

Subsidisation of Abbot Point coal port expansion

Briefing note
16 January 2015

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Key points

- Environmental risks of Abbot Point port expansion have been well publicised, but economic costs to Queensland taxpayers have not been widely reported.
- Nearly \$2 billion has been spent on facilitating expansion of the Abbot Point coal port.
- Further spending is likely, at least hundreds of millions.
- Queensland Treasury emphasises that such spending comes at the expense of schools and hospitals.
- No cost benefit analysis or other economic assessment has been conducted, contrary to Queensland Government guidelines and statements by Treasurer Tim Nichols.
- The dubious financial viability of Galilee Basin coal projects threatens the expansion of Abbot Point and the large sums spent by taxpayers.

Introduction

The Abbot Point Port is located 25 kilometres from the town of Bowen, Queensland, adjacent to the Great Barrier Reef World Heritage Area. Ships accessing the port must pass through the Great Barrier Reef.

The Abbot Point Port currently has one operating coal terminal. The operating terminal has capacity to export 50 million tonnes per annum (Mtpa). 23 million tonnes were shipped in 2013-14 and the port is on track to export over 30 million tonnes in 2014-15. The coal comes from mines in the Bowen Basin to the south of the port.¹

Proposals for several very large new mines in the Galilee Basin, further to the west, have spurred proposals to expand the Abbot Point port and increase its export capacity. The most advanced development proposal, the Terminal 0 development, is for a 70 Mtpa expansion.²

To facilitate the expansion projects, the Queensland government is proposing to dredge 3 million cubic meters of material to make the port deeper and help ships access it.³ The initial proposal to dump the dredge spoil in the Great Barrier Reef Marine Protection Area was met with considerable public backlash and has since been changed to a proposal to dump the spoil onto nearby wetlands, which are also environmentally significant.⁴

While environmental aspects of the Abbot Point project have been widely reported, less well known is the economic assistance given to the port by the Queensland taxpayer.

Nearly \$2 billion of public money has been spent to date on items that assist the expansion of the Abbot Point port. The Queensland Government intends to spend much more, at least hundreds of millions in the coming years to expand the port further.

Despite the Queensland Treasurer calling for cost benefit analysis to be done for all major government projects, there has been no economic assessment of any kind for the Abbot Point expansion proposals.

¹ <http://www.nqbp.com.au/abbot-point/>

² <http://www.nqbp.com.au/abbot-point/>

³ <http://www.dsdip.qld.gov.au/infrastructure-planning/securing-the-future-of-the-port-of-abbot-point.html>

⁴ <http://www.smh.com.au/environment/conservation/new-abbot-point-dredge-plan-to-dump-spoils-in-wetlands-20141029-11dppx.html>

The Queensland government money spent on Abbot Point comes at the expense of spending on other government services such as education and health. This fact has been emphasised by Queensland Treasury.

There is a real opportunity cost for governments in undertaking the initial capital expenditure. Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.⁵

Even as a commercial investment this expenditure is risky, with Macquarie Bank considering the development of the Galilee Basin as “ignoring conventional economics.” This makes economic assessments that look at the riskiness of any expansion even more important.

Taxpayer assistance to Abbot Point port expansion

The Abbot Point Port is owned by the North Queensland Bulk Ports Corporation (NQBPC), a corporation owned by the Queensland government. While NQBPC’s day-to-day operations are funded by user fees, their projects receive money for capital expenditure from the Queensland state budget.

In addition to port infrastructure, Queensland taxpayers have also put large amounts of money into coal railways to assist the Abbot Point project.

Since 2008-09 Queensland taxpayers have spent nearly \$2 billion on assisting the expansion of Abbot Point, as shown in the table below:

Table 1: Taxpayer assistance to Abbot Point port expansion

| Budget items from 2008-09 to 2014-15 | Total cost \$m |
|---|----------------|
| INFRASTRUCTURE AND PLANNING | |
| Abbot Point State Development Area (Land) | 19.8 |
| Abbot Point State Development Area (service infrastructure) | 12.1 |
| Abbot Point Indigenous Land Use Agreement | 4.5 |
| Abbot Point supply (Ergon) | 32.4 |
| Goonyella-Abbot Point Expansion (Missing Link Project) | 830.7 |
| Goonyella-Abbot Point Expansion (Long Lead Time Items) | 42.1 |
| Abbot Point Expansion X50 | 724.1 |
| Abbot Point Expansion X21 | 20.0 |
| Abbot Point Expansion X25 | 95.0 |
| Abbot Point Expansion SR1 & SR2 | 71.0 |
| Abbot Point Expansion X110 (Prelim) | 37.5 |
| X230 Masterplan | 4.0 |
| Abbot Point Terminals 2 & 3 | 23.6 |
| Common User Infrastructure | 1.6 |
| Abbot Point Port Development | 28.9 |
| Total | 1,947.1 |

⁵ (Queensland Treasury, 2013) p15

Sources: Queensland Budget Papers 2008-09 to 2014-15. See also (Peel, Campbell, & Denniss, 2014)

Table 1 shows the largest items of expenditure relevant to the Abbot Point expansion have been in railway infrastructure to the port and the X50 project, which expanded the ports capacity to the current 50 Mtpa. These projects alone account for over \$1.5 billion.

