

Redirecting Adani's NAIF loan into other industries

Stopping the NAIF loan to Adani and redirecting it to other industries makes good sense economically, environmentally and politically.

The Northern Australia Infrastructure Facility (NAIF) is a federal agency that provides concessional finance. Adani has applied for close to \$1 billion in concessional finance from NAIF for its coal mine and rail project in Queensland.

While NAIF is a federal agency, the Queensland government is “substantially involved” in deciding what kinds of projects NAIF will fund in Queensland.¹ It has its own internal assessment and approval process, during which it can either veto a proposal or sign off on project funding.

There are sound economic, environmental and political reasons to veto Adani's loan.

- 1) Stopping the NAIF loan to Adani means more money for projects in other industries, like tourism, agriculture, manufacturing and renewable energy.
- 2) Poll after poll shows Queenslanders, like the rest of Australia, oppose the Adani taxpayer loan and want this money put into other industries.
- 3) Adani's jobs claims are overblown.
- 4) Mining is capital intensive, while other industries are more labour intensive; massive investment in mining supports fewer jobs than in other industries.
- 5) Coal mining is a relatively small employer, even in North Queensland.
- 6) The government should stop funding mining projects, as they don't need help, according to the Productivity Commission.
- 7) Adani has said repeatedly they don't need the loan.
- 8) Subsidising new coal mines would hurt both existing coal jobs and the climate.

¹ <http://www.tai.org.au/content/substantially-involved-queensland-government-and-adani%E2%80%99s-naif-loan>

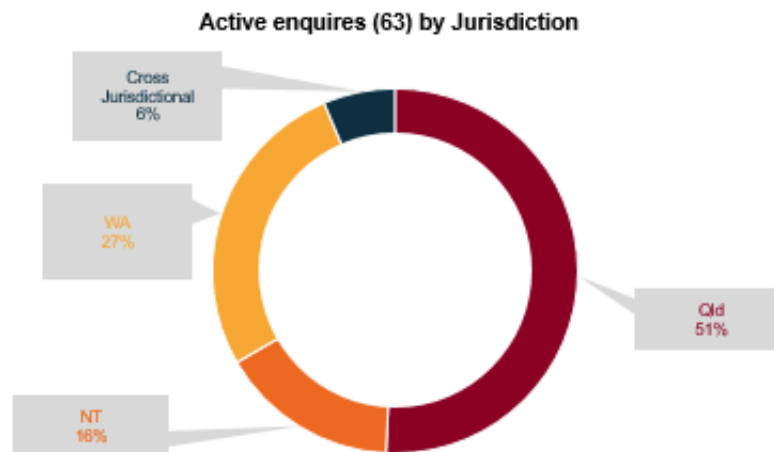
1) Stopping the loan to Adani means more NAIF money for projects in other industries.

Every construction project creates jobs, but only some projects are ones that support the kind of economy we want. Instead of spending \$1 billion on a loan for coal infrastructure, Queensland can support more projects creating jobs in agriculture, tourism, education and renewable energy.

Prime Minister Malcolm Turnbull says stopping the NAIF loan to Adani was “absolutely disgraceful” as it undermined support to “industry and workers”.² The Prime Minister ignores the fact it means NAIF can fund more projects in other industries.

NAIF is currently actively looking at more than 30 Queensland projects. Queensland projects make up most of NAIF’s project pipeline and half those in due diligence. The Queensland Government is fully informed of these proposals.

Figure 1 NAIF project pipeline



Source: NAIF <http://www.naif.gov.au/application-process/pipeline-information/>

NAIF is required to diversify its funds across jurisdictions.³ Queensland has over half of all working age people living in Northern Australia, so its share of NAIF funding is around half of NAIF’s \$5bn.⁴ Adani would have taken more than a third of that money in one hit - and if Queensland gets less than its pro-rata share, Adani’s loan would be an even bigger hit. Queensland can ensure this money goes to other projects.

