambo Open Cut Coal Mine Project economic assessment* by Deloitte Access Economics (Deloitte assessment).¹

There are a number of issues raised in our submissions that are not adequately addressed in the Response to Submissions (RtS) or in the 2016 or 2017 reviews conducted by the Centre for International Economics (CIE).

WAMBO IN CONTEXT OF COAL MARKET

Our 2016 submission noted:

[Deloitte's Local Effects Analysis (LEA)] does not consider the reality that coal demand growth has halted. NSW coal exports actually declined last year, for the first time in 15 years. Existing coal mines are closing, while others are being approved.

The wider context of climate policy is important to understand. Under the Paris climate agreement, which Australia is a party to, Australian thermal coal exports are expected to decline rapidly, even according to coal industry consultants such as Wood Mackenzie.

The LEA does not consider that under Australian government policy, the future of this project will be fighting with other Hunter Valley mines for slices of a shrinking pie.

Appended to that submission is extensive analysis showing that approved production from current coal operations in NSW and Queensland is sufficient for current levels of production out to 2025.²

¹ Campbell (2016) Wambo Mine Modification 12 Submission, <http://www.tai.org.au/sites/default/files/P255%20Wambo%20submission%20FINAL.pdf>; Campbell (2016) United Wambo coal project Submission, <https://majorprojects.accelo.com/public/cbf1e444edd670ba2d2bb348f687df7d/The%20Australia%20Institute.pdf>

² See Denniss et al (2015) *Never gonna dig you up! Modelling the economic impacts of a moratorium on new coal mines*,

The RtS is silent on the fact that Hunter coal mines are now fighting for a share of a smaller market, aside from selectively quoting the CIE:

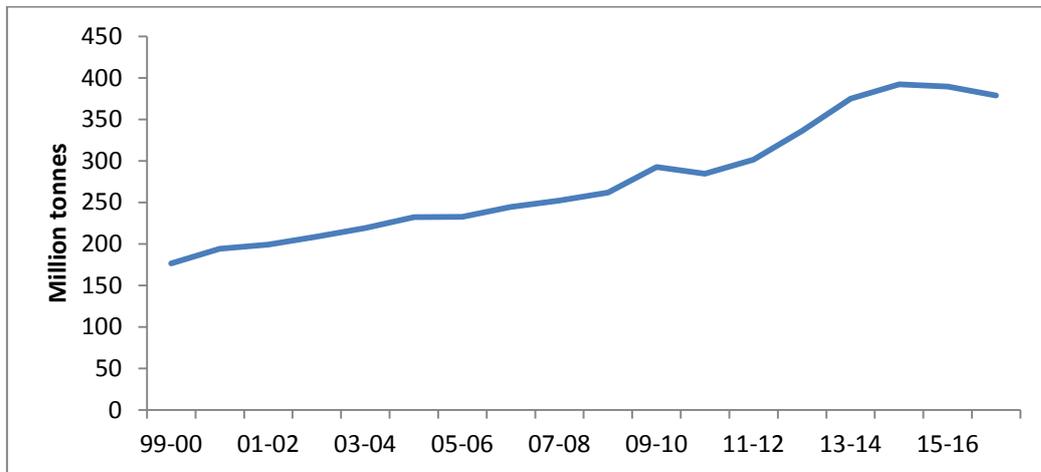
The CIE conclude that “While there is uncertainty regarding how the future production profile from the mine will be affected by changes in the international market, it is expected that there will be a sustained demand for the product over the timeframe of the Project.”

In fact the CIE make reference to several changes in the thermal coal market that demonstrate the headwinds that Hunter coal expansion is facing, including declines in Chinese demand and increases in Indian domestic production (p13-14). CIE’s analysis is also insufficient, however. It is important to note that global coal demand is falling, as the International Energy Agency has noted:

Against a background of falling coal use in Europe, the United States and China, global coal demand fell by 2% in 2016, for the second year in a row.³

Australian exports have also declined marginally for the last two years, as is clear from Federal Department of Industry data:

Figure 1: Australian coal exports



Source: Office of the Chief Economist, Resource and Energy Quarterly, December 2017

NSW has also been affected. As pointed out in our submission on the Deloitte assessment, coal exports through Newcastle declined in 2016. This slow decline continued in 2017, with a decline of around 1 percent.⁴

<http://www.tai.org.au/sites/default/files/P198%20Never%20gonna%20dig%20you%20up%20FINAL.1.pdf>

³ IEA (2017) World Energy Outlook 2017, <https://www.iea.org/weo/>, p203.

