

# The Australia Institute

Research that matters.

19 May 2017

NSW Planning Assessment Commission

Sydney NSW 2001

Via email: [pac@pac.nsw.gov.au](mailto:pac@pac.nsw.gov.au)

Dear Commissioners,

**Re: Bylong Coal Project - R040/17**

Thank you for the opportunity to speak at the Bylong hearing by phone last week.

As discussed, the Bylong Project is economically marginal. At a time when market analysts are saying no greenfields coal mines need to be built, it is not credible that the Bylong Project can generate the economic benefits claimed by the proponents.

As demonstrated in our [original submission](#), at Commonwealth Treasury's long-term estimate of thermal coal prices (\$80AUD/t) the project is not economically viable. All claims of economic benefit relating to the project depend on coal prices remaining at or above the assumed coal price of \$100AUD/t.

This conclusion is not contested in any of the subsequent responses by the proponent or the Department. The response to submissions said:

*The pseudo-analysis undertaken by this stakeholder in their submission to demonstrate that the Project may not be profitable at 20% lower coal prices is a form of discounted cash flow analysis. However, discounted cash flow analysis does not measure profitability. Profitability analysis requires the consideration of depreciation of capital assets rather than the inclusion of all capital costs in the year that they occur. (p499)*

Aside from the characterisation of our research, these statements are true. But they do not dispute the point that the project is economically marginal at Treasury's coal price forecast. The peer review of the economic assessment by the Centre for International Economics considers the price forecasts "reasonable" (p14), but does not contest our main point. The Department's Assessment Report simply states:

*The Department accepts the conclusion of CIE that the project's benefits to society (especially to the State and region) would significantly outweigh its costs, including externalities, from an economic perspective. (p115)*

None of these documents acknowledge that any economic benefits of the Bylong Project are highly uncertain. There is a possibility that they may be realised, but

there is also large chance that they may not eventuate at all. The PAC must consider the possibility that it could approve the Bylong Project but zero economic benefits could result if prices are low, or better returns are available to the proponent elsewhere, or if external costs are higher than anticipated in the EIS.

If the project is approved but does not proceed, it will still impose costs on the local community. The uncertainty over the mines future reduces investment in agricultural land and can diminish the population of the local area.

Exactly this situation occurred with the nearby Cobbora Coal Project, which was assessed by the same consultant, Gillespie Economics, claiming large economic benefits using similar methodology. Cobbora was met by the Department with similar enthusiasm, despite abundant evidence that the project was unviable.

The PAC approved the Cobbora project in May 2014. I wrote to Chair Gabrielle Kibble, outlining the flaws in the PAC's reasoning. In response she wrote:

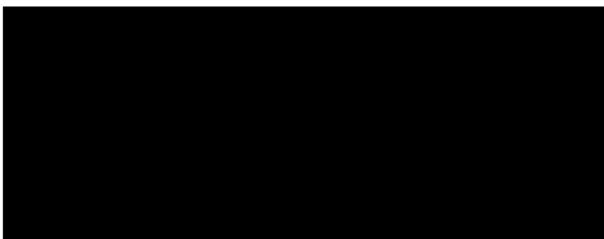
*Regarding the economic component of the Cobbora Coal Project, as the PAC report indicates, NSW Treasury on 1 July 2013 announced the sale of the venture. Therefore any prospective purchaser would carry out due diligence to satisfy themselves of the projects viability as part of their pre-purchase consideration. (Correspondence dated 3 June 2014)*

There was no purchaser because the project was not viable. Instead, the NSW taxpayer must try to clean up the social damage caused by the community planning for a mine that never came.<sup>1</sup>

The PAC and the Department could have avoided the debacle of Cobbora by paying attention to the economically marginal nature of the project, rather than blindly accepting the self-interested claims of the proponents and their consultants.

I hope the commissioners of the Bylong PAC will succeed where Ms Kibble failed.

Best regards,



Rod Campbell  
The Australia Institute



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<sup>1</sup> Wellington Times (2014) Dunedoo wins in Cobbora Funding,  
<http://www.wellingtontimes.com.au/story/2457575/dunedoo-wins-in-cobbora-funding/>