Cobbora Coal Project

Comments on Response to Submissions on Cobbora Coal Project EIS, "19 Economics"

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Comments on Response to Submissions on Cobbora Coal Project EIS, "19 Economics"

We are pleased to have a response to submissions relating to economics on the Cobbora project. Our submission to the Tarrawonga coal project received no response to many issues raised, and this response is clearly an improvement. However, the response itself is disappointing, largely restating the position of the original assessment, with little new detail on important points. We believe the points in our original submission still stand, however some parts of the response to submissions warrant further comment.

Project viability

The most important issues raised by submissions are clearly the viability of the project and the extent to which benefits to favoured generators will be passed on to the wider NSW community. More than 100 submissions question the financial viability of the project, while 28 raise concerns about economic viability measured by the cost-benefit analysis. Our submission questioned both of these issues and we feel that this level of interest warrants more than three paragraphs contesting the need for financial analysis and restating the results of the original assessment.

Instead, the response should have shown some research into the specifications of the coal (not provided in the original assessment or response to submissions), forward prices of coal of this rank and analysts impressions of its likely price range through the project period. Merely restating that $77/tonne is an appropriate market price due to world markets, without this discussion of these markets does not help the public understand the project and the economic assessment.

Similarly, some discussion of mine costs would assist submitters to understand the proposal. As the project is described as a "cost recovery" project, with any financial losses to be borne by the NSW taxpayers, more information is required. It is worth considering that as coal is to be sold at $31/tonne, this would only cover costs in some of the lowest cost mines in Australia. There is no evidence that this project would be at such a low point on the cost curve. Even at $77/tonne many mines in NSW are unviable. Understanding the extent of the financial subsidy given to generators is important for public debate around this project.

Distribution of benefits

Of most importance to the NSW community is the extent to which the subsidy received by generators through access to artificially cheap coal will be passed through to electricity consumers. Disappointingly, the response to submissions merely restates the dubious claim that sufficient competition exists in the electricity market to force generators to pass on this subsidy. This claim looks even more dubious following the recent report by (Mountain, 2013), who found that generators in Victoria have passed on more than 100% of the carbon price to electricity consumers, despite government assistance of over $5.5bn. Why NSW generators would pass on the $3bn worth of assistance the Cobbora project may provide, while Victorian generators have not done so, is not clear from the response.

Net present value

Despite major uncertainty around the value of the project, the response to submissions claims that the net present value of the project is “between $1,872 m and $2,073 m”, a claim that is repeated no less than four times. The two figures mentioned here are not estimates of the likely upper and lower bounds of the net present value of the project relevant to NSW decision makers. They are estimates of NPV accruing to Australia with and without “non-market value of employment”, a contentious external value not commonly used in cost benefit analysis and further discussed below. In fact the socio-economic assessment estimates a range of NPV values far wider, from $5b to $306m, see p B2. As outlined in our submission, we believe even this overstates the likely value of the project, which is likely negative. Presenting the NPV in the response to submissions as being “between $1,872 m and $2,073 m” in this way gives an impression of accuracy that is misleading and not reflective of the results of the assessment.

Social value of employment

Gillespie Economics take their theoretical justification for a social value of employment from a single paragraph in (Portney, 1994). Portney’s paper is a background to issues in environmental economics in the early 1990’s around the use of contingent valuation, or “willingness to pay” studies, in real world situations, such as the aftermath of the Exxon Valdez disaster. Portney expresses cautious support for contingent valuation, and late in the paper suggests that those opposed to contingent valuation of regulatory benefits such as environmental conservation, might be more amenable to the method if they also considered costs of conservation, which might include a reduction in employment. He offers social value of employment in refineries as a possible example of where these methodologies could be used to estimate non-environmental values.

Had this been a central theme of Portney’s paper, he would have discussed further conditions necessary for the validity of this approach. He would, no doubt, have debated whether he placed value on a person being employed in one refinery, when in the absence of that refinery they would likely have worked at another. In the current “skills shortage” in the Australian mining industry, with well publicised calls to bring in foreign workers, this “existence value” of employment, does not exist.

