

Back to the past

Submission on Hawkins-Rumker Preliminary Regional Issues Assessment of new coal exploration areas

Despite worsening climate crises and forecasts of declining coal markets, the NSW Government is proposing to release new areas for coal exploration. New mine proposals near Rylstone would impose significant costs on the local community and be unlikely to bring any economic benefit.

Rod Campbell

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Summary

The proposal to release new areas for coal exploration near Rylstone, NSW, comes as the Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA) expressly warn against new coal projects.

The document that guides the release process is the NSW Government's *Strategic statement on coal exploration and mining in NSW*. This document is based on coal market forecasts that are not fit for purpose.

The IEA expects the global coal trade to decline by 130 million tonnes per year by 2030 under currently stated climate and energy policies, or halve to around 600 million tonnes per year in total under its Paris Agreement-aligned scenario. NSW Treasury is at least considering a scenario where all NSW coal production is phased out by 2040, along with others showing major declines after either some growth or steady production. The actions of key players in the NSW coal industry show that decline is most likely:

- The abandonment of Terminal Four at the Port of Newcastle.
- Reduced estimates of capacity required for the Hunter coal railways.

With no growth expected, and substantial decline being considered, it appears unlikely that there is a need for any new coal mines in NSW. Furthermore, existing coal mines in the Hunter are operating at well below their approved capacity, collectively by around 100 million tonnes per year. There is no need for further coal exploration in new areas such as the Hawkins and Rumker areas. Existing coal mines, not to mention current proposals, have the capacity to meet demand, and demand is likely to decline.

It is highly unlikely that any eventual mine proposal in these release areas could be economically viable. Currently available information suggests headwinds such as low coal quality, high unit costs, difficulties attracting finance and strong community opposition. These factors have seen most new mine proposals fail in recent years, including several in the local area, e.g. Bylong, Watermark, Cobbora and Rocky Hill, among others.

Such proposals impose significant costs on local communities. Having a mine proposal near residential and agricultural properties brings huge uncertainty. Property values can decline and houses become impossible to sell. Businesses have to defer investment decisions through the many years these projects have been in limbo. Such costs are certain, while the potential benefits of new mines are unlikely.

The Australia Institute opposes the release of these areas for coal exploration.

Introduction

The Australia Institute welcomes the opportunity to make a submission on the Preliminary Regional Issues Assessment (PRIA) for potential coal exploration releases in the Hawkins and Rumker areas, located near Rylstone, NSW.

As this submission was being written, the Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report was published, with its grim findings on the world's rapidly changing climate grabbing headlines around the globe.¹ United Nations Secretary General Antonio Guterres responded by saying:

There must be no new coal plants built after 2021. OECD countries must phase out existing coal by 2030, with all others following suit by 2040.

Countries should also end all new fossil fuel exploration and production, and shift fossil fuel subsidies into renewable energy.²

Mr Guterres and the IPCC are far from the first to call for an end to new fossil fuel exploration. The International Energy Agency (IEA) head Fatih Birol recently stated:

The pathway to net zero is narrow but still achievable. If we want to reach net zero by 2050 we do not need any more investments in new oil, gas and coal projects.³

In this context, it is extraordinary that the NSW Government would consider opening new areas for coal exploration. Needless to say, The Australia Institute opposes the release of these areas for coal exploration. Such a release is undesirable from a global perspective and almost certain to impose a net cost on the local community.

¹ IPCC (2021) *Sixth assessment report*, <https://www.ipcc.ch/report/ar6/wg1/#FullReport>