² <http://www.theaustralian.com.au/national-affairs/queensland-election/turnbull-calls-adani-veto-an-absolute-disgrace/news-story/558de0d2802bd5708cdf3888542d9461>

³ NAIF Mandate 7(4) <https://www.legislation.gov.au/Details/F2016L00654>

⁴ Commonwealth Government (2014) *White Paper on Developing Northern Australia* Page 105 <http://northernaustralia.gov.au/files/files/NAWP-FullReport.pdf>

Queensland Treasurer Curtis Pitt wrote to then Commonwealth Minister on 18 February 2016 endorsing the NAIF and requesting consideration of projects, including:

- Numerous dams and dam extensions
- Townsville stadium
- Townsville port expansion
- Cairns and Rockhampton Airports
- Upgrade to the Outback Way

The list did include Galilee Basin coal rail. However the letter makes clear the list was

subject to review and prioritisation by the Queensland Government ... listing here as a potential candidate does not entail Queensland Government support, which will be dependent on review of proposals on a case by case basis.⁵

The government's veto announcement shows it is prioritising other projects.

One project in advanced due diligence is the Genex pumped hydro and solar project west of Townsville, creating clean dispatchable power. The company is reportedly asking for between \$200-\$300 million from NAIF.⁶ Stopping the Adani loan allows NAIF to fund four or five additional projects of this scale in Queensland.

Other projects reported to be seeking NAIF funding are

- A 22 hectare battery factory in Townsville employing a potential 1000 people.⁷
- A sugar mill that also generates bio-energy.⁸
- Toll roads, relieving rates pressure.⁹

NAIF could also fund remote solar and storage, remote community telecommunications access and tourism infrastructure. The Queensland Government itself could propose projects and access NAIF funding for any economic infrastructure it seeks to build.

⁵ http://www.aph.gov.au/~media/Committees/economics_ctte/estimates/sup_1617/Industry/answers/SI-36_Waters.pdf

⁶ <http://www.afr.com/news/politics/5b-naif-considering-toll-roads-and-energy-projects-in-the-far-north-20170713-gxa8qs>

⁷ <http://www.theaustralian.com.au/business/mining-energy/mossbacked-imperium3-to-set-up-battery-plant-in-townsville/news-story/f56909f56ae91df7c44a5e55a3c722b4>

⁸ <https://www.qt.com.au/news/infrastructure-fund-could-ease-mackay-sugar-woes/3135396/>

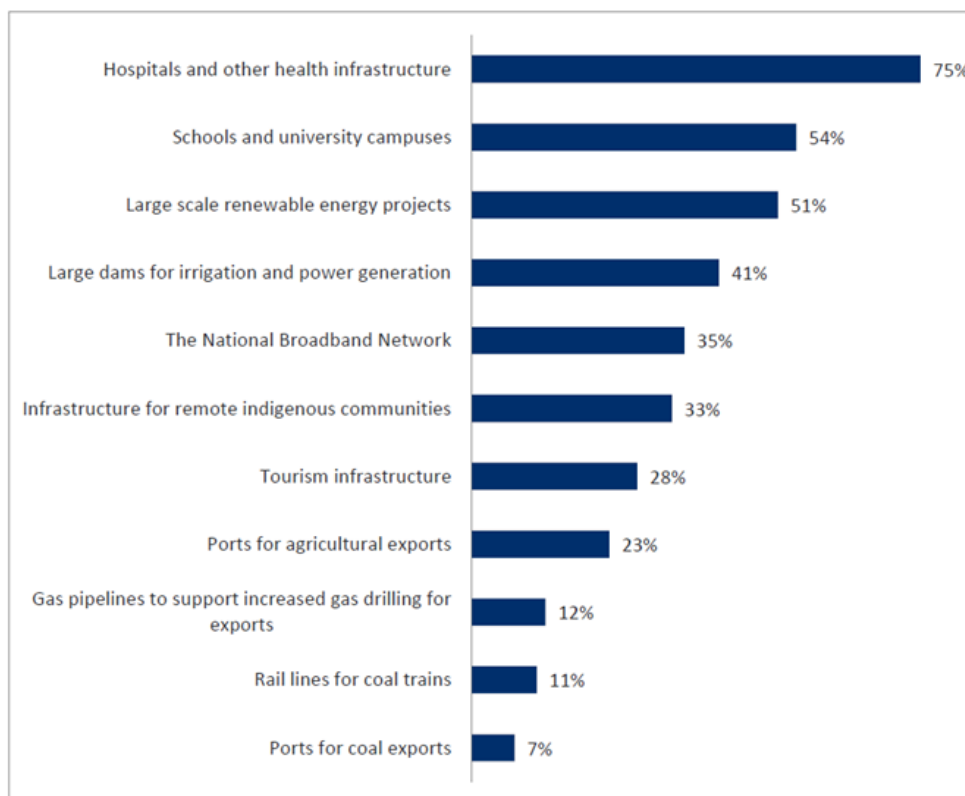
⁹ <http://www.afr.com/news/politics/5b-naif-considering-toll-roads-and-energy-projects-in-the-far-north-20170713-gxa8qs>

