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Vickery Mine

Submission to Independent Planning Commission

Submission

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Summary

The Vickery mine project should be rejected by the NSW Independent Planning Commission. At a time when the world is looking to use less coal to avoid dangerous climate change, this project is out of place. The project assessment documents largely ignore the implications of climate action for the wider coal market. They have not considered the project's viability under International Energy Agency's Sustainable Development Scenario under which global coal demand and the global coal trade decline rapidly. Australian Government agencies are already forecasting declines in key markets.

The approach to employment-related benefits taken in the economic assessment headline results, repeated in the Department of Planning, Industry and Environment's Final Assessment Report, do not meet NSW guidelines and overstate the value of the project.

Estimates of company tax payments are almost certainly overstated. Proponents Whitehaven have never paid company tax according to Australian Tax Office data.

Indirect job calculations are based on input-output modelling, a widely discredited technique that is mathematically certain to overstate employment impacts.

Most negative externalities have been given a zero cost in the cost benefit analysis, understating the environmental costs of the project.

The Final Assessment Report puts the project's greenhouse gas emissions in national context, claiming they represent 0.028% of Australia's emissions. The Department neglects to put other aspects of the project in similar context:

- The claimed 450 operational jobs represent 0.0036% employment in Australia.
- The claimed increase in disposable income of $316 million NPV represents just 0.017% of Australia's $1.88 trillion GDP.

The IPC should reject proposals for major coal expansions 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.

Introduction

The Australia Institute welcomes the opportunity to make a submission to the Independent Planning Commission (IPC) on the Vickery Coal Mine Project (Project).

As with most NSW coal projects, the benefits of the Vickery Mine have been consistently overstated by proponents and their consultants, while costs have been understated, particularly those that accrue to the community. The Department of Planning, Industry and Environment's Final Assessment Report repeats most of the proponent claims with inadequate scrutiny.

This submission draws on the following project documents:

- Final Assessment Report,[1]
- the Economic Assessment,[2]
- the Economic Peer Review,[3]
- the Independent Review of the Economic Assessment[4] and the
- IPC Issues Report.[5]

[1] DPIE (2020) *Vickery Extension Project,* https://www.planningportal.nsw.gov.au/major-projects/project/9621

[2] AnalytEcon (2018)*, Vickery Extension Project: Economic Assessment,* https://www.planningportal.nsw.gov.au/major-projects/project/9621

[3] Fisher (2018) *Peer Review of the Vickery Extension Project Economic Assessment,* https://www.planningportal.nsw.gov.au/major-projects/project/9621

[4] Dwyer (2019) *Review of the economic assessment of the Vickery Extension Project* https://www.planningportal.nsw.gov.au/major-projects/project/9621

[5] Independent Planning Commission (2018) *Vickery Extension Project: Issues Report*

Coal market and Paris Agreement

The assessment documents relating to the Vickery project are silent on the fact that Hunter coal mines are now fighting for a share of a smaller market and a market that is expected to decline dramatically if climate policies are implemented in line with the Paris Agreement. Only the Final Assessment Report discusses the issue, claiming:

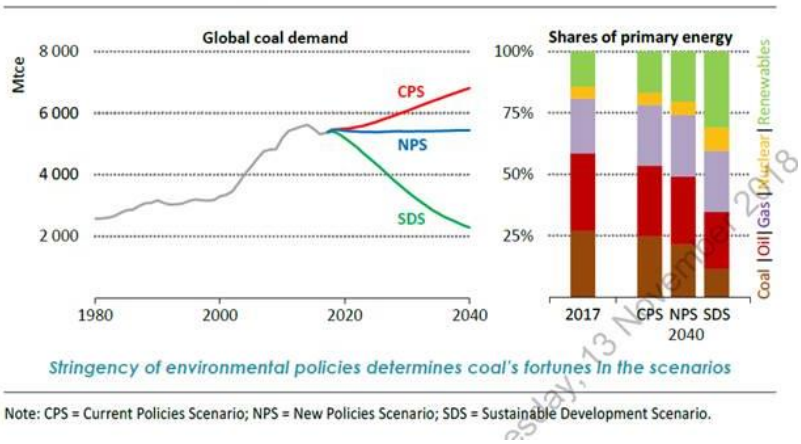
> Under the Sustainable Development Scenario there would continue to be demand for high quality (low ash/ low sulphur/ high calorific energy) thermal and metallurgical coal, particularly in the Asia Pacific region, as provided by the Vickery coal resource. [6]

This is misleading. While the world will use a larger amount of coal than Vickery will produce, it is clear this market is declining and will decline even faster under the Paris Agreement. The Vickery Project is competing against other Hunter coal mines. Its expansion will to some extent come at the expense of existing Hunter mines.

Figure 1 below shows the International Energy Agency (IEA)'s estimates for global coal demand under its three modelled scenarios. The green line labelled "SDS" represents the sustainable development scenario' in line with the Paris Agreement.