Table 1 does not include expenditure for the current dredging proposal as this item does not yet appear in the State Budget Papers. Table 1 does not include potential expenditure on future rail projects to the Galilee Basin which the government intends to spend “hundreds of millions” on.⁶

Economic assessment of Abbot Point expenditure

There has been no public economic assessment of the current proposals for the Abbot Point expansion. This is surprising as Queensland Treasurer, Tim Nichols, declared cost benefit analysis would be compulsory for major projects in this year’s budget speech:

*As promised at the election, all major projects now undergo a cost benefit analysis. No longer do we have dams without pipes, pipes without dams, nurses without pay and trains without seats!*⁷

The Treasurer’s call for cost benefit analysis is consistent with Queensland Government guidelines⁸ and recent research from the Australian Coal Association Research Program, which says that one of the “key aspects of economic assessment that can improve confidence in the inputs to the decision-making process” is:

*Inclusion of a **comprehensive Cost Benefit Analysis**, with proper identification of non-market impacts...*⁹

Not only have the Abbot Point projects not been properly assessed, but no public cost benefit analysis has been carried out for any of the Galilee Basin mine proposals, or of the Queensland Government’s Galilee Basin Development Strategy.¹⁰

Cost to Queensland of subsidising coal infrastructure

Supporters of coal projects argue this expenditure is justified as they allow increases in royalties and user fees over time. This argument ignores two key issues:

- Money spent on coal infrastructure cannot simultaneously be spent on other government services. Other services, such as education and healthcare, also provide economic benefit as well as directly benefiting the Queensland community.
- Mining investment is risky. Markets may change, companies may go bankrupt and projects may not proceed as expected. The returns to the state are uncertain and in the future, while the opportunity costs to the budget are certain and immediate, as are many wider environmental and social impacts of the projects.

⁶ <http://www.smh.com.au/it-pro/well-do-what-it-takes-in-galilee-basin-seeney-20141117-11o6zb.html>

⁷ (Nicholls, 2014) p4

⁸ (Qld DIP 2011, p18)

⁹ Hunter Research Foundation (2014) *Approval and planning assessment of black coal mines in NSW and Queensland: A review of economic assessment techniques*

¹⁰ (Queensland Government, 2013)

These points are emphasised by Queensland Treasury:

There is a real opportunity cost for governments in undertaking the initial capital expenditure. Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.¹¹

Investment in Abbot Point comes at the expense of investment in other parts of the Queensland economy and community. Proper economic assessment should be carried out, particularly as there are doubts about the financial viability of Galilee Basin coal projects which are the drivers behind the port expansion.

Financial viability of Galilee Basin coal projects

The risk of investment in Abbot Point not being paid back is considerable and is widely discussed by economists and banks:

Development of the Galilee Basin looks increasingly remote, Macquarie Group Ltd., Australia's biggest investment bank, said in a May 1 research note. Prospects for project paybacks look extremely poor, the bank said. Further delays are likely unless "deep pocket" backers are able to ignore conventional economics.¹²

Detailed studies of Galilee Basin projects have concluded that they are "beyond speculative" and:

The magnitude of financial capital and infrastructure required, coupled with a depressed thermal coal market outlook make opening up the Galilee basin a challenging and high risk proposition.¹³

The marginal financial nature of Galilee Basin projects is demonstrated by Bandanna Energy, which has recently gone into administration. One of Bandanna's key assets is the South Galilee Basin Coal Project, which now looks unlikely to proceed.

Conclusion

Aside from the potential environmental impacts of the Abbot Point expansion, the Queensland public should be aware of the economic aspects of the expansion and related projects.

Nearly \$2 billion of public money has been spent to date on items that assist the expansion of the Abbot Point port. The Queensland Government intends to spend much more, at least hundreds of millions.

There is no economic assessment of the expansion proposals, contrary to the promise of the Queensland Treasurer to make cost benefit analysis compulsory for all major projects.

This expenditure comes at the expense of other spending on government services such as education and health care.

Even as a commercial investment this expenditure is risky, with Macquarie Bank considering the development of the Galilee Basin as "ignoring conventional economics."

¹¹ (Queensland Treasury, 2013) p15

¹² (Scharples, 2013)

¹³ (Buckley & Sanzillo, 2013) p9

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