2) Queenslanders overwhelmingly oppose the Adani loan and back funding other industries.

Public opinion research has shown repeatedly that Queenslanders, like the rest of Australia, oppose spending public money on coal infrastructure, and want the Queensland government to veto the loan to Adani.

National polling in November 2016 found coal infrastructure was the last thing Australians want the NAIF to fund.

Figure 2 – What should NAIF fund?



Source: The Australia Institute national poll, November 2016

- Given up to five choices for NAIF priorities, most respondents chose health, education and renewable energy.
- Infrastructure for coal industry was the lowest priority, being selected by only one in ten people.¹⁰

¹⁰ <http://www.tai.org.au/content/northern-australia-infrastructure-facility-should-prioritise-people-and-renewables-poll>

- 75% of Australian respondents said they preferred NAIF to spend \$1bn on renewables over coal infrastructure, while only 11% chose coal.
- 79% of Queenslanders chose renewables over coal.

A Queensland ReachTel poll for The Australia Institute in May 2017 asked if the Queensland government should accept or decline the NAIF loan to Adani to free up funding for other industries.

- 57% of Queenslanders wanted to decline the loan,
- Only 22% said Queensland should accept the Adani loan.¹¹

A national poll in September 2017 asked about a taxpayer funded subsidised loan to Adani.

- 71% of Queenslanders, and 68% of all Australians, opposed the loan.¹²
- Total opposition had increased 4% since May.
- Even 43% of those said they support the mine opposed the NAIF loan.
- 72% of One Nation voters opposed the loan.
- Similarly, 51% said they support a new rule for NAIF and other agencies to stop them funding mining, so that they focus on other industries.

¹¹ <http://www.tai.org.au/sites/default/files/QLD%20ReachTEL%20polling%20-%2024%20May%202017%20-%20Adani.pdf>

¹² <http://www.tai.org.au/sites/default/files/Polling%20Brief%20-%20Sept%202017%20-%20Adani.pdf>

3) Adani's jobs claims are overblown

While Adani has convinced some politicians to claim it will create '10,000 jobs', in court Adani's economist said the jobs impact will be much smaller, and when talking to the financial press the company says it will hire as few people as possible.

Adani's economist evidence in court was that the mine and rail would create 1,464 additional jobs nation-wide and 1,206 in Queensland.¹³ Even this is probably overblown. Speaking to financial journalists, the Adani Australian CEO said

When we ramp up the mine, everything will be autonomous from mine to port... in our eyes this is the mine of the future.¹⁴

Employment modelling might also be impacted by news that Adani is seeking the involvement of China Machinery and Engineering Corporation, which may see some associated employment occur in China rather than in Australia.¹⁵

Even if Adani's modelling is correct, and all additional 1,206 additional Queensland jobs were created North Queensland, Adani's project would increase total North Queensland employment by just 0.2%.¹⁶ These jobs would of course disappear if the project becomes a stranded asset, and along with them the NAIF loan.

