The Australia Institute
Research that matters.

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Department of Planning and Environment
Attention: Joe Fittell

Re: Hunter Valley Operations Continuation Proposals

Dear Joe and team,

Thanks for taking my call today. The Australia Institute welcomes the opportunity to make a submission on the proposal to extend the Hunter Valley Operations North and South Open Cut mines (the Project).

The economic assessment of the Project was conducted by Ernst and Young (EY), titled *Economic Impact Assessment of the Hunter Valley Operations continuation project*, included as Appendix W to the environmental impact statement (EIS). The cost benefit analysis in this assessment heavily overstates potential benefits and understates costs. It is not suitable for decision making purposes and should be revised by independent economists.

EY claims that the Projects represent a net present value (NPV) to the NSW community of $4.8 billion. This is, as far as we are aware, the highest estimated net benefit of a coal project in NSW planning history. The fact that such an estimate is being presented at a time when bodies such as the International Energy Agency and the United Nations have called for an end to new coal projects altogether, highlights the need to review this analysis.[1]

The methods by which EY have inflated the value of the Projects are well-known:

- Indirect benefit to workers are overstated, estimated by EY at over $1 billion. This calculation relies on an assumption that workers on the project would otherwise work outside of the mining industry in lower-paying jobs. This is contrary to the usual economic assumption that inputs such as labour are priced at their opportunity cost. This is why NSW guidelines suggest a starting assumption of zero worker benefits.
- Indirect benefit to suppliers are overstated, estimated by EY at $1.7 billion. This calculation relies on the assumption that in the absence of the Project, businesses in the mining supply chain would be unable to achieve the same sales at the same prices. Given the largely imported nature of mining equipment and fossil fuel inputs, combined with the likely major expansions of other parts of the mining industry in the coming decades, this assumption is unconservative and contrary to usual economic practice.

[1] IEA (2022) *Coal in net zero transitions*, https://www.iea.org/reports/coal-in-net-zero-transitions; UN Climate Change (2022) *UN Chief: Phase Out of Coal Is Key Climate Priority*, https://unfccc.int/news/un-chief-phase-out-of-coal-is-key-climate-priority.

- The cost of greenhouse gas emissions is understated, estimated by EY at just $1.3 million:
  - EY use a low estimate of the social cost of carbon, with a mid estimate of $75/t, apparently based partly on estimates by the USA EPA. EY neglect to mention that the USA EPA has more recently proposed a central value of US$190/t, approximately AUD$278/t.[2]
  - EY understate the climate impacts of the project is by multiplying its (already low) estimate of climate damage costs by the NSW share of world population. This is inappropriate because:
    - It is inconsistent with the carbon budgeting approach that guides global efforts to avoid climate change and which underpins relevant policies such as NSW's net zero emissions goal and the Paris Agreement.
    - Climate impacts are complex and not likely to be distributed in line with population.
    - It serves to obscure that other jurisdictions bear a large cost of the project and that if these costs are included in the assessment, the costs of the project are likely to outweigh its benefits. This approach sees NSW essentially free-ride on a cost borne by the rest of the world. This point should be made clear to decision makers and other readers.
- Company tax payments are out of all proportion with Australian Tax Office (ATO) data. Proponent Yancoal has never paid company tax in Australia, according to the eight years of data published by the ATO.

These techniques to overstate the value of coal projects have been criticised by:

- The NSW Independent Planning Commission (IPC),
- Independent reviews commissioned by the IPC and by NSW Planning (particularly reviews by Centre for International Economics and Oxford Economics)
- The Land Court of Queensland[3]
- The Victorian Inquiry and Advisory Committee[4]
- The NSW Land and Environment Court.[5]

The Chief Judge of the NSW Land and Environment Court was particularly critical of these methods and EY's Principal Economist, Steve Brown, who appears to have also overseen the Hunter Valley Operations assessment. Preston CJ described Mr

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[2] Farah and Clark (2022) EPA floats sharply increased social cost of carbon, https://www.eenews.net/articles/epa-floats-sharply-increased-social-cost-of-carbon/

[3] Waratah Coal v Youth Verdict & Ors, https://www.sclqld.org.au/caselaw/QLC/2022/21

[4] Department of Transport and Planning (2022) *Fingerboards Mineral Sands*, https://www.planning.vic.gov.au/environment-assessment/browse-projects/projects/fingerboards-mineral-sands

[5] Gloucester Resources Limited v Minister for Planning, https://www.caselaw.nsw.gov.au/decision/5c59012ce4b02a5a800be47f

Brown's methods as "inflated", "contrary to economic theory" and "plainly wrong". Given this background, it is difficult to understand why the Department has accepted EY's assessment as suitable for public exhibition, let alone decision making purposes.

The uncertain future of the coal market means that the financial benefits of the Project are likely overstated by EY. The external costs, particularly climate impacts, are more certain and, at current USA EPA estimates, likely to outweigh any benefits of the Project. For these reasons, The Australia Institute strongly objects to the expansion of the Hunter Valley Operations projects.

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Research Director
The Australia Institute

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