

Invincible Coal Mine - Southern Extension Modification

Submission

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It will serve as a unique centre of excellence on the economic issues facing working people: including the future of jobs, wages and income distribution, skills and training, sector and industry policies, globalisation, the role of government, public services, and more.

The Centre will also develop timely and practical policy proposals to help make the world of work better for working people and their families.



Introduction

The Australia Institute is pleased to make a submission on the latest proposal for the Invincible coal mine. As with several proposals before this, the economic assessment of the proposal is flawed, with costs understated and benefits overstated. The project is unlikely to represent a net benefit to the NSW community and should be rejected. Our submission focuses on Appendix 13 of the Environmental Impact Statement (EIS) written by Cadence Economics.

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KEY FLAWS IN EIS AND ECONOMIC ASSESSMENT

Project justification

The main document of the EIS states:

The primary purpose of the Southern Extension Project is to obtain a reliable and cost effective source of specialty nut coal for use in Manildra's Shoalhaven Starches Plant located at Bomaderry on the NSW south coast.

It is unlikely that nut coal is the primary purpose of this proposal. The value of nut coal claimed in the economic assessment makes up just 19.5% of the total value of coal produced. The other 80.5% is coal to be sold to the Mount Piper Power Station. Clearly from an economic perspective, the primary value of the project is to supply coal to Mt Piper not to supply nut coal to the proponent's related starch mills near Nowra.

It should be noted that earlier proposals to expand Invincible were closely related to attempts by Mount Piper's owner, Hong Kong-owned Energy Australia, to buy and operate these mines. Their motivation was to avoid having to buy coal at a higher price from Centennial Coal. Centennial charges a higher price for coal as its mines have the option of exporting and so charge a higher price.

It seems more likely that the “primary purpose” of this proposal is to gain a project approval that can then be sold to Energy Australia, with further expansions also possible. This earlier proposal was rejected by the Planning Assessment Commission, which noted:

*The Department has previously argued that commercial arrangements should not be the primary consideration in the merit assessment of a project. Competition, or the threat/lack of competition to existing businesses, is not a relevant planning consideration for consent authorities in NSW.*¹

This quote is also relevant to the argument that the project is required to diversify the energy suppliers to the proponent’s starch mills. Section 3.6 of the main EIS document outlines that there are several suppliers of nut coal and several other energy input options. Diversity of supply of nut coal is not a concern of consent authorities, particularly not when there are many other options for energy supply, all more environmentally friendly than coal.

It is ironic that a company that derives so much benefit from government-regulated biofuel use is seemingly determined to use coal for its own energy supplies.²

Baseline case

The assessment misrepresents the baseline case of the assessment, claiming that to not proceed with the proposed extension would result in an economic loss of \$1.17 million. There are three flaws with this part of the economic assessment.

- Most importantly it ignores the environmental benefit that site rehabilitation brings to the NSW community. Previous mining operations have inevitably degraded the site, imposing environmental costs borne by the community. The point of site rehabilitation is to reduce these costs, by restoring the environmental values of the site to as full a degree as possible. This environmental benefit is ignored in the economic assessment.
- It is not clear how the claimed benefits to suppliers of rehabilitation services have been estimated. For such a benefit to exist at all suppliers must receive

¹ PAC (2014) Determination Report Invincible Colliery and Cullen Valley Mine Expansion Modifications, page 17,
<https://majorprojects.affinitylive.com/public/eb823547f1c24e9550baf0ac9396a243/01.%20Invincible%20MOD%204%20-%20PAC%20Determination%20Report.pdf>

² Davis (2016) *Ethanol in fuel laws linked to 'substantial' Manildra donations*,
<http://www.abc.net.au/radionational/programs/backgroundbriefing/ethanol-in-fuel-laws-linked-to-substantial-manildra-donations/7368734>

payment greater than the opportunity cost of providing their services to another client, or that their services will be otherwise unused. Neither of these possibilities is explained and is contrary to standard practice in cost benefit analysis of assuming that goods and services are priced at their opportunity cost.