One reason Adani's '10,000 jobs' figures are overblown is that mining construction squeezes other industries. Adani's expert modelling found negative impacts on agriculture and manufacturing from Adani's project. This 'displacement effect' is widely acknowledged by economists but often ignored by mining companies in public rhetoric.¹⁷

¹³ http://www.abc.net.au/mediawatch/transcripts/1513_adanijobs.pdf

¹⁴ <https://www.themorningbulletin.com.au/news/adani-expects-to-run-driverless-trucks/2673280/>

¹⁵ <http://www.abc.net.au/news/2017-11-02/adani-chinese-state-owned-companies-in-deal-to-bankroll-mine/9109880>

¹⁶ Using total employment, annual average, of 485,000, in SA4 regions Cairns, Townsville, Mackay, Outback and Fitzroy. Note some of these regions include areas not eligible for NAIF funding.

6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, Table 16

¹⁷ <http://www.tai.org.au/sites/default/files/P293%20Queensland%20regional%20jobs%20FINAL.2.pdf>

4) Massive investment in mining creates relatively few jobs compared to other industries.

Modern mining is extremely capital intensive. It uses lots of machines and relatively few many workers. A massive amount of mining investment and vast mining exports create relatively few jobs. Spending public money on export-focused mining infrastructure is very unlikely to be the best way to support job creation.

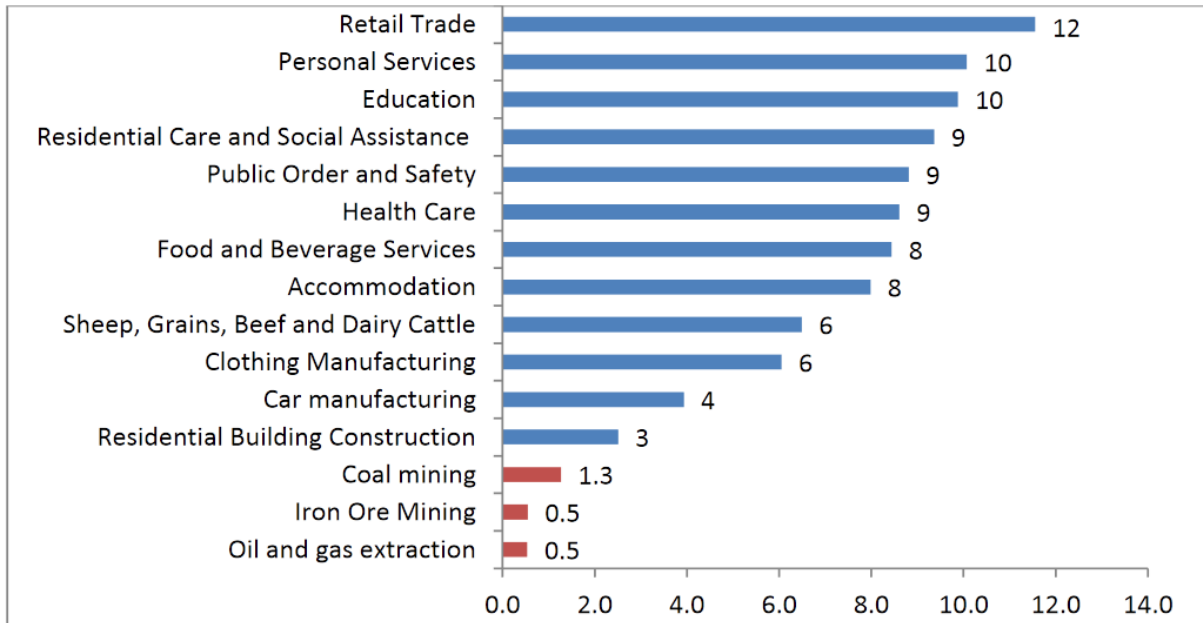
Figure 3 shows jobs per million dollars of net capital stock, and Figure 4 shows jobs per million dollars of output.