We note that in its decision regarding the Bylong Coal Project, the Independent Planning Commission "considers that the SDS represents market scenario which should have been considered" and "that the Commission considers that the Applicant should have tested the SDS". [7]

Figure 1: IEA coal demand estimates



Source: IEA (2018) *World Energy Outlook 2018*, www.iea.org

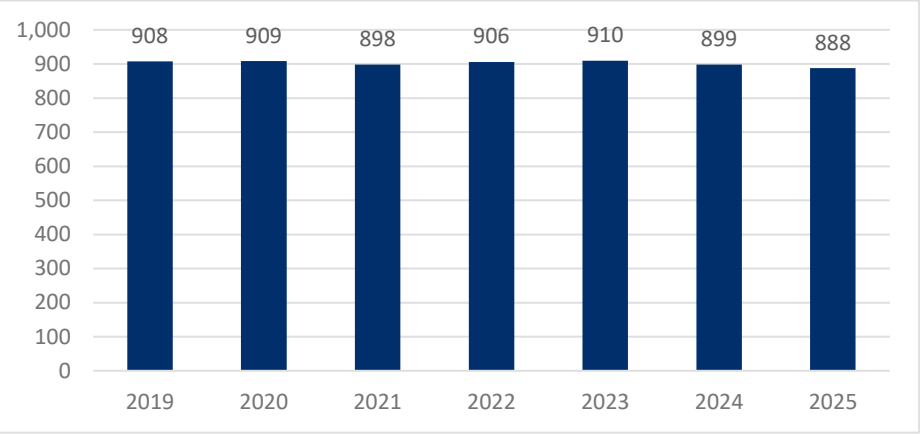
[6] DPE (2020) Vickery Final Assessment Report, p125.

[7] Independent Planning Commission (2019) *Statement of reasons for decision: Bylong Coal Project,* p139.

Figure 1 shows that under the SDS scenario coal demand declines significantly in the years ahead, reducing by two thirds by 2040. This would have a major effect on the NSW industry as the IEA expects the volume of traded coal to decline from over 1,100 million tonnes per annum (Mtpa) in 2017 to 815Mtpa in 2025 and 518Mtpa in 2040.[8]

The prospect of a declining export coal market is given weight by the Federal Government's Department of Industry, which forecasts a decline in Asian thermal coal imports from 909 million tonnes this year, to 888 million tonnes in 2025, as shown in Figure 2 below:

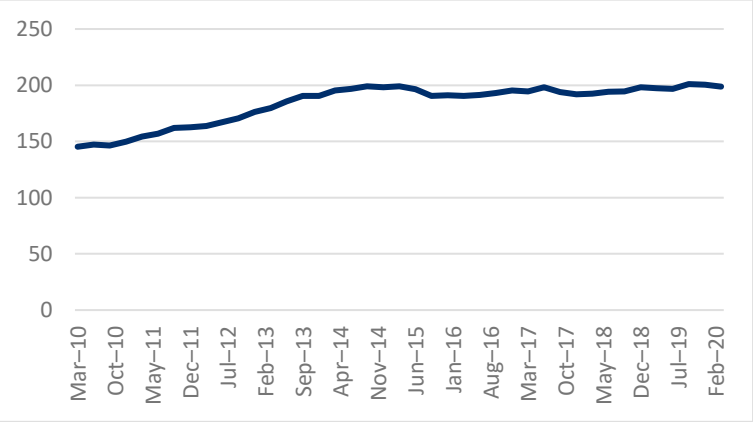
Figure 2: Department of Industry forecast Asian coal demand



Source: Department of Industry (2020) Resource and Energy Quarterly

Department of Industry figures show that NSW coal production has plateaued, with current production levels below those seen in 2014-15, as shown in Figure 3 below:

Figure 3: NSW saleable coal production (year to date)



Source: Department of Industry (2020) Resource and Energy Quarterly

[8] IEA (2018) *World Energy Outlook 2018*, table 5.1, www.iea.org.

While the declines are small, they need to be seen in context – such a decline appeared impossible just a few years ago. In late 2014 the Centre for International Economics (CIE), regular consultants to the Department of Planning and Environment, 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.*[9]

This prediction was totally wrong. Demand in Asia declined almost as soon as these words were written.

While the Assessment Report claims the economic sensitivity analysis undertaken accounts for changing coal pricing and demand,[10] its most extreme case is to account for a low coal price of USD 59.50.[11] The current Newcastle thermal coal price is currently below that at USD55[12] and while the pandemic may have reduced coal demand for the medium term, the long term future under the SDS scenario would likely keep prices lower still, challenging Vickery and many other projects.

This point should have been noted by Analyt Econ, Marsden Jacobs and the Department. It should be addressed in detail in the EIS. 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 the existence of world 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.

The uncertainty around coal markets, inadequately considered in all assessment documents, means that the economic benefit claims as presented in the Department's Assessment Report are highly uncertain. The Department's claim that the Project "would generate significant economic benefits for NSW and the region", gives no consideration to the significant uncertainty that any of the benefits eventuate.

[9] 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

[10] NSW DPIE (2020) p125.

[11] AnalytEcon (2018) p52.

