

# **Abbot Point Port and Wetland Project and Abbot Point Dredging and Onshore Placement of Dredged Material Project**

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Rod Campbell

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Level 5, City Walk Centre  
131 City Walk  
Canberra City, ACT 2601  
Tel +61 2 6130 0530  
Email: [mail@tai.org.au](mailto:mail@tai.org.au)  
Website: [www.tai.org.au](http://www.tai.org.au)

## Introduction

The Queensland Government is currently seeking submissions on the Preliminary Documentation around two related proposals to expand the coal port at Abbot Point.

The Preliminary Documentation is inadequate as it contains no cost benefit analysis and no economic assessment of any kind. This is surprising given the Queensland Government guidelines recommend this assessment, it is supported by the Australian Coal Association Research Program and QLD Treasurer Tim Nichols made an explicit promise that all major projects would undergo a cost benefit analysis.

The economic efficiency of the projects is determined by the viability of Galilee Basin coal projects. None of these projects have been subject to public cost benefit analysis and there is widespread scepticism amongst banks and economists as to their viability.

Spending on these projects reduces the amount of money that can be spent on other public services in Queensland, such as healthcare and education. Given the potential opportunity cost to the Queensland public and the complete lack of assessment, we recommend rejection of these projects.

## Lack of cost benefit analysis of Abbot Point and other projects

A key reason for our objection to these projects is that there has been no public cost benefit analysis (CBA) or business case prepared for them. There is no assessment of whether the projects are financially viable or whether they will make Queensland better off. CBA is important for any major project that affects the community, but particularly so for projects that are funded by taxpayers, such as these.

The absence of CBA is surprising given that The Department of Infrastructure and Planning's Project Assurance Framework, states

*The primary method of economic evaluation of public sector policies and projects is cost-benefit analysis.*<sup>1</sup>

CBA is also encouraged by the Australian Coal Association Research Program, which says that one of the "key aspects of economic assessment that can improve confidence in the inputs to the decision-making process" is:

*Inclusion of a **comprehensive CBA**, with proper identification of non-market impacts...*<sup>2</sup>

Furthermore, Queensland Treasurer, Tim Nichols, declared CBA would be compulsory for major projects in this year's budget speech:

*As promised at the election, all major projects now undergo a cost benefit analysis. No longer do we have dams without pipes, pipes without dams, nurses without pay and trains without seats!*<sup>3</sup>

The Treasurer is right to be concerned about the lack of CBA in this case. Without proper economic assessment, the government risks building a coal port without coal mines and

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<sup>1</sup> (Qld DIP 2011, p18)

<sup>2</sup> Hunter Research Foundation (2014) *Approval and planning assessment of black coal mines in NSW and Queensland: A review of economic assessment techniques*

<sup>3</sup> (Nicholls, 2014) p4

without coal trains. This is because there has been no CBA of any of the new coal projects that would use the Abbot Point Port and no CBA of the train lines that would connect them.

There is no business case for any of these projects or for the Galilee Basin Strategy. There has been no analysis of what coal price is required for each of the projects to go ahead and what volumes might be produced under different scenarios. This analysis must be done for taxpayers to be satisfied their investment in the Abbot Point and other related projects is worthwhile. If not, the strain on public finances could lead to ‘nurses without pay and trains without seats’ as the Treasurer suggests.

## Viability of Galilee Basin projects

CBA and proper economic analysis is important for the Abbot Point and related projects as concerns over Galilee Basin coal projects’ viability are widely discussed:

*Development of the Galilee Basin looks increasingly remote, Macquarie Group Ltd., Australia’s biggest investment bank, said in a May 1 research note. Prospects for project paybacks look extremely poor, the bank said. Further delays are likely unless “deep pocket” backers are able to ignore conventional economics.*<sup>4</sup>

Detailed studies of Galilee Basin projects have concluded that they are “beyond speculative” and:

*The magnitude of financial capital and infrastructure required, coupled with a depressed thermal coal market outlook make opening up the Galilee basin a challenging and high risk proposition.*<sup>5</sup>

The marginal financial nature of Galilee Basin projects and the need for CBA is demonstrated by Bandanna Energy, which has recently gone into administration. One of Bandanna’s key assets is the South Galilee Basin Coal Project.

The South Galilee Basin was approved despite lack of CBA. While Bandanna claimed it would employ 1,909 people and increase annual output by \$1.2 billion, in fact, the project is likely to employ zero people, produce zero output and has lost money for shareholders.

## Economics in the Preliminary Documentation

The Preliminary Documentation has no CBA and no other form of economic assessment. The economic justification for the project instead rests on unreferenced claims that:

- Construction would result in \$150 million in ‘economic activity’ and employ 120 people
- The project would help attract mining investment estimated at \$28 billion
- Galilee Basin mines could employ 13-15,000 people<sup>6</sup>

All of these claims should be questioned, as discussed below.