Figure 3 – Australians employed per million dollars of net capital stock



Source: ABS Cat no 5204.0 Australian System of National Accounts, Net Capital stock; chain volume, ABS Cat. no 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Aug 2017

Figure 4 – Australians employed per million dollars output



Source: ABS 2013 Australian National Accounts: Input-Output Tables,

Job creation is not the only reason for investing in infrastructure, and individual projects would need to be assessed on their merits. However, given the capital intensity of the mining industry, job creation seems a poor basis on which to justify public funding to mining projects, given the opportunity cost of supporting jobs in other labour intensive industries.

It is unclear how NAIF will consider job creation in its public benefit assessment, and it has not yet explained whether it will release such information for public scrutiny, even after offering funding. While it is required to seek input from Infrastructure Australia, Infrastructure Australia has indicated their assessment may also not be disclosed if NAIF decides not to release it.

5) Coal mining is a relatively small employer, even in North Queensland

While many people think mining is a large employer, it is one of the smallest even in Queensland. Despite an unprecedented mining investment boom, and despite vast exports, mining is just 2.5% of all Queensland jobs.¹⁸

Across NAIF-eligible areas of North Queensland - Townsville, Cairns, Mackay, Fitzroy, Queensland Outback¹⁹ - mining currently provides 7.6% of all jobs. Mining comes in behind health, retail, public administration, construction, and accommodation and food services, which is heavily linked to tourism.²⁰

Coal mining is only one part Queensland's mining industry, currently providing around 20,000 jobs across the state.²¹ Treating this as the upper boundary for coal mining jobs in North Queensland, we can see it provides fewer 4.2% of all jobs in these regions.

Figure 5 below shows coal mining across the state compared with other jobs in North Queensland.

Ten industries outside of mining are bigger employers in North Queensland than coal mining is across the whole state.

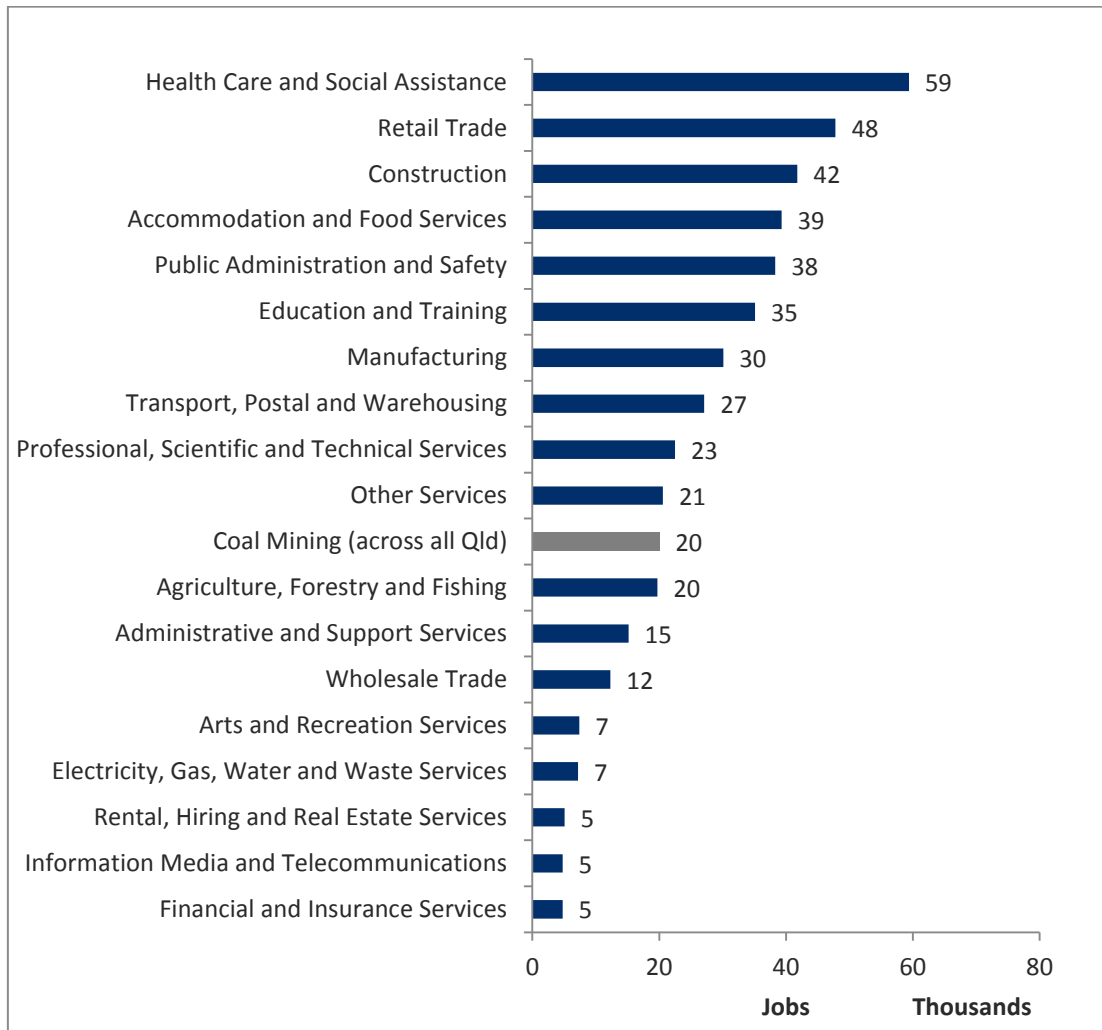
¹⁸ Total employment by Industry, Labour Market Information Portal, <http://lmip.gov.au/>