The idea that people might place an additional value on knowing people are employed in areas where other jobs might not exist is plausible. Indeed, employment initiatives in indigenous communities and other remote areas are routinely subsidised by the public. However, the suggestion that similar values exist for a likely loss-making state-owned coal mine in the middle of a mining labour shortage does not seem plausible.

Even if the concept of this value did seem plausible, the magnitude of the value estimated for the Cobbora project clearly is not. The value of $192m across the life of the mine suggests the people of NSW would be willing to pay more than $325,000 to secure each job. Car industry subsidies attract searing criticism at around $4000.

The reason Gillespie Economics' results are so out of proportion with reality lie largely in the surveys used for their valuation studies:

- Respondents are not given adequate information about complex attributes to be able to make an informed response.
- Respondents are forced to pick a value for employment, with no option for a zero value. Instead the status quo option is "The mine continues as currently planned". This forces respondents to place a value on attributes such as employment that they may not hold value for.
- The financial attribute varies over levels far greater than the value of the royalties the project would generate and therefore the value of the project to NSW households.

These criticisms of social value of employment calculations are not new, but instead of responding to constructive criticism of their methodology, the response to submissions points to the publication of a related paper in an obscure academic journal as supporting their case.

Social value of employment in current Australian coal mining has been criticised by prominent academics, private consultants and think-tanks, as noted in our submission. The suggestion that Dr Denniss and Prof Quiggin may somehow be supportive of Gillespie Economics' estimated value for social value of employment is untrue. They have reviewed these comments and do not support the value included in the Cobbora project CBA.

Similarly deceptive is the claim that:

> *Concerns raised about ANU's Professor James* [sic][1] *Bennett having doubts in relation to inclusion of a social value for employment in the Maules Creek economic assessment concerned the limitations of benefit transfer.*

This is untrue. Professor Bennett made two points in the paragraph we quoted, the second being about benefits transfer. The first relates to the point at hand:

> *[The] EIA's inclusion of benefits associated with employment [is contentious]. The argument advanced is that people outside of the mine workforce enjoy benefits associated with people having jobs in the mine. The values of this 'existence benefit' of work estimated for the case of a mine in the southern coal field are 'transferred' to the current case. A number of points argue against this approach. First, there is a conceptual issue. In a fully employed economy, it is doubtful that people employed in the new mine would be drawn from the ranks of the unemployed. So people outside the mine are unlikely to hold any existence benefits for the jobs provided by the mine in that case.*

While we reject the inclusion of this value, with so much opposition, we can only admire Gillespie Economics' persistence in defending it.

Disruption of rural communities

The response to submissions disputes the need to include a value on the disruption of local communities, even though a suitable benefits transfer study exists, (Gillespie Economics, 2009)[2]. The rationale for this non-inclusion in the response to submissions is:

[1] Professor Bennett's given name is Jeff.

the attribute for rural communities used in the Warkworth study related to the Bulga village (a small rural community comprising 175 families on mainly rural residential blocks, a tavern, a cafe/roadhouse, a police station and a church) that might be disrupted as a result of noise and dust impacts. No similar rural village is likely to be affected by the Cobbora Project and hence the value estimated in the Warkworth study has no relevance to it.

We urge Gillespie Economics to explain to the people of the Cobbora area why their welfare matters $38m per household less than that of the people of Warkworth and how their lack of pub, church, servo and police relate to this.

Conclusion

In conclusion, we feel the response to submissions adds little to debate around this project. It mainly restates the original positions taken in the economic assessment and does not engage with the many submissions that have sought to increase awareness and improve the decision making process. It is disappointing that such an opportunity to increase public involvement and confidence in the project assessment process has been missed.

We remain unconvinced that this project is in the interests of the community of NSW, the people of the region, Australia, or at a global scale. The project should be rejected until thorough and convincing analysis is presented suggesting the project is in the public interest.

References:

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Portney, P. R. (1994). The Contingent Valuation Debate : Why Economists Should Care. *The Journal of Economic Perspectives*, *8*(4), 3–17. Retrieved from http://www.mendeley.com/catalog/contingent-valuation-debate-economists-care-1/

[2] Note that we have been critical of this study and we contest the methodology behind the calculations