<sup>4</sup> (Scharples, 2013)

<sup>5</sup> (Buckley & Sanzillo, 2013) p9

<sup>6</sup> See Preliminary Documentation Volume One, Part 2, section 2.5 Socio-economic social matters, p56

## Construction

It is not clear what is meant by 'economic activity' or where this \$150 million figure comes from. It almost certainly does not mean net benefit or revenue to the Queensland taxpayers as calculating this would require CBA.

Economic activity is more likely to refer to 'gross regional product', a measure of economic output. If so, this is not a large increase even at a regional level. Research for the Queensland Resource Council recently estimated the gross regional product of the Mackay region at nearly \$21 billion, meaning this project would increase the region's production by less than one per cent (0.7 per cent).

In order to achieve this marginal growth in economic output, the Queensland government needs to spend money on the project. No estimate of how much taxpayers' money will be required is in the Preliminary Documentation. Regardless of the amount required, taxpayers' money spent on Abbot Point means less public money to spend on education, healthcare and other public services across the state.

The same applies for employees. While the government may choose to employ 120 people constructing the Abbot Point projects, it should not claim this as a benefit of the project at a state level. The spending to employ these people here reduces spending on employees elsewhere in the state. Given the relatively high wages for fly-in-fly-out construction workers, it is likely that this construction would actually reduce the number of employees who earn more modest wages elsewhere in the state system.

## Attracting mining investment

For mining investment to be attracted to the region, the projects in question must be financially viable. As discussed above, markets and economists doubt this is the case in the Galilee Basin.

More importantly, investment itself is not a net benefit to the state. Investment is not free money - investors expect a return on their investment and this can come at a cost to the community. Whether the benefits of the investment outweigh the costs elsewhere has not been demonstrated.

The main return to Queensland from any mining investment is through royalties, not through measures of private investment. Whether or not the royalties from Galilee Basin mines will pay off the cost of building such infrastructure is highly uncertain.

Queensland Treasury makes it clear that many subsidised investments do not recover the state's outlay and that they do indeed place significant constraints on spending on other services like hospitals and schools:

*Some costs may also be recovered by the government over time if they are directly industry related. However, there is a real opportunity cost for governments in undertaking the initial capital expenditure. Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other, including social infrastructure such as hospitals and schools. For many projects directly related to assisting mining industry development, such as land acquisitions for state development areas, the expected timeframes for cost recovery are extremely long (sometimes decades). The opportunity cost of this use of limited funds is a real cost to government and the community.<sup>7</sup>*

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<sup>7</sup> (Queensland Treasury, 2013)

We agree with Treasury that these costs are significant. Queensland has spent \$8 billion on subsidising coal infrastructure over the last six years, money that then cannot be spent servicing the community.<sup>8</sup>

### Galilee Basin employment

The claim in the Preliminary Documentation that the Abbot Point project will help support 13-15,000 jobs is confusing as the Preliminary Documentation also states that the project will assist in increasing coal throughput at the port by around 100 million tonnes per year (Mtpa).

The 100 Mtpa figure seems to assume that only the most advanced projects will go ahead – Carmichael (capacity 60 Mtpa), Alpha and Kevin’s Corner (approx 20 Mtpa each). Yet these mines would only employ workforces of around 7,000:

- Carmichael – 3,500<sup>9</sup>
- Alpha – 2,000<sup>10</sup>
- Kevin’s Corner – 1,500<sup>11</sup>

As discussed above, the South Galilee Basin project owners have already gone into administration, suggesting many of the projects will not go ahead. It is possible, as discussed above, that none of the projects will be financially viable and none will go ahead. All employment relating to the Abbot Point proposals rely on the finances of projects which have not been assessed. At best this employment estimate is an overestimate, possibly by 100 per cent.

### Conclusion

With no economic assessment of the Abbot Point proposals, it is unclear why the Queensland Government would support them. Given their election promise to subject all major projects to cost benefit analysis, particularly in the case of publicly funded projects like this, there is a real risk that without a comprehensive cost benefit analysis these projects will reduce spending elsewhere in Queensland for no economic benefit and, therefore, are counter to the public interest. We recommend rejecting these projects on this basis.

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<sup>8</sup> (Peel, Campbell, & Denniss, 2014)

<sup>9</sup> (GHD, 2013) p31

<sup>10</sup> (Economic Associates, 2010) page (xiv)

<sup>11</sup> See Hancock Galilee (2011) Kevin’s Corner Environmental Impact Statement, Volume 1, section 2.1 p2-2.

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