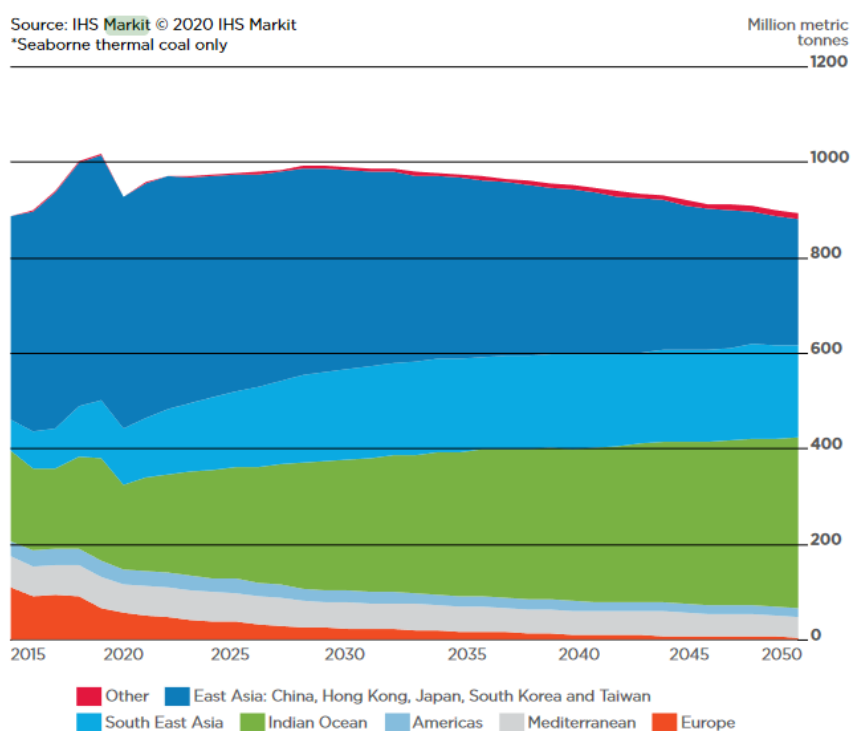
² Slezak and Timms (2021) *Climate change report from IPCC a 'code red for humanity'*, *United Nations chief warns*, <https://www.abc.net.au/news/2021-08-09/coal-climate-change-global-warming-ipcc-report-released/100355952>

³ Chestney (2021) *End new oil, gas and coal funding to reach net zero, says IEA*, <https://www.reuters.com/business/environment/radical-change-needed-reach-net-zero-emissions-iea-2021-05-18/>

Global perspective

The release of the Hawkins-Rumker areas for exploration is guided by the NSW Government’s *Strategic statement on coal exploration and mining in NSW*, and ultimately the expectation in the statement is that global thermal coal demand will remain largely unchanged out to the year 2050, as shown in the extract below:

Figure 1: Long term seaborne thermal coal market in NSW Strategic Statement



Source: NSW Government (2020)

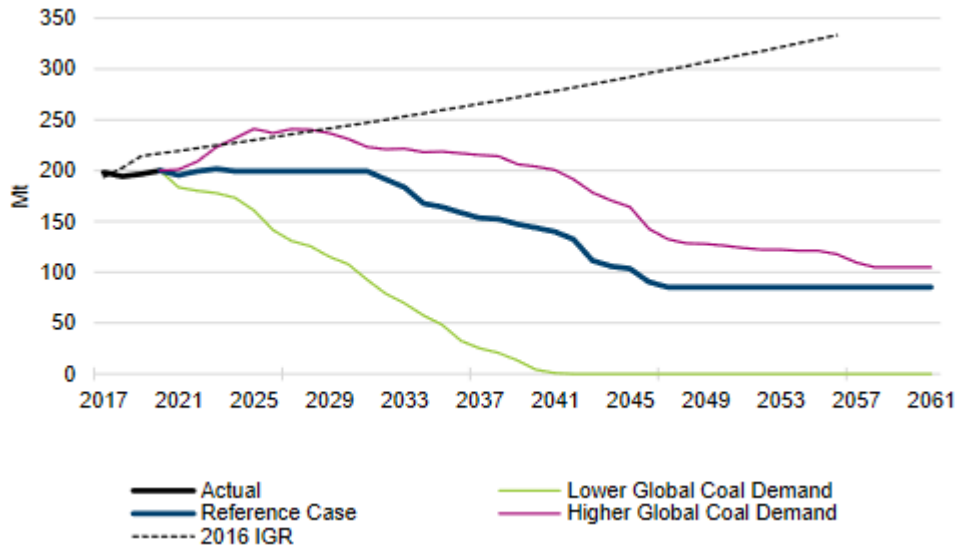
This forecast, and the implication that demand for NSW coal exports will be maintained at roughly current levels into the next half of the century is at odds with scenarios explored by both the IEA and recent NSW Treasury modelling, not to mention the actions of key players in the NSW coal industry. It appears to be based on analysis by IHS Markit, a consultancy that is rarely, if ever, referenced by coal projects in the NSW planning system or Australian governments. These factors mean the strategic statement is not fit for purpose and should be withdrawn or updated.

Contrary to HIS Markit’s forecast, the IEA expects the global coal trade to decline by 130 million tonnes per year by 2030 under currently stated climate and energy policies, or halve to around 600 million tonnes per year in total under its Paris Agreement-aligned scenario.⁴

⁴ IEA (2019) World Energy Outlook, www.iea.org

NSW Treasury has recently modelled three scenarios,⁵ all of which assume significant decline before 2050, as shown in Figure 2 below:

Figure 2: NSW coal production volumes under Treasury scenarios



Source: NSW Treasury (2021)

Figure 2 shows that NSW Treasury is at least considering a scenario where all NSW coal production is phased out by 2040, along with others showing major declines after either some growth or steady production. The actions of key players in the NSW coal industry show that decline is most likely:

- Port Waratah Coal Services has abandoned its long-mooted expansion via a fourth coal terminal at the Port of Newcastle.
- The Australian Rail Track Corporation has revised down estimates of capacity required for the Hunter coal railways.⁶

With the major port and rail operators reducing, or at least not expanding their capacity, it seems clear that key industry players are not expecting growth, contrary to the HIS Markit forecasts in the Strategic Statement.

