

Terminal 4 Planning Assessment Commission determination meeting

Submission
July 2015

Rod Campbell

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, 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 our Research Fund are tax deductible for the donor. Donations can be made via our 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 5, City Walk Centre
131 City Walk
Canberra City, ACT 2601
Tel +61 2 6130 0530
Email: mail@tai.org.au
Website: www.tai.org.au

Introduction

The Australia Institute is opposed to the Terminal 4 project. For the project's capacity to be utilised an increase in the rate of coal extraction in NSW is required beyond the continuation and replacement of existing mines. Such increases are unlikely to be in the public interest given the social and environmental impacts of current mines and their impacts on other industries. Extracting and transporting a further 70 million tonnes per annum (Mtpa) from the Hunter Valley and environs would require seven new mines the size of Rio Tinto's Warkworth or Shenhua's Watermark proposal. Given the controversy surrounding these projects, it is difficult to see how such an expansion is economically and socially desirable.

The Planning Assessment Commission (PAC) for the T4 proposal has little information about how the extra coal for the T4 project would be supplied. The earlier PAC Review noted:

the extraction of coal to supply the port would be subject to a separate assessment of each coal mine application and is not a matter for consideration on this proposal.

While we agree that it is not for this PAC to assess the merits of future coal mines, it is necessary to at least consider whether an additional 70 Mtpa expansion is politically feasible or likely to be approvable under current planning arrangements.

If the project is to be approved with conditions, then the following issues must be considered.

Financial viability and economic justification

The financial viability of the T4 proposal is dubious. The viability of the project is based on the demand for coal throughput at the PWCS terminal. This demand has been consistently overstated through the assessment process:

- The initial proposal for a 120Mtpa expansion was delayed and downsized to the current 70Mtpa proposal.¹ Initial economic assessment calculated net benefits of up to \$60 billion. Despite the obvious inaccuracy of this estimate, no changes were made to the methodology used for assessing the downsized 70Mtpa proposal in the Preferred Project Report.²
- Both economic assessments were based on projections of coal throughput that far exceeded Port Waratah Coal Services (PWCS) own internal forecasts. These were obtained under the Government Information Public Access Act and showed that PWCS expects current capacity to be sufficient out to at least 2023.³
- This issue was thoroughly explored by a review commissioned by the PAC, which found:

A revised 'first shipment' date of around 2023- 2025 emerges under further sensitivity testing for the Proponent under conservative assumptions about the growth in demand for terminal capacity conducted in response to criticism by the Australia Institute. This is a similar date under 'extrapolation of trend' forecasting of export growth underpinning alternative modelling by The

¹ (Gillespie Economics, 2012)

² (Gillespie Economics, 2013)

³ See expert report to review PAC by Rod Campbell of The Australia Institute, dated 25 August 2014, submitted with other expert reports by EDO NSW on behalf of the Hunter Community Environment Centre.

*Australia Institute. However, while extrapolation of trend growth of 3 Mtpa as employed by the Institute would not see the additional capacity fully utilised until after 2045, the most conservative scenario considered under sensitivity analysis for the Proponent would see full utilisation by 2036.*⁴

The latest data from PWCS shows that throughput has reduced this year relative to 2014. Coal loaded to date is an annualised 106.8Mtpa, compared to 108.0Mtpa at this time last year.⁵ Given existing nameplate capacity of 145Mtpa there is no short or medium term need for the project.

This slow-down is not confined to the PWCS facilities. The entire Newcastle Port exported 159Mt of coal in 2014. To the end of June 2015 only 76.5Mt had been shipped, less than half of the previous year's total.⁶

Given the uncertainty around the need for T4's additional capacity and the desirability of further expansion of coal extraction rates, the PAC placed conditions on its recommended approval of:

- That final plans are justified with reference to latest coal pricing and demand forecasts. (Recommendation 16)
- A five year approval lapsing period, rather than ten years. (Recommendation 1)
- That biodiversity offsets and decontamination work be completed and functioning successfully before construction begins. (Recommendations 2-6)⁷

The Australia Institute supports these conditions and recommendations if the project is to be approved.

Justification with respect to latest pricing and forecasts

The proponent and the Department have not complied with the PAC recommendation to justify the project with reference to the latest coal pricing and forecasts. PWCS's *Response to recommendations of the Planning Assessment Commission Review* makes no mention of their internal forecasts such as their annual capacity assessment or their latest operating statistics, which show a slight reduction in throughput this year, as discussed above.⁸ They make no reference to long-range price forecasts such as Federal Treasury, who are forecasting coal prices of around \$AUD80 out to 2029-30.⁹ There is no consideration as to whether expansion of NSW coal production is financially viable under such forecasts, despite the emphasis of the PAC's commissioned review on this point.

