The Australia Institute

Research that matters.

Airly mine consent modification

Submission
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TAI

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About The Australia Institute

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals, memberships and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

Our philosophy

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

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Our purpose—'Research that matters'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

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Airly mine consent modification

The Australia Institute objects to the proposal to modify the development consent of the Airly Mine.

Lack of economic assessment

The Environmental Assessment (EA) for the proposal provides **no economic assessment of the proposal,** and no indication of whether the proposal is likely to result in a net benefit to New South Wales.

In particular, the EA provides **no cost benefit analysis**. Decision makers are given no indication of the magnitude of the proposal's potential benefits (mainly royalties) or costs of impacts on the local community and environment.

Cost benefit analysis would also assist decision makers with information on the financial viability of the proposal. Given that the Airly mine was placed in care and maintenance from late 2012 to earlier this year, it is clear the **proposal is of marginal viability**.

This is concerning as it places in doubt the ability of the proposal to provide royalties and employment to the state. The ability to provide these benefits must be demonstrated before it can be approved.

This lack of cost benefit analysis is concerning given the emphasis placed on economic benefits by the recent State Environmental Planning Policy (mining SEPP). In addition to the mining SEPP, the need for economic assessment of coal projects is shown in the Treasury *Guidelines for the use of Cost Benefit Analysis in mining and coal seam gas proposals* as well as the general Treasury guidelines for economic assessment.[1]

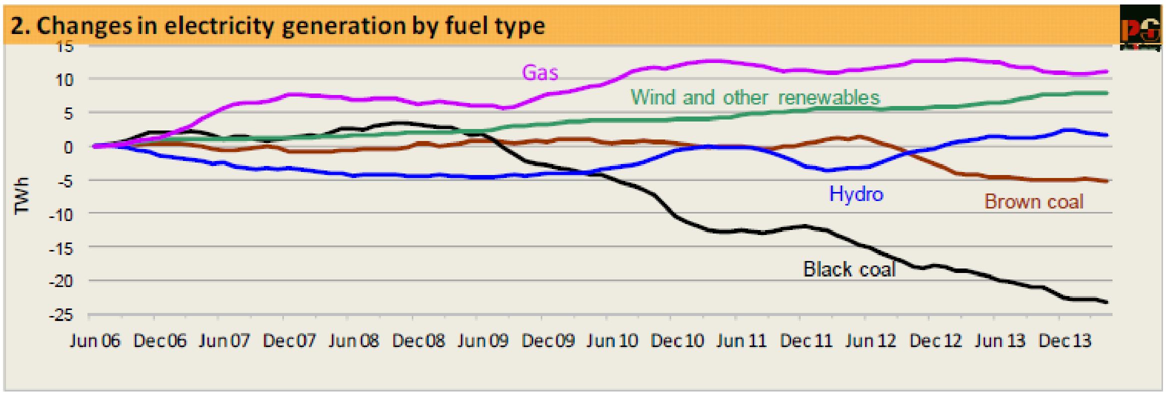
The standard of economic assessment in project applications and the interpretation of this assessment by the Department of Planning has recently been heavily criticised by many decision makers, including the NSW Planning and Assessment Commission, the NSW Land and Environment Court and the Supreme Court of NSW.[2] In light of these decisions, it is essential that all major coal projects provide strong, independent economic assessment to decision makers.

Economic context

The EA fails to provide the economic context of the project. The Mount Piper and Wallerawang power stations are the domestic market for coal in the Lithgow region. Black coal-fired generators like these have been hard hit in the National Electricity Market (NEM), with declining overall demand and increasing competition from other generators, as shown in Figure 1 below:

[1] (NSW Treasury, 2007, 2012)
[2] (NSW, 2014; PAC NSW, 2014a, 2014b; Preston, 2013)

Figure 1: Electricity generation by fuel type



Source: (Pitt & Sherry, 2014) see also (Saddler, 2013)

Demonstrating these difficulties, Wallerawang has recently been placed in care and maintenance. Continued low wholesale prices for electricity and lower than forecast demand in the NEM means coal demand of these power stations is uncertain, creating difficulties for the proposal and other local mines.

This proposal may also have difficulty in export markets, should it go ahead. Although the EA makes no mention of coal quality, the EA's focus on sales to Mount Piper suggests it would produce low-quality thermal coal.

The outlook for small, high-cost mines producing low-rank coal some distance from ports is grim. The seaborne coal market is facing a prolonged period of over-supply and low prices. While infrastructure linking the area to Port Kembla is in place, mines like the Airly mine and others in the Lithgow area risk becoming stranded assets.[3]

The EA identifies that:

> *Lithgow has a long history with mining and power generation and today the economic base of Lithgow is still recognised as being the energy and resources sector. These sectors are major local employers and subsequently make a significant contribution to the overall economy including retail and accommodation via direct and indirect employment opportunities. The sustainability of the mining sector and its related employment is vital to the broader economic wellbeing of the area.*

While the EA provides no analysis to support this statement, mining and power generation did account for 15 per cent of employment in the Lithgow Local Government Area at the 2011 Census. As 85 per cent of the workforce is outside of these industries, the local economy is well placed to adjust to the changes which the NEM and international coal markets are bringing.

The EA is correct to note that the "sustainability" of the mining sector is important to the region. As some mining and power projects in the region are likely to be unviable in the long term, and have significant environmental impact, decision makers should be assessing carefully which operations are indeed viable and sustainable, which should close, and how to manage this change.

The proposal should be rejected as it is likely to be financially marginal and have impact on sensitive environmental areas. The EA fails to provide economic assessment which can help with these challenges.

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[3] (Bernstein Research, 2013; Citi, 2013, 2014; MorningStar, 2014)

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