BAEconomics
Specialists in minerals, energy and agricultural economics
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Ben Anderson
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Dear Ben

Re: **Hume Coal Project – Economic Impact Assessment – Response to BIS Oxford Economics Review, December 2017**

I have now had the opportunity to carefully read the BIS Oxford Economics Review of the BAEconomics economic impact assessment of the Hume Coal Project. Although I remain of the view that there are some minor and legitimate differences of professional opinion between myself and BIS Oxford Economics, I believe that the review is constructive. Even if all the points made by BIS Oxford Economics were to be accepted the reviewer concludes that the net lifetime economic benefits of the project will be $127m (compared to the original BAEconomics estimate of $295m):

> "It is noted that the CBA currently assesses the discounted net economic benefits as $295 million over the project lifetime. If the recommendations above are carried out (assuming no employment benefits and that revenues, costs and externalities are as given) then the project will still record positive net lifetime economic benefits of $127 million."

*BIS Oxford Economics, Review of Economic Impact Assessment, Hume Coal and Berrima Rail Project, December 2017, p. 2*

That is, even if all the reviewer's points are accepted the project still delivers a net benefit to New South Wales over its lifetime and, therefore, from a State economic perspective, the project should be approved.

BIS Oxford Economics has raised an issue around the Australia Institute's estimate of the magnitude of the cost of what is claimed to be a ground water externality. It is my understanding that given the most recent estimate of the mine's likely ground water requirement, Hume Coal has already purchased on market a high proportion of the necessary water access licences to cover its peak requirements. Given that these licences are tradable on a free market and were purchased by Hume Coal on that market it follows that there is no externality associated with the mine's purchased water requirements. Further, Hume Coal is required by its undertakings to compensate any local landholder for any additional water pumping costs (or if necessary to construct new bores) in circumstances where ground water levels fall below those experienced due to normal climate viability. My understanding is that Hume Coal intends to purchase any further water licences that it may require on market. Taking all these points into account implies that there is no water externality associated with the project that has not been internalised.

There is some disagreement between BIS Oxford Economics and BAEconomics over the appropriate treatment of labour in both the benefit cost analysis and in the LEA which arises largely as a result of BIS Oxford Economics' presumption that the NSW Guidelines for the economic assessment of mining and coal seam gas proposals are in fact 'economic law'. BAEconomics has assumed that 80 per cent of the labour to be employed by Hume Coal is already employed in NSW at the median wage and that there will be a wage premium associated with employment by Hume Coal. The notion outlined in the Guidelines is that any such wage premium is simply compensation for having to work 'harder' in the mining industry than in other sectors of the NSW economy and therefore that there is no benefit to NSW. In addition, the Guidelines suggest that if workers move from elsewhere in NSW to work in the mine that relocation costs will exactly offset any wage benefits. Regardless of any technical argument that these propositions may be appropriate in the case of a cost benefit analysis for Australia as a whole, in the case of a benefit cost analysis for NSW, the Commonwealth will collect taxation on wage premiums (and because the income taxation system is progressive the tax collections will increase disproportionately) and a share of that revenue will be passed back to NSW by the Commonwealth. Therefore, from a NSW perspective any wage premiums paid by the mining industry contribute a net benefit to NSW and should be counted in a NSW cost benefit analysis. A similar argument can be made in the case of any new employees who were previously unemployed.

Notwithstanding any disagreements among economists about the exact application of the guidelines, BIS Oxford Economics has confirmed BAEconomics' view that the Hume Coal project is of net economic benefit to NSW, and from an economic perspective, it should therefore proceed.

Yours sincerely,

Brian S Fisher PhD DScAgr AO PSM FASSA
Managing Director

16 January, 2018