⁴ (CIE, 2014)page 5

⁵ <http://www.pwcs.com.au/media/1613/201506-pwcs-operating-statistics.pdf>

⁶ <http://www.portofnewcastle.com.au/Resources/Documents/Monthly-Trade-Report---June-2015.pdf>
<http://www.portofnewcastle.com.au/Resources/Documents/PON-Annual-Trade-Report-2014-FINAL.pdf>

⁷ (PAC, 2014)

⁸ See section 3.13 of their response report <https://majorprojects.affinitylive.com/public/b91f35c83f872d277757797dc6ce09aa/Appendix%20B%20-%20Port%20Waratah%20Coal%20Services%20Terminal%204%20Proponent%20Response%20to%20PAC%20Review.pdf>

⁹ (Bullen, Kouparitsas, & Krolikowski, 2014)

The only forecasts discussed in the Proponent's response are unreferenced statistics from the International Energy Agency stating that world coal demand is likely to grow in the medium term (see section 3.1 of the response). This does not address this recommendation and fails to acknowledge the difference between growth in world demand and the ability of the Hunter coal mines to profitably and responsibly expand on current output levels. The Department's statement about "the ultimate importance of the T4 Project to the Hunter Valley and NSW" is not supported by any analysis.

The Department's addendum report also fails to address this recommendation, stating:

It is not the role of the planning system to regulate demand. The existing recommended conditions enable staged construction of the facility to meet demand. The Proponent is unlikely to unlock such significant upfront capital if demand is not there.¹⁰

Planning decisions do not regulate demand, but should be based on the best available information to balance the interests of the community and developers. The Proponent's forecasts of demand have been poor and optimistic, demonstrated by the downsizing of the project.

Lapse period of five years

The Proponent's response to this recommendation does not address the concerns of the PAC, merely stating that changing coal market conditions are "unlikely to remove [the] need" for the project.¹¹ As discussed, PWCS's own data suggests there is no need for the project for many years to come. Given the policy uncertainty around coal exports, air quality in Newcastle and global greenhouse gas emissions, and the potential use of the port area for other purposes, the recommendation is a sound one in our opinion.

PWCS say that a ten year approval is needed "demonstrated in the approval timeframe, which has taken more than four years to date." Much of the delay to date has been due to the downsizing of the project because of the unviability of the original proposal.

The Department offers no reasoning around its opposition to the five year lapse period other than to claim that the project is "important" and that the proponent has spent money on the proposal. Their arguments that "the project could remain on hold for years before the Proponent deciding to commence construction of the terminal" is precisely the point – the proponent should not gain a long term option to delay development of this area given the uncertain outlook for the project.¹²

Biodiversity offsets and decontamination work

The commissioned report by Centre for International Economics and the PAC recommendations point out that there are benefits to the community from the decontamination of the site and the construction of biodiversity offsets and that these actions should not be delayed.¹³

¹⁰ See ADDENDUM MAJOR PROJECT ASSESSMENT Port Waratah Coal Services Terminal 4 Project, Kooragang Island , p22

¹¹ See Response report p5

¹² See addendum report p9

¹³ (CIE, 2014)

The Department argues against this, claiming the longer lapse period is justified precisely because it would allow more time for completion of offset areas and decontamination.¹⁴

PWCS is also opposed to this recommendation:

This condition will introduce additional delays between demand for the T4 Project being triggered and capacity being available by the T4 Project...Any delays in providing capacity as required will have significant economic and market impacts.

As discussed above, there is no evidence to suggest delays will be caused based on demand for throughput. The community benefit of the remediation and offsets should be realised without delay.

Conclusion

There is great uncertainty around the justification for the T4 project. Initial claims of \$60 billion in net benefits have been shown to be wildly inaccurate. Economic benefits of the project will only eventuate if coal prices – as opposed to just coal demand – increase substantially.

However, this does not overcome the basic problem that increasing the rate at which coal is mined in NSW will have serious environmental, social and economic consequences. While increased royalty revenue and employment would be marginal, the wider impacts are likely to be substantial. Because of this, the T4 project and the expansion it requires should be rejected.

If the project is not to be rejected, then the PAC is right to impose strict conditions that prioritise the community benefits and do not allow for a long term option to delay more beneficial use of the site.

References

- Bullen, J., Kouparitsas, M., & Krolkowski, M. (2014). *Long-run forecasts of Australia's terms of trade*. Published by The Treasury, Commonwealth of Australia. Retrieved from [http://www.treasury.gov.au/~media/Treasury/Publications and Media/Publications/2014/Long run forecasts of Australias terms of trade/Documents/PDF/long_run_tot.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2014/Long%20run%20forecasts%20of%20Australia's%20terms%20of%20trade/Documents/PDF/long_run_tot.ashx)
- CIE. (2014). *Port Waratah Expansion T4: Review of Economic Analysis*. Prepared for NSW Planning Assessment Commission.
- Gillespie Economics. (2012). *Terminal 4 project: Economic assessment*. Prepared for Port Waratah Coal Services, T4 EIS appendix R.
- Gillespie Economics. (2013). *Terminal 4 project: Economic assessment of modified design*. Prepared for Port Waratah Coal Services, T4 supplementary EIS appendix S.
- PAC. (2014). *Port Waratah Coal Services Terminal 4 Project Review Report*. Planning and Assessment Commission NSW. Retrieved from

¹⁴ See addendum report p9

<http://www.pac.nsw.gov.au/Projects/PACReviews/tabid/106/ctl/viewreview/mid/461/pac/251/view/readonly/myctl/rev/Default.aspx>