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# Wambo Mine Modification 12 Submission

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Submission

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# INTRODUCTION

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The *Wambo Mine - Modification 12 - Southern Longwall Modifications* is a proposal to extend an existing coal mine in the Hunter Valley, New South Wales (NSW). The mine is owned by coal producer Peabody Energy.

An environmental impact statement (EIS) is currently on public display on the Department of Environment and Planning (the Department) website. This submission relates mainly to Appendix K of the EIS, a “Socio-Economic Assessment” written by consultants AnalytEcon.

The assessment by AnalytEcon purports to show that the project will bring net economic benefit to NSW. However, this assessment does not meet NSW guidelines for economic assessment and overstates the value of the project. The assessment is not transparent, making it difficult to assess whether the social costs of the project outweigh its benefits.

## ECONOMIC ASSESSMENT DOES NOT MEET GUIDELINES

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The 2015 Guidelines for the economic assessment of mining and coal seam gas proposals make clear what is required in EIS economic assessments, including:

- Task 3 Net Producer Surplus - Identify the direct costs and benefits to the producer
- Task 4 Quantify direct benefits and direct costs to the producer and estimate the total direct net benefit to the producer

Neither of these tasks were performed. These are important in understanding whether the project is likely to be financially viable and operate continuously over the project period. If the costs and benefits of the project to the producer are not understood, decision makers cannot know whether the proponent is likely to proceed with the project or to put it into care and maintenance during its proposed life.

The approach taken by AnalytEcon is not transparent. No attempt is made to disclose the costs and benefits assumed in their gross operating surplus calculations. The discussion in Appendix A includes only a general explanation of gross operating surplus within the system of national accounts and provides no discussion of the analysts working.

Not only is this contrary to the published guidelines, but is clearly against the intent of the process involved in the creation of the guidelines through 2014-15. The clear intention of all parties involved in this process was to improve transparency. AnalytEcon's work is less transparent than most assessments of recent years which examine costs and benefits in detail. See for example Deloitte Access Economics assessment of the Bulga Continuation Project.

Transparency in this assessment is particularly important, as Peabody Energy have provided their consultants with unrealistic cost estimates in a recent project proposal. Cost estimates given to Deloitte Access Economics for the assessment of Peabody's Wilpinjong mine suggest that mine is the lowest cost producer in the world, an unrealistic assumption.<sup>1</sup>

## UNREALISTIC ESTIMATE OF OPERATING SURPLUS

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AnalytEcon estimate company tax payments accruing to NSW of \$50.4 million dollars. This appears to be based on applying a 30 percent tax rate to gross operating surplus<sup>2</sup> and multiplying by NSW share of Australia's population, estimated at 32 percent.

Working backwards:

$$\text{Present value gross operating surplus} = \$50.4m \times 1/30\% \times 1/32\% = \$525 \text{ million}$$

It appears that AnalytEcon estimate that the Wambo extension has a present value operating surplus of \$525 million. This is highly unlikely given the current market value of Peabody. Before entering Chapter 11 Bankruptcy protection in the USA, the entire company had a market capitalisation of US\$38 million. While a stockmarket value of a parent company can differ from a cost benefit analysis of part of the company for many reasons, the result that the Wambo extension proposal is worth ten times more than the whole of Peabody invites scepticism and demands the highest level of transparency and scrutiny.

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<sup>1</sup> <http://www.tai.org.au/sites/default/files/TAI%202016%20Wilpinjong%20submission%20FINAL.pdf>;  
<http://www.smh.com.au/business/the-economy/westy-20160221-gmzm49.html>;  
<https://newmatilda.com/2016/03/11/deloitte-peabody-cheapest-mine-world/>

<sup>2</sup> This is a problem within the economic assessment guidelines. Companies do not pay tax on gross operating surplus, but on taxable income, or net profit. The approach taken by AnalytEcon and suggested in the guidelines overstates tax payments accruing to NSW.