¹⁹ Re latter two, only parts in NAIF region.

²⁰ Total employment by Industry, Labour Market Information Portal, <http://lmip.gov.au/>

²¹ ABS Cat. no 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Aug 2017 – annual average

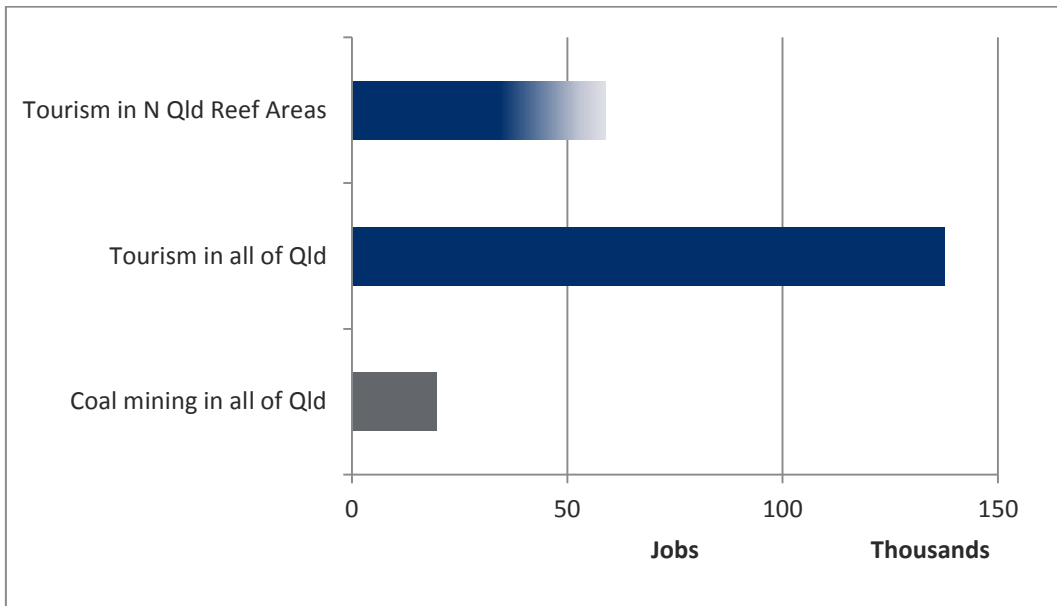
Figure 5 – Coal mining is a modest employer even in North Queensland



Source: Total employment by Industry, Labour Market Information Portal, <http://lmip.gov.au/>, ABS Cat. no 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Aug 2017 – annual average

Tourism is a major driver of jobs across a number of different industries, and the Great Barrier Reef is a major attraction drawing tourist to North Queensland. Tourism employs two to three times as many people in North Queensland than the whole coal mining industry in Queensland. There are close to seven times as many tourism jobs all over the state as in coal mining.