[12] Trading Economics (2020) *Coal* https://tradingeconomics.com/commodity/coal (accessed 9 July 2020)

EMPLOYMENT RELATED BENEFITS

The Final Assessment Report claims the project would result in "a net economic benefit of $1.16 billion NPV from generation of additional tax revenue and royalties". This statement is problematic for several reasons.

First, this figure does not appear in AnalytEcon's assessment, which estimates the NPV of the project at $1,208 million under its main project relative to reference case scenario. More importantly, a significant portion of this benefit relates to employment effects, contrary to guidelines and standard practice.

The *NSW Guidelines on cost benefit analysis of coal and coal seam gas projects* state that "an appropriate starting assumption should be that workers do not receive a wage premium, even if they will earn more working in the mining sector."[13] The reason for this is the huge uncertainty that surrounds what happens to workers in the absence of any particular project, or in the case of new coal projects, the impact of the new project on workers in other mines. Standard cost benefit analysis assumes that no one project can affect the overall labour market and so usually excludes wages unless there is a clear demonstration that there is a significant wage premium.

AnalytEcon do provide estimates of project benefits excluding employment-related benefits, in Table 3-13 of the Economic Assessment. Relative to no project this estimate is NPV$880m and relative to the approved project NPV$360 million. These figures do not appear in the AnalytEcon executive summary or the Final Assessment Report, despite being the estimates most in line with NSW Guidelines starting assumptions. Most of these remaining benefits consist of royalty payments and taxes that are highly uncertain.

COMPANY TAX PAYMENTS

The Australia Institute has pointed out many times that economists do not have the skills required to accurately predict tax payments relating to specific projects.[14] The crude application of the headline company tax rate to surpluses estimated in cost benefit analysis, as AnalytEcon does in the Economic Assessment, is certain to overstate tax payments, that can be reduced by a range of more and less legitimate factors.

[13] NSW DPE (2015) *NSW Guidelines on cost benefit analysis of coal and coal seam gas projects,* page 13

[14] Campbell (2015) *Draft guidelines for economic assessment of mining and coal seam gas proposals Submission*, https://www.tai.org.au/content/draft-guidelines-economic-assessment-mining-and-coal-seam-gas-proposals

The Economic Assessment forecasts that the Vickery project will pay company tax to the extent that the NSW share of those payments will be $121 million in NPV terms.[15] This would mean a remarkable change in the taxpaying status of Whitehaven. Data from the Australian Tax Office shows that Whitehaven has not paid any tax in the tax years for which data is available.[16]

INPUT-OUTPUT MODELLING

The Assessment Report refers several times to "indirect jobs" and income associated with these jobs. As has been noted by the peer review, the modelling behind these estimates is unsound. The use of input-output modelling in project assessment in NSW has been controversial for many years. In the context of uncertainty around the future of the project and the export coal market, the inappropriateness of relying on such estimates is compounded.

As the Commission heard in evidence from Jennifer Darley (Registered speaker #61 Friday 3 July), many of the studies underpinning the EIS were desktop studies, with little analysis based on engagement with the local community and local conditions. This is certainly the case with the economic assessment, both the input output modelling and Local Effects Analysis. It relies on models and input output tables constructed for national and state-wide purposes, being misused and misrepresented as being an accurate reflection of local conditions.

NEGATIVE EXTERNALITIES

The economic assessment records a zero value for most of the external costs. This is inappropriate, as it assumes that offsets for biodiversity (and mitigation measures for other costs) are perfectly effective. This has long been disputed by ecologists,[17] and seems particularly inappropriate given the implications of the Paris Agreement for the project and the proponent's ability to fulfil pledges on offsets and rehabilitation.

[15] AnalytEcon (2018) p56.

[16] Australian Taxation Office (2020) *Tax transparency, https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/*

[17] Bekessy et al (2010) *The biodiversity bank cannot be a lending bank*, https://conbio.onlinelibrary.wiley.com/doi/full/10.1111/j.1755-263X.2010.00110.x

CONTEXT OF GREENHOUSE GAS EMISSIONS

The Final Assessment Report puts the project's greenhouse gas emissions in national context:

> The Project's Scope 1 emissions would contribute to about 0.028% of Australia's current annual GHG emissions and would remain a very small contribution when compared to Australia's commitments under the Paris Agreement.

The Department neglects to put other aspects of the project in similar context:

- The claimed 450 operational jobs represent 0.0036% of the 12,381,800 people employed in Australia.[18]
- The claimed increase in disposable income of $316 million NPV represents just 0.017% of Australia's $1.88 trillion gross domestic product.[19]
- The claimed $671 million in present value royalty payments over the life of the project represents 0.7% of this years NSW budget.[20]

Regardless of the context, the Vickery project is an emissions intensive project, which will make a small and uncertain contribution to employment and the wider economy of NSW.

[18] ABS (2020) *6202.0 - Labour Force, Australia, May 2020*, https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0

[19] ABS (2020) *5206.0 - Australian National Accounts*, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202020?OpenDocument

[20] NSW Treasury (2020) Budget Statement, https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/4.%20Revenue-BP1-Budget_201920.pdf

Conclusion

Assessment of new coal projects in NSW needs 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 Vickery 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 Vickery Project. The IPC should reject proposals for major coal expansions 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.