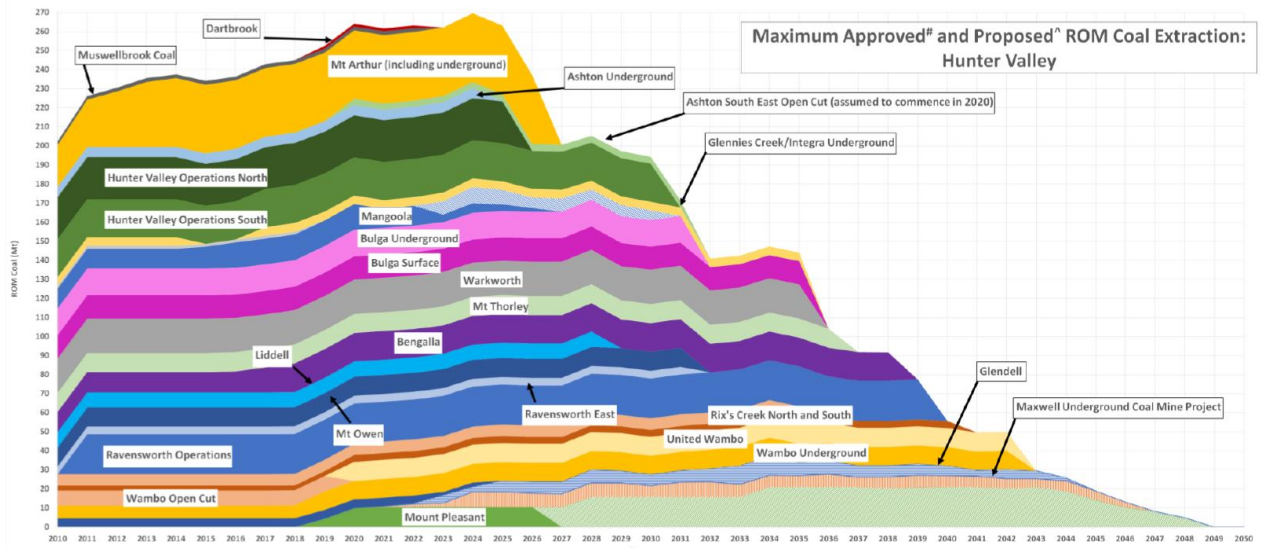
With no growth expected, and substantial decline being considered, it appears unlikely that there is a need for any new coal mines in NSW. Furthermore, existing coal mines in the

⁵ NSW Treasury (2021) *The sensitivity of the NSW economic and fiscal outlook to global coal demand and the broader energy transition for the 2021 NSW Intergenerational Report*, https://www.treasury.nsw.gov.au/sites/default/files/2021-05/2021_igr_ttrp_-_the_sensitivity_of_the_nsw_economic_and_fiscal_outlook_to_global_coal_demand_and_the_broader_energy_transition_for_the_2021_nsw_intergenerational_report.pdf

⁶ ARTC (2020) *2020 Hunter Valley Corridor Capacity Strategy*, https://www.artc.com.au/uploads/2020_HVCCS_Final.pdf

Hunter are operating at well below their approved capacity, collectively by around 100 million tonnes per year.⁷ Recent analysis by Mach Energy, the owners of the Mount Pleasant mine, shows that existing approvals could see more than 50 million tonnes per year being produced up to 2040:

Figure 3: Approved and proposed coal extraction in the Hunter Valley



Source: Mach Energy (2020) Mount Pleasant Operation EIS: Appendix S Greenhouse Gas Assessment

Figure 3 shows that existing approvals in the Hunter Valley alone have the capacity to meet substantial coal demand for decades to come. This excludes the major coal mines closer to Gunnedah and Mudgee and other potential major extensions such as BHP's Mt Arthur. It also ignores that most of these mines are currently operating under capacity.

In this context, there is no need for further coal exploration in new areas such as the Hawkins and Rumker areas. Existing coal mines, not to mention current proposals, have the capacity to meet demand and demand is likely to decline.