Figure 6 – Qld Tourism vs Coal Mining Jobs



Source: ABS Cat. no 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Aug 2017, State and N Qld lower range based on Lower estimate based on direct employment TRA (2017) Queensland Regional Satellite Account <https://www.tra.gov.au/research/view-all-publications/all-publications/destination-visitor-survey-results/strategic-regional-research-reports/queensland-regional-tourism-satellite-account> Upper estimate from Deloitte (2017) page 69 <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-great-barrier-reef-230617.pdf>

Tourism jobs are put at risk by mining more coal, which will fuel climate change and increase bleaching and coral death at the Great Barrier Reef.

6) The government should stop funding mining projects, as there is no evidence they need help, says the Productivity Commission

The Productivity Commission has argued a number of times that there is no economic reason for the government to provide funding to the mining industry.

The PC explored this in most detail regarding Efic, Australia's export credit agency, which is now providing services to NAIF.

In 2011 Assistant Treasurer Bill Shorten asked the PC to conduct a review of Efic. The PC's 2012 Review into Efic was scathing, finding major problems with decision making. In particular, it found

there is no convincing evidence of systemic failures that impede access to finance for large firms or for resource-related projects in Australia.

EFIC should not continue to provide facilities to large corporate clients or for resource related projects in Australia, including suppliers to those projects, on the commercial account.²²

In 2014, then Trade Minister Andrew Robb wrote to Efic directing it not to fund large mining projects or infrastructure in Australia. Efic stopped funding mining projects from 2015.²³

At the NAIF Senate Inquiry in July 2017, Efic was asked why it was supporting NAIF in its assessment of the Adani project, despite its Ministerial direction not to support mining infrastructure. The Efic representative said "It is not for me to comment."²⁴

In August, current Trade Minister Steve Ciobo wrote to Efic allowing it to fund mining projects in Australia.²⁵ In media statements, he claimed banks were being "bullied" into not funding mining projects.²⁶

²² Bold added <https://www.pc.gov.au/inquiries/completed/export-credit/report>

²³ <https://www.efic.gov.au/about-efic/our-governance/ministerial-statements/>

²⁴ http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/888c41ba-b783-41d8-ae1a-d06ee8c3284a/toc_pdf/Economics%20References%20Committee_2017_08_11_5378_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/888c41ba-b783-41d8-ae1a-d06ee8c3284a/0000%22

²⁵ <https://www.efic.gov.au/media/4112/efic-august-2017-statement-of-expectations.pdf>

²⁶ <http://www.theaustralian.com.au/business/mining-energy/overtuned-loans-ban-offers-lifeline-to-coal-exporters/news-story/6e660cefdac26b6de3a624469455dd37>

At Senate Estimates in October 2017, the PC confirmed they still see no role for public funding to mining:

Mr Harris: I don't think there are any good examples of market failure here. Indeed, I don't think we're on our own in saying that. ... on analysis, it doesn't seem there's a lack of money.²⁷

The idea of stopping public funding to mining companies has broad support. National polling conducted in September shows 51% of Australians support a new rule for NAIF and other agencies to stop them funding mining, so that they focus on other industries.²⁸ Only 24% opposed the idea. There was support from 47% of LNP voters, 55% of ALP voters, and 51% of Queenslanders.

In 2017 the Productivity Commission also raised major concerns about NAIF itself, raising further questions about risks to public funds:

There is risk of political pressure to develop infrastructure that is unlikely to be able to meet its operational costs, let alone repay the loan. ...

Governance arrangements are a major concern ...

There is a real danger of escalation in industry assistance associated with the NAIF as governments seek to avoid infrastructure investments being a 'white elephant'.²⁹

The PC went on to raise concerns about Galilee Basin coal in particular.