⁴ Kirkwood (2018) *Port of Newcastle coal exports slip by more than one percent in 2017*, <http://www.theherald.com.au/story/5150712/coal-exports-from-the-port-of-newcastle-are-slipping/>

While the declines are small, they need to be seen in context – such a decline appeared impossible just a few years ago. In a late 2014 report for the NSW Minerals Industry Action Plan, CIE wrote:

Higher demand in Asia is expected to boost Australian thermal coal exports to 2018, with Australia expected to account for roughly 30 per cent of the increase in incremental global thermal coal exports.⁵

This prediction was totally wrong. Demand in Asia declined almost as soon as these words were written. CIE's observation that there will be 'sustained demand for the product [coal]' is misleading. While the world will use a larger amount of coal than Wambo will produce, it is clear this market is declining and will decline even faster under the Paris agreement. The Wambo project is competing against other Hunter coal mines. Its expansion will to some extent come at the expense of existing Hunter mines.

This point should have been noted by Deloitte and CIE in the RtS and 2017 review. It should be addressed in detail in the LEA. It is long past time to begin planning for what the Hunter coal industry will look like in a world that acts on climate change. Simply approving new mines noting 'sustained demand' for some level of thermal coal and ignoring the social and environmental impacts of inter-mine competition in the Hunter is irresponsible and inefficient.

COMPANY TAX CALCULATIONS

A key flaw in the 2015 NSW Guidelines for the use of Cost Benefit Analysis in mining and coal seam gas proposals is the treatment of company tax calculations. Economists do not have the skills or data to accurately predict corporate income tax payments, particularly for companies such as Peabody and Glencore, both of which are notorious for not paying any. The RtS accepts yet dismisses this point:

The overall tax position of the proponents is beyond the scope of the CBA. The CBA focuses on the first round (primary) impacts of the Project. (p12)

This is not correct. The 'first round' of the CBA is assessing consumer surplus. Estimating how much of that surplus would then accrue to governments is a 'second round' that should involve more than simply applying a simplistic headline rate of 30% corporate tax to producer surplus. We note that CIE assume zero company tax receipts in their 'minimum threshold' analysis. (2016 report, p2)

⁵ CIE (2014) *The contribution of mining to the NSW economy*, https://www.resourcesandenergy.nsw.gov.au/_data/assets/pdf_file/0007/539935/CIE-Report-Contribution-of-mining-to-NSW.pdf

BIODIVERSITY IMPACTS

The Deloitte assessment, CIE reviews and RtS all assume that biodiversity offsets work perfectly and reduce any impacts to zero. While this is a convenient assumption for economists, as pointed out in our submission, professional ecologists do not accept that this assumption.⁶

CONCLUSION

Assessment of new coal projects in NSW need to be made in the context of declining global coal demand, a trend that will increase as the world acts on climate change. While it may be possible to sell all the coal from the Wambo proposal, consideration needs to be given to whether this represents any kind of net benefit to the Hunter and a more detailed examination of what risks it presents.

These issues have been inadequately considered in the assessment of the Wambo project. The PAC should reject all proposals for major coal expansion until an assessment has been made of how the Hunter coal industry can best proceed and maximise benefits to the community in a carbon constrained future.

⁶ See for example, Bekessy et al (2010), The biodiversity bank cannot be a lending bank, <http://onlinelibrary.wiley.com/doi/10.1111/j.1755-263X.2010.00110.x/abstract> as well as submissions on the Wambo project by Dr Matthew Currell, RMIT, submitted as part of the Hunter Environment Lobby submission