

**Warkworth Coal Project Consent Modification 6:
Submission on Department of Planning and
Infrastructure addendum report**

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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
Website: www.tai.org.au

Introduction

The Australia Institute (TAI) welcomes the opportunity to make a submission on the addendum report on the Warkworth Coal Mine West Pit Extension Modification, dated 17 December 2013. Like many other parties interested in this proposal the release left us with little time to review this document before presenting to the Planning and Assessment Commission (PAC) on December 19.

TAI has taken a keen interest in the Warkworth mine since our involvement as expert witnesses in the Land and Environment Court case which overturned approval for the Warkworth Extension Project. Our evidence in that case showed that the economic benefits of that proposal did not outweigh its social and environmental costs. Similarly, we believe that, based on the environmental assessment (EA) of the proposed consent modification, there are no significant economic benefits to offset the loss of environmental assets and negative impacts on local communities.

Points of concern in addendum report

Lack of economic assessment and application of Clause 12AA of the Mining State Environment Planning Policy (SEPP) amendment.

The addendum report states:

While there is some doubt about whether Clause 12AA of the Mining SEPP applies to the application or not, the Department has considered these matters in weighing up the merits of the proposed modification, and concluded that these considerations are not determinative in any decision on this particular proposal.

As the PAC is no doubt aware this amendment to the SEPP directed decision makers to place greater weight on the economic merits of project proposals. The SEPP is in line with other events which have placed greater emphasis on the economics of mining projects, including:

- The November 2012 publication of specific government guidelines for economic assessment of mining and coal seam gas projects
- 2012 and 2013 Land and Environment Court cases relating to the Warkworth and Ashton mines focussing partly on economic assessment
- PAC findings on shortcomings of economic assessment in relation to the Coalpac Consolidation Project and Maules Creek Coal Project.

Despite the focus on the economic benefit of projects, the assessment of this modification includes no economic analysis. There is no evidence that this extension, which represents “an extremely small fraction of the coal reserves left within the existing Warkworth mining lease boundary”¹, will have any serious influence on the ongoing operations of the entire Mt Thorley Warkworth complex, as claimed by the proponents. The addendum report’s claim that the extension:

¹ Department of Planning and Infrastructure (2013), recommendation of approval of the Warkworth Mine Consent Modification number 6, page 8

would provide a greater level of certainty to the future employment of the 850 people currently working at the mine²

is not based on any analysis or economic assessment. From an economic perspective, it is hard to understand why a small amendment would have any effect on employment levels in the project overall. The suggestion that the entire workforce is at risk is misguided.

Of far greater concern for employment levels are the statements by Rio Tinto to investors that it is attempting to cut costs through reducing employment levels, as outlined in our submission to the PAC in December 2013. Further evidence of this is provided in a report for Regional Development Australia – Hunter:

Remote mining involves controlling operations without physical presence at a location. Drivers and other operators of machinery are able to control equipment from an operations centre located away from the mine site itself, reducing the need for staff to be located in the rural areas where mines are typically located. As the mining industry continues to expand across Australia, more and more development is occurring in remote environments. These types of settings have also been associated with greater extraction, transport and wage premium expenditure. As such, the shift towards greater automation in the mining industry has been driven by cost management motivations, particularly as more lower-cost international competitors enter the global market.

Rio Tinto has opened a remote mining control centre in Perth which is trialling remote operations on an iron ore mine in the Pilbara. Based on the outcomes of the trial, Rio Tinto will consider opening remote mining centres in the Hunter and Gladstone. At present the bandwidth and speeds available in the remote locations in the upper Hunter where mining operations are based are a constraint to widespread adoption of remote services, however as fixed and wireless technologies improve through the NBN, and as automation technologies improve, remote operations may become more viable. Over the coming years remote mining is expected to become widely used for the extraction of CSG resources where the extraction process is already highly capital intensive. Highwall remote mining techniques have also been proposed for the Hunter's open-cut coal excavations. Underground coal mining operations are however less amenable with automotive processes and are likely to continue require a relatively large mine site presence.³

The proponent's claim in the Supplementary Environmental Impact Statement (SEIS) that maintaining jobs is the "key objective" of the project is difficult to reconcile with these plans and its focus on what "really matters...delivering greater value to shareholders"⁴.

The PAC should be aware that its decision on this proposal is being keenly observed by the economics and environmental consulting industry. Since the SEPP amendment, Warkworth case decision and other events outlined above, economic assessments of major projects in NSW have gone in two different directions:

² Department of Planning and Infrastructure (2013), Warkworth Coal Mine West Pit Extension Modification - Addendum report, p6

³ Deloitte Access Economics. (2013). *Prospects and challenges for the Hunter region: A strategic economic study*. Report for Regional Development Australia Hunter, p27

⁴ Walsh (2013) Investor Seminar Sydney, 3 December 2013, available from : http://www.riotinto.com/documents/Presentation_script-slides-QA_Sydney_3_Dec_2013.pdf

- Some proponents and consultants have revised their economic assessment methods using more sophisticated modelling and or with more strict adherence to guidelines. For example, see:
 - Yancoal's Ashton mine's economic evidence to the Land and Environment Court
 - Glencore-Xstrata's revised economic assessment of Bulga mine proposal
- Other proponents have gone in the opposite direction, reducing quantitative assessment or dispensing with economic assessment altogether. For example, see:
 - This proposal on the Warkworth consent modification
 - The Dubbo Zirconia mineral sands project
 - The Rocky Hill Coal proposal

Failure to insist on economic assessment that complies with NSW government guidelines will set a precedent for future decisions to be made without reference to adequate economic assessment. This would contradict the SEPP amendment and the government's stated preference for greater weight to be placed on economic considerations. Such a decision would also effectively punish proponents and consultants who have made efforts to lift standards in recent times.

Scope of the PAC assessment

The addendum report states:

It is also important to recognise that many of the issues raised in submissions relate to the Warkworth Extension Project, its associated legal proceedings, and concerns about mining in general, rather than the specific issues associated with the proposed modification. By law, the Department's assessment of the merits of the proposed modification is required to focus only on the merits of the proposed modification.

The Department's focus on the proposed modification and not on the wider area covered by the Warkworth Extension Project contradicts its earlier position taken in the recommendation of approval:

[the proposal] is of some strategic importance, as the extraction of the resource would:

- enable the strike length of the existing dragline operations to be maintained, and in so doing sustain the option of being able to extend these operations further to the west (where there are significant coal reserves) at some stage in the future (albeit, this would require further approval);⁵

Depending on which approach the Commission takes, it must either assess:

⁵ Department of Planning and Infrastructure (2013), recommendation of approval of the Warkworth Mine Consent Modification number 6, page 8

- The proposed modification in isolation, for which there is no economic assessment and the Department describes this resource as “not significant in its own right”⁶, or assess;
- The wider resource, largely covered by the Warkworth Extension Project, which has undergone extensive economic assessment in the Land and Environment Court, where Preston CJ found the economic benefits of its development did not outweigh the social and environmental costs.

Either way, we submit that there seems to be no economic justification for approving this proposal.

Conclusion

In conclusion, the Commission should reject this proposal. It seems unlikely that the economic benefits to the community will outweigh the costs imposed on it based on past analysis. No more recent analysis is provided to support the proponent’s claims of economic benefit.

Any decision will have far-reaching implications on the major project assessment process in NSW, and potentially for other states. If economic merit is to play a constructive role in future assessment processes, this proposal must be rejected.

⁶ Department of Planning and Infrastructure (2013), recommendation of approval of the Warkworth Mine Consent Modification number 6, page 8