²⁷ Page 37 http://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/c419b06c-d059-4ecb-b033-6d08bd9b7c6d/toc_pdf/Economics%20Legislation%20Committee_2017_10_26_5679.pdf;fileType=application%2Fpdf#search=%22committees/estimate/c419b06c-d059-4ecb-b033-6d08bd9b7c6d/0000%22

²⁸ <http://www.tai.org.au/sites/default/files/Polling%20Brief%20-%20Sept%202017%20-%20Adani.pdf>

²⁹ <https://www.pc.gov.au/research/ongoing/trade-assistance/2015-16/trade-assistance-review-2015-16.pdf>

7) Adani has said repeatedly they don't need the loan.

Adani has said repeatedly that they don't need the loan. If they don't need it, they're not eligible under NAIF rules.³⁰ NAIF can only fund projects that won't go ahead without the loan, or will go ahead only much later. At a Senate Inquiry into the NAIF, under sustained questioning the NAIF CEO refused to explain why NAIF had not ruled out the Adani loan.³¹

Adani later said the NAIF loan was necessary. Despite coming the day after giving the project the "green light", Adani said if they didn't get the loan they would have to "reconsider" the project.³² The excuse was that the government had introduced new requirements that the project be "multi-user". This excuse makes no sense. The project has always been a multi-user proposal: the word is in the first sentence of their 2013 Environmental Impact Statement.³³

Even though the NAIF has still not made a decision, Adani is now telling international finance journalists the project will be funded by the NAIF.³⁴ At the same time, it is telling journalists at the Courier Mail that they don't need it and only applied to make sure the government has "skin in the game".³⁵

This sort of public behaviour does not make Adani a suitable applicant for \$1bn of public funds.

³⁰ <http://www.abc.net.au/news/2016-12-06/adani-claim-for-government-loan-questioned-after-admission/8097666>

³¹ https://www.youtube.com/watch?v=CZLak_dckZE

³² https://www.buzzfeed.com/robstott/adani-doesnt-seem-to-know-what-it-wants-and-thats-a-big?utm_term=.pvgVKKx7r#.lfD7QQ19y

³³ <http://www.statedevelopment.qld.gov.au/resources/project/north-galilee-basin-rail/ngbr-eis.pdf>

³⁴ <http://www.livemint.com/Companies/qZXuvewKmBmtsgOBHCd6yO/Work-on-Carmichael-project-to-begin-in-October-Gautam-Adani.html>

³⁵ www.couriermail.com.au/news/queensland/state-election-2017/queensland-premier-annastacia-palaszczuk-to-veto-adanis-infrastructure-loan/news-story/fd165827f6966413dcb245279706320f

8) Subsidising new coal mines would hurt both existing coal jobs and the climate.

While environmental interests are often framed as a trade off with economic interests, subsidising coal mining has negative impacts on both.

While existing mines continue to operate, subsidising new coal supply will push prices down, encouraging the use of coal and investment in coal power and facilitating a vast new region of coal to be dug up.³⁶ In a world that gets anywhere close to targets agreed in Paris, there is no space for new thermal coal.³⁷ Australia's NAIF subsidy would therefore either undermine this goal, or put Australian public funds at risk in assets that must become stranded.

At the same time, it will damage the existing coal industry and jobs in existing coal regions. Analysis from Wood MacKenzie, commissioned by the Port of Newcastle, found the subsidised entry of the Galilee Basin – the ultimate goal of the Adani NAIF loan – would have substantial negative impacts on coal mines both in Queensland and in New South Wales.³⁸ Objections to this subsidy have been made by the Port of Newcastle, Glencore and Anglo American.³⁹

³⁶ <http://www.tai.org.au/content/when-you-are-hole-stop-digging>

³⁷ <http://www.carbontracker.org/report/stranded-assets-danger-zone/>

³⁸ <http://www.abc.net.au/news/2017-07-06/galilee-basin-mining-project-will-reduce-coal-output-research/8682164>

³⁹ <http://www.afr.com/business/mining/dont-pick-winners-with-adani-loan-says-anglo-american-chief-mark-cutifani-20171004-gyuh6w>
<http://www.theherald.com.au/story/4614883/rail-link-loan-could-close-mines-report-finds/>