- Lastly, the baseline case assumes that if the project is not approved, the proponent will immediately begin rehabilitation over a five year period. We hope this is what will occur. However, many mines, such as this one, are left in care and maintenance indefinitely, increasing costs to the community and exposing taxpayers to the risk of the mine being abandoned.

Project Case

Costs of the project are optimistic, as are coal prices:

- No description of capital expenditure is provided. It seems unlikely that a mine capable of producing over 1 million tonnes of run-of-mine coal could be developed with capital expenditure of just \$5.5 million, as claimed on page 8.
- Claimed operating costs are just \$24 per tonne on average. This would make this small, currently unviable mine one of the cheapest mines to run in the world. This estimate is not credible.
- No justification is given for the nut coal price used, or the price of coal sold to Mt Piper.

We note that Cadence Economics state at the start of their assessment that data was provided by the proponents, based on a study apparently not in the public domain, and that:

Cadence Economics has not verified the information in these studies.

Given the extremely optimistic assumptions around operating costs in particular, some attempt to verify the data should have been made. Little weight should be given to this assessment without verification of cost estimates.

Company tax

The Cadence Economics study estimates the proponent would pay company tax of \$17.8 million in present value terms, based on total profit of \$57.6 million. This seems

extremely unlikely given that Manildra paid just \$6.5 million in company tax on sales revenue of over \$1 billion in 2014-15.³

The approach to company tax in the economic assessment guidelines has been repeatedly criticised as being simplistic and overstating likely tax revenues. Tax calculations are complex and economists generally lack the skills and data to make realistic estimates, as this example shows.

Rehabilitation and closure

While rehabilitation costs of \$2.32 million are listed for the base case, no rehabilitation costs are stated for the project case. Final year operating costs of \$1.7 million and “End of life costs” of \$0.5 million are listed. It is unclear why rehabilitating a larger disturbance area would be cheaper than rehabilitating the existing disturbance area.

Regardless, these estimates are very low for rehabilitating an open cut mine. Given the very low operating costs, it seems unlikely that any rehabilitation expenses are included in those estimates.

Environmental costs

The economic assessment includes minimal values for any environmental costs associated with impacts on biodiversity and the risks that the project poses to the nearby pagoda landforms. These risks are assigned a zero value. This is inappropriate, particularly in light of earlier assessment of the related Coalpac Consolidation Project. Both the Planning and Assessment Commission and Department of Planning and Infrastructure were highly critical of the same approach to the environmental impacts of projects in this area:

The Department does not accept that the vegetation of the site is valued at only \$900,000, and believes this illustrates the difficulties in monetising natural resources and biodiversity values. In particular, the Department believes that quarantining the vegetation on the site in the economic assessment grossly under-estimates its inherent biodiversity values, and its connection to the broader pagoda landform complex.

³ Aston (2016) *Ethanol producer Manildra paid just \$6.5 million company tax on \$1.2 billion mandated sales*, <http://www.smh.com.au/federal-politics/political-news/ethanol-producer-manildra-paid-just-65-million-company-tax-on-12-billion-mandated-sales-20160322-gno9xu.html>

Although the economic analysis may have been conducted within the applicable guidelines and bounds of economic theory, the facts of this particular project are sufficiently unusual to test the limits of this approach.

Overall the Department is satisfied that these benefits do not overcome the significant and irreversible impacts on the biodiversity, scenic, and geological values of internationally significant pagoda landform complex.⁴

Given this background, the minimal analysis given to these impacts by Cadence Economics is inappropriate and serves to heavily overstate the value of the project.

Conclusion

Several iterations of the Invincible and Cullen Valley mines have been rejected by consent authorities. On each occasion the economic assessments of the proposals have overstated benefits and understated costs and risks. This proposal is no different and should be rejected.

⁴ DPI. (2013). *MAJOR PROJECT ASSESSMENT Coalpac Consolidation Project*. NSW Department of Planning and Infrastructure. Retrieved from <https://majorprojects.affinitylive.com/public/3b0f7beff4ab9832c7b75a65f4d4e928/4>. Coalpac Consolidation Project_Director-General's Report_Main Body.pdf