## PEABODY BANKRUPTCY

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There is no mention in AnalEcon’s assessment that the proponent is in serious financial difficulty. There is no discussion of how this might affect operations of the project or closure and rehabilitation arrangements. These issues are being widely discussed in the media and should be transparently addressed in this assessment.<sup>3</sup>

## COAL PRICE

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The coal prices used in AnalytEcon’s assessment are very high. The current benchmark thermal coal price is around \$US55 per tonne. The lowest price in the sensitivity analysis is US\$60.

At current exchange rates, the Australian dollar coal price is around \$AUD75/t.<sup>4</sup> This is equal to the lowest scenario in AnalytEcon’s analysis. Commonwealth Treasury’s long term forecast is around \$AUD78.<sup>5</sup> AnalytEcon provide no source for their coal price forecasts, claiming only to be based on a ‘consensus’ of estimates. They provide no date for these forecasts – most analysts have revised down coal prices heavily – Goldman Sach’s long run forecast is just US\$42/t.<sup>6</sup>

## BENEFITS TO LABOUR

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The 2015 guidelines 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.”<sup>7</sup> Effectively the inclusion of a wage premium assumes that the proponent is paying over the market rate for labour. AnalytEcon do not adequately justify this assumption and do not provide sensitivity testing around it.

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<sup>3</sup> <http://www.smh.com.au/business/comment-and-analysis/coal-woes-push-peabody-energy-to-brink-20160507-gooyc0>; <http://www.smh.com.au/business/comment-and-analysis/is-coal-giant-funded-for-its-mine-rehab-20160410-go2v6f.html>

<sup>4</sup> <http://www.indexmundi.com/commodities/?commodity=coal-australian&months=60>; [www.xe.com](http://www.xe.com).

<sup>5</sup> 1AUD = 0.73USD

<sup>6</sup>

[http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2014/Lon%20run%20forecasts%20of%20Australias%20terms%20of%20trade/Documents/PDF/long\\_run\\_tot.as%20hx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2014/Lon%20run%20forecasts%20of%20Australias%20terms%20of%20trade/Documents/PDF/long_run_tot.as%20hx)

<sup>7</sup> <http://www.smh.com.au/business/energy/digging-a-deeper-hole-for-coal-20160218-gmxgqe.html>

<sup>7</sup> Department of Planning and Environment (2015) 2015 Guidelines for the economic assessment of mining and coal seam gas proposals, page 13

## LOCAL EFFECTS ANALYSIS

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The 2015 Guidelines require an assessment of local effects of the project. AnalytEcon do not provide any detail based on local research. Instead they assess benefits to labour based on the problematic figure discussed above and present the results of an input output model.

Input-output models are not reliable for project assessment. They have been described as “biased” by the Australian Bureau of Statistics, “abused” by the Productivity Commission and “deficient” by the NSW Land and Environment Court.<sup>8</sup>

AnalytEcon make no justification for using input-output analysis other than:

*the simplicity and clarity with which the underlying assumptions can be set out and appropriate caveats made. (p42)*

A problem with all modelled approaches is that:

*there may also be local rigidities in employment, capital assets and other fixed resources that are not consistent with the assumptions that underpin methodologies for measuring flow-on effects. (p41)*

Despite noting this, AnalytEcon appear not to have conducted any research on the local economy. There is no reference to discussion with local businesses, government or interest groups to understand the actual conditions in the local economy.

If local effects analysis is to be a useful tool in the EIS process, analysts must actually carry out some analysis of the local economy. Far more useful than modelled estimates would be some detailed qualitative assessment of the local economy.

## CONCLUSION

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Given the unreliability and non-transparency of the AnalytEcon analysis its results should be rejected. The mine is unlikely to be financially viable at Commonwealth

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<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/5209.0.55.001Main%20Features4Final%20release%202006-07%20tables?opendocument&tabname=Summary&prodno=5209.0.55.001&issue=Final%20release%202006-07%20tables&num=&view=>; <http://www.pc.gov.au/research/supporting/input-output-tables/input-output-tables.pdf>; See judgement by Preston CJ on Warkworth Case for Land and Environment Court reference.

Treasury forecast prices and there is substantial risk of bankruptcy by the proponent, leaving potential liabilities with the NSW public.

With uncertain and small benefits and a possibility of considerable cost to the NSW community, this proposal should be rejected.