⁷ Campbell and Carter (2021) *Mind the gaps: Unused capacity and unfunded rehabilitation in Upper Hunter coal mines*, <https://australiainstitute.org.au/report/mind-the-gaps/>

Local perspective

At a local level, the granting of exploration rights is likely to impose significant costs and provide no benefit.

It is highly unlikely that any eventual mine proposal could be economically viable and provide benefits such as royalties and employment, to a degree that would outweigh environmental and social costs. In addition to the global demand factors discussed above, the following issues work against a viable mine in the Hawkins-Rumker areas:

- Low coal quality – materials presented by the NSW Department of Planning, Industry and Environment (DPIE) state that coal quality is likely to be similar to Ulan, Wilpinjong and Moolarben mines.⁸ Wilpinjong and Moolarben both produce substantial volumes of high ash, low energy coal mainly sold to domestic coal fired power stations, unlikely to compete in a declining export market.⁹
- High costs – the same DPIE presentation states that mines would be underground mines, which typically have higher per tonne costs than open cut mines, so are unlikely to compete with established open cut mines.
- Difficulties attracting finance – Australian and global investors are now reluctant to finance new thermal coal mines.
- Community opposition – opposition to new thermal coal mines is likely to be strong in the local area, not to mention across NSW and Australia.

The difficulty in establishing a new coal mine, perhaps a decade into the future, is further demonstrated by the fact that most recent attempts to start new mines have failed, including many in the nearby area:

- Rocky Hill, proposed for near Gloucester: abandoned after community legal action.
- Hume Coal, proposed for the Southern Highlands: currently under consideration by the Independent Planning Commission (IPC), following repeated recommendations against approval by DPIE and fierce community opposition.
- Bylong, proposed for Bylong Valley: rejected by IPC following community opposition, with possible appeal against that decision.
- Wallarah 2, proposed for Central Coast: has all approvals but has not been developed likely for financial reasons and appears to be for sale.
- Watermark, proposed for Liverpool Plains: now abandoned. Faced fierce opposition by local water users and traditional owners, but also likely to have been financially marginal.

⁸ DPIE (2021) Preliminary Regional Issues Assessment Hawkins Rumker, community presentation

⁹ NSW Dpt Trade and Investment (2013) NSW coal industry profile, hard copy

- Cobbora coal project, proposed for near Dunedoo: approved but abandoned as not financially viable.
- Further afield, Queensland has approved many new coal mines in the Galilee Basin and elsewhere that have not progressed largely due to financial non-viability.

A key factor in community opposition to all of these proposals has been the costs they impose on local communities. Having a mine proposal near residential and agricultural properties brings huge uncertainty. Property values can decline and houses become impossible to sell until the project is abandoned or developed.¹⁰ Businesses have to defer investment decisions and new industries are difficult to attract through the many years these projects have been in limbo.¹¹ Huge stress is placed on local residents, who may have to spend tens or hundreds of thousands of dollars on consultants, lawyers and other experts if they choose to oppose the mine. These costs are considerable and very likely to arise with any new mining project in the Hawkins-Rumker areas.

By contrast, any economic benefit is unlikely. The financial and technical factors discussed above, and the many recent failures of new mine proposals mean any development in the Hawkins Rumker areas would likely be marginal at best. Such projects attract speculators, not mining companies of good reputation that develop beneficial projects. Developers would have every incentive to cut corners on environmental and safety standards, imposing further costs on the community.

¹⁰ See discussion of this in the Gloucester area in Campbell and Murray (2017) *SUBMISSION: Rocky Hill coal project*, <https://australiainstitute.org.au/report/submission-rocky-hill-coal-project/>

¹¹ Campbell and McKeon (2017) *For Hume the Bell Tolls: local economic impacts of the Hume Coal project*, <https://australiainstitute.org.au/report/for-hume-the-bell-tolls/>

Conclusion

The release of the IPCC sixth assessment report was not the only relevant event during the Hawkins-Rumker PRIA comment period. In July, Corrupt former NSW Government Ministers Eddie Obeid and Ian Macdonald were found guilty of criminal conspiracy around the granting of an earlier coal exploration licence in the nearby Bylong Valley.¹²

Given the Hawkins-Rumker exploration release flies in the face of economic logic, the interests of the local community and essential climate action, it is difficult not to speculate as to whether the Independent Commission Against Corruption might again need to turn its attention to coal exploration releases in the western coalfield. One easy way to prevent this would be for the proposed releases to be immediately rejected.

¹² Davies (2021) *For years Eddie Obeid fended off all allegations. Now the truth can't be denied*, <https://www.theguardian.com/world/2021/jul/20/for-years-eddie-obeid-fended-off-all-allegations-now-the-truth-cant-be-denied>