The Australia Institute

Research that matters.

Submission on NSW Integrated Mining Policy

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TAI

Submission

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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.

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Introduction

A problem with the NSW planning system relating to mine assessment in recent years has been economic assessment. There are two areas in need of reform:

- The quality of economic assessment and enforcement of economic assessment guidelines
- The timing of economic assessment and debate in the planning process.

This submission discusses the second point about when in the planning process economic issues are considered and how this can be improved in relation to the draft *Standard Secretary's Environmental Assessment Requirements* and the *Mine Application Guideline* currently on display. Issues relating to quality of assessment and guidelines are being discussed through a different process and The Australia Institute will make a separate submission on these issues.

Timing of economic assessment

Consideration of economic issues occurs far too late in the NSW mine planning process. Economic assessment is currently limited to Environmental Impact Statements (EIS) as an appendix, and a late one at that. For example, the economic assessment of the Watermark Coal Project was appendix AF of the project's EIS. This means there were 31 appendices and the main body of the EIS before the central economic question was asked – is the project in the economic interests of the NSW public?

Any project that is not demonstrably in the economic interests of the state should not be approved. By considering this important question late in the process:

- Proponents are forced to spend considerable amounts of money on other aspects of the assessment process, with the risk that this crucial issue is not resolved in their favour.
- Consultants commissioned to write economic assessments are under extreme pressure to produce results that favour project proponents who have spent money and political effort to build support for their projects.
- Planning authorities are also under pressure to approve projects that have developed considerable momentum by this stage.

Some examples are:

- Warkworth coal project. Despite two economic assessments claiming considerable net benefits and employment, the Land and Environment Court found that the economic benefits were insufficient to outweigh social and environmental costs.
- Cobbora coal project. Despite EIS claiming $2 billion in net benefits to NSW, the project is financially unviable and looks unlikely to proceed.
- Rocky Hill coal project. Two economic assessments claiming large benefits, yet the project has been place "on hold", likely due to financial unviability.

In all of these cases, the outcomes for local communities have been negative, despite/because of the rejection or delay of projects. The community of Bulga, adjacent to Warkworth mine, has had to fight long and costly legal and planning appeals. The community of Dunedoo saw many landholders bought out and leave the area, prompting a slump in the local economy and a $20 million taxpayer funded “transition fund”.[1] Residents near the Rocky Hill project have been subject to years of uncertainty and reduced property values and the project is “on hold”.[2]

The risk of these problems emerging could be reduced by requiring cost benefit analysis much earlier in the assessment process. By the time proponents are required to prepare Preliminary Environmental Assessment they should have a good understanding of the economics of the project, including the size and quality of the resource, rates of extraction, likely revenue streams and cost projections. An estimate of the break-even coal price will have been calculated by this stage.

Planners should be made aware of this information. If projects are unlikely to be profitable at current price forecasts, economic benefits such as employment and royalty payments will not be enjoyed by the state. As the examples above demonstrate, there are serious costs to communities from the approval of unviable mining projects.

A common response to questions about mining project viability is that no rational mining company would pursue a project that was not likely to be profitable. This argument is made in official Response to Submissions and is seemingly accepted by Planning. For example, the Warkworth Continuation Project *Response to The Australian* [sic] *Institute submission* says:

> *Presumably Rio Tinto would not go to the trouble of applying for development consents and engaging in the associated stakeholder consultation processes if it did not believe that the proposals would generate a positive return.*[3]

In fact there are several reasons why a mining company might pursue a project which was financially marginal. Firstly, by gaining approval for the project it gives the company the option to commence in the future. Secondly, it adds considerably to the potential sale value of the project. Finally, by having a potential expansion project, companies may be able to defer expenses relating to mine closure and staff retrenchment indefinitely. Deferring these costs may be more valuable to the company than incurring a loss running a marginal mine at low levels or placing it in care and maintenance with the pretence of opening it in the future. The community bears the cost of the delay in remediation.

To ensure economic benefits are derived by the state from mining projects all of these issues should be considered at the beginning of a mine application. Where projects are unlikely to be viable they should be halted at this point, while more clearly beneficial projects should proceed to an EIS process where the early economic assessment can form the basis of more detailed assessment.

Suggested changes to Draft Mine Application Guideline

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> *A PEA is to be presented in summary and predominantly qualitative form, avoiding lengthy and overly technical discussion*.

An exception to this should be economic assessment. While the assessment at this stage need not be long or technical, it should not be qualitative. Well-considered estimates of

[1] http://www.infrastructure.nsw.gov.au/restart-nsw/cobbora-transition-fund.aspx
[2] http://www.abc.net.au/news/2014-11-03/rocky-hill-open-cut-mine-proposal-a-worry-for-nearby-gloucester/5861726
[3] See Appendix H Response to The Australian Institute submission (Appendix 5 of BMPA submission) by BAEconomics, page 4

capital and operating costs should be included along with discussion of saleable volumes and revenue.

Page 4 - Section 1 project summary

The PEA and the EIS summary tables should include estimates of break even coal prices and how that compares to current prices. Discussion of discounts/premiums to benchmark prices may also be relevant here.

Page 5 – Section 2.3 Development schedule

Both PEA and EIS should outline how dependent the schedules are on economic issues such as changes in input or output prices. Current coal prices are often blamed for delays in project commencement, but have never been considered in a PEA or EIS as far as we are aware, even though project delays have a considerable effect on communities.

Page 6 – Section 3.1 Target resource

The information on the characteristics of the resource should be described in detail, in the case of coal including initial results for energy, ash, sulphur and other relevant characteristics. Where these characteristics deviate from relevant benchmark standards, their impact on pricing should also be discussed. This is crucial not only for consideration of project viability, but to give planners an indication of royalty revenue, the key financial benefit to the state.

Page 8 – Section 4 Project rationale

Discussion of choice of mining method must include cost and revenue impacts. This will enable stakeholders and planners to consider whether trade offs between mining methods are in the wider public interest, as opposed to just the cheapest option for the proponent. For example, the original Maules Creek mine proponents, Aston Resources, commissioned a study for an underground option for that mine.[4] It found that an underground option was also financially viable, but with trade offs for the community in terms of lower royalties and less environmental impact. This sort of consideration should be included in the PES at a basic level and expanded in more detail in the EIS.

Page 10 – Summary Table

Capital investment value should be replaced with economic considerations:

- Employment estimate
- Royalty estimate, with a specified coal price and discount rate
- Break even coal price and current coal price.

Capital investment value is of minimal importance to the NSW community as much major expenditure is on imported equipment. It is important to consider the financing and debt requirements of the project, but these considerations are too detailed for the summary table. Presented here it invites misuse as proponents will claim the project is “worth” this much to the NSW economy, whereas the present value of benefits to NSW may be much lower or indeed negative.

[4] Minarco Mine Consult, 16 July 2010, *Maules Creek Coal Deposit Conceptual Underground Study* for Aston Resources Ltd

Conclusion

These suggestions would improve the understanding of project economics and finances by planners and the wider community. It is crucial to go beyond just listing these as requirements, and also ensure they are adhered to and published transparently. Allowing earlier, more rigorous debate around the economics of coal projects will be important in the coming years when carbon intensive energy comes under much greater pressure from climate policy and cleaner energy alternatives.