

Economic aspects of closure of Wallaby Scrub Road, Hunter Valley, NSW

Briefing note prepared for EDO NSW

INTRODUCTION

EDO NSW, on behalf of the Bulga Milbrodale Progress Association has asked The Australia Institute to review documents and correspondence related to the proposed closure of Wallaby Scrub Road, near Singleton in the Hunter Valley of NSW. The closure of the road is opposed by residents of the nearby village of Bulga and the Bulga-Milbrodale Progress Association. The purpose of the closure would be to expand the Mt Thorley-Warkworth coal mine, currently owned and operated by Rio Tinto.

Our review focuses on economic issues in the Singleton Council Notice of Meeting documents and related attachments, as well as other economic assessments of the Mt Thorley-Warkworth mine.

In summary, we find that closing Wallaby Scrub Road will impose substantial costs on the community, estimated by economists working for Rio Tinto at up to \$20.3 million in today's terms. This should be considered when considering the proposed closure.

Discussion of the value of coal or gross regional product is of limited value for understanding economic impacts in Singleton. Incomes in Singleton are no doubt higher because of coal mining projects, but with many apparently profitable projects operating in the LGA, this benefit is not dependent on any particular part of a particular mine.

From an economic perspective, a decision on closure should relate to the costs and benefits and how these are distributed. It appears certain that the community and council would bear the costs and that Rio Tinto would enjoy most of the benefits of this proposal.

ATTACHMENT 8 - MINING DOWNTURN EFFECT ON SINGLETON ECONOMY

Attachment 8 to the Singleton Council Notice of Meeting documents attempts to quantify economic impacts on the Singleton economy from what is described as the 'mining downturn' from 2013-16.

Attachment 8 focuses on the output and production of the Singleton local government area (LGA). It estimates that the gross revenue generated by enterprises located in Singleton and the value of production have declined substantially between 2013 and 2016. This is neither surprising nor particularly relevant for Singleton residents and Council, in our opinion.

It is not surprising because the output of the LGA is dominated by large coal mines. When the coal price goes down, as it did between 2013 and 2016, gross revenue and value of production will go down. When prices go up, as they have through 2016 and into 2017, the value of production and revenue will go up.

This is not particularly relevant for Singleton residents and Council because the owners of the large coal mines are mainly multinational companies. The vast bulk of profits are returned not to residents of Singleton, but to international investors. There is an effect on the value of royalties and company tax, but these accrue to the State and Federal Governments. While the value of output from the Singleton LGA is important for investors and governments, it is the value of income to the LGA that is of more direct relevance for the welfare of residents and the economy of Singleton.

Singleton's average and median incomes are higher than for Australia as a whole, as shown in the table below:

	Singleton	Australia
Median income	53,539	44,940
Mean income	71,601	58,389

Source: Australian Bureau of Statistics (2016) Estimates of Personal Income for Small Areas, 2012-13 (Latest available)

Incomes in Singleton are higher than Australian general levels because of highly-paid jobs in the LGA's coal mines. However, the wages paid to these workers does not vary directly with coal prices. While higher and lower coal prices may affect wage negotiations and contracts with some local suppliers, the degree of variation is far less than that shown in Attachment 8.

Attachment 8 is misleading in this sense. To put it simply, income to the Singleton LGA is far less sensitive to the coal price than the value of output, as Singleton's residents are paid for labour, goods and services, rather than for coal itself, as Attachment 8 implies. The economic assessment of the Warkworth Continuation project itself shows that benefits of the mine to NSW are to some extent insulated from the coal price,¹ and benefits to Singleton even more so.

Far more relevant to NSW and Singleton residents is whether the mines are financially viable at the lower coal prices. If the mines' revenue does not cover their costs for an extended period, they are likely to suspend operations which would directly affect Singleton residents' employment and wages.

The Notice of Meeting documents say that Rio Tinto have "indicated that the viability of the mine is tenuous unless an above ground operation can mine through Wallaby Scrub Road." While Attachment 8 does not assess the financial viability of mines in the Singleton area, it does estimate gross regional product per capita, of \$163,539 in 2016. Given this is more than double average wages, it suggests that substantial returns are being directed to investors in the LGA's coal mines. This suggests that even if this part of the Mt Thorley Warkworth complex is only tenuously viable, there are many other mining areas in the LGA that are providing healthy returns to investors.

ECONOMIC ASSESSMENTS OF WALLABY SCRUB ROAD

The value of Wallaby Scrub Road to the community is estimated in both economic assessments of the Warkworth proposals. These were based on increased travel times and vehicle operating costs. They do not include the value of the land itself.

BAEconomics estimated the value of Wallaby Scrub road to the community at \$12.7 million in present value 2014 dollars. Gillespie Economics estimated the value at \$9.7 million in present value 2009 dollars.²

Importantly, both these assessments discount the future values of the road at 7%, in line with their analysis of the rest of the coal project. Generally, economists would evaluate social benefits of an existing road, something with much less risk, at a lower

¹ BAEconomics (2015) Economic impact statement for Warkworth continuation and Mt Thorley operations, page 33, <https://majorprojects.affinitylive.com/public/f77ff888e7e6f8ad539074e6de3d2b63/14.%20Warkworth%20Continuation%20Project%20EIS%20-%20Appendix%20E%20Economic.pdf>

² Gillespie Economics (2009) *Proposed Warkworth Extension Benefit Cost Analysis*, prepared for Warkworth Mining Limited. See in particular *Annex C - Economic Analysis of Wallaby Scrub Road*.

discount rate. Gillespie Economics provided sensitivity analysis of its estimate at a 4% discount rate, which they estimated as between \$14.0 and \$17.4 million in 2009 dollars, \$16.4 to \$20.3 million in 2016 dollars.

These assessments did not include the value of the land. Within the cost benefit analysis framework that they used, the sale of the land would merely be a transfer between the council and the company which creates neither cost nor benefit. In assessing what price should be paid for the acquisition of the road, consideration of the land value as well as the costs to the community above need to be included.