The Australia Institute

Research that matters.

Dubbo Zirconia Project

Submission (objection) on Environmental Impact Statement socio economic assessment
June 2013

Rod Campbell

TAI

Submission

The Australia Institute

Research that matters.

About TAI

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.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

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.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.tai.org.au or by calling the Institute on 02 6206 8700. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 5, City Walk Centre
131 City Walk
Canberra City, ACT 2601
Tel +61 2 6130 0530
Email: mail@tai.org.au
Website: www.tai.org.au

TAI

Introduction

The Australia Institute welcomes the opportunity to make a submission on the environmental impact statement (EIS) of the Dubbo Zirconia Project. Our submission relates to the socio-economic impact assessment, Specialist Consultant Studies Compendium Volume 3, Part 12, by Diana Gibbs and Partners. Due to the deficiencies of the Gibbs assessment, we object to the project.

Concerns on socio economic assessment

There are several aspects of the Gibbs assessment that should be of concern to decision makers. First is the lack of benefit cost analysis. Gibbs lists the director generals requirements for the EIS as including:

> *a detailed assessment of the costs and benefits of the development as a whole, and whether it would result in a net benefit for the NSW community.*[1]

To a trained economist, this is a clear call for benefit cost analysis. This same requirement has been included in the DGRs of many major projects in NSW and, in our experience, has always been interpreted as requiring benefit cost analysis.[2] Last year the NSW Treasury published specific guidelines to improve the standard and consistency of benefit cost analysis of mining projects,[3] which expanded on earlier Planning NSW guidelines which stated:

> *The accepted technique for assessing changes in the economic well-being of a community is benefit-cost analysis (BCA). This is the main tool of economic efficiency analysis, especially where unpriced effects must be taken into account. In a benefit-cost analysis, maximum economic efficiency is achieved when the present value of net benefits (total benefits less total costs) is maximised. This evaluation criterion is described as net present value (NPV).*
>
> ***Note: To conduct a proper economic evaluation of the options associated with a proposed development that is likely to have significant environmental impacts it is essential to undertake a benefit-cost analysis.*** *(emphasis in original)*[4]

Instead of benefit cost analysis, Gibbs provides unsourced, unsubstantiated estimates of:

- Capital costs
- Production rate and gross value
- Incomplete aspects of operating costs
- Public sector revenues

The estimates presented by Gibbs, with no attempt at calculating net benefits, ie benefits minus costs, or of considering how any net benefit is distributed, falls a long way short of the NSW Treasury guidelines for mining projects, which suggest:

[1] (Diana Gibbs and Partners, 2013)p32
[2] See for example (ECS, 2013; Gillespie Economics, 2011, 2012a)
[3] (NSW Treasury, 2012)
[4] (Gillespie & James, 2002)p8

> *The net public benefit or cost of a project or policy can be calculated through the net benefit of mining or coal seam gas (CSG) compared with the other land uses, less any associated public expenditure (not paid for by the mining company) and any negative social, health or environmental impacts. There may also be other economic impacts on local business that may be positive or negative.*[5]

Gibbs makes no estimate of the net benefit of the proposal itself. To do so would require:

- Proposed production schedule
- Estimates of commodity prices
- Estimates of capital and operating costs
- Discounting of future costs and benefits

Estimates of these values are routinely provided in other project assessments in NSW without commercial in confidence difficulties.[6] This is an important part of the assessment as it gives decision makers some idea of the financial strength of the project. Projects with weak financials will not deliver benefits such as jobs and royalties and decision makers should be cautious about approving marginal projects.

For example, assessment and submissions on the Stratford Coal expansion proposal highlighted the financial weakness of that project. While approval is still being sought, the existing mine's production has been scaled back and jobs have been lost. The information in public assessment and submissions assists decision makers understand the risks around the claimed benefits of the project.[7]

As Gibbs provides none of this analysis, decision makers should treat claims of jobs and revenues with suspicion. It is unclear what movements in commodity prices or input costs might result in the proponent suspending or delaying the project, or lobbying for altered conditions.

As the Treasury guidelines point out, beyond the net benefits of the project to the proponents, considerations need to be made of net public infrastructure costs. Gibbs says:

> *If [the] rail option is selected [for transporting minerals], there would be a major refurbishment of the rail line required, involving not only replacement of the rails, but also considerable fencing and crossings.*

Alternatively:

> *A major road upgrade would be undertaken, so that the surface and width standards would accommodate B-double trucks. This would also involve replacement of existing bridges and causeways, and the refurbishment of rail crossings.*[8]

Gibbs makes no disclosure around which party will pay for such infrastructure and to what extent the community might bear costs related to increases in heavy traffic volume. Such considerations are clearly required under Treasury guidelines. An example of where such a

[5] (NSW Treasury, 2012)p4
[6] For example (Gillespie Economics, 2009; HVRF, 2009)
[7] See (Economists at Large, 2013a; Gillespie Economics, 2012b)(Gloucester Advocate, 2013; Ian Kirkwood, 2013)
[8] (Diana Gibbs and Partners, 2013)p38-39

study has been undertaken is in relation to the Warkworth Coal project expansion, which included an appendix addressing road changes.[9]

Gibbs makes no attempt to incorporate environmental impacts into a net benefits calculation, despite identifying that noise and dust impacts would have economic impacts on local residents:

> *[It] is acknowledged that use of the rail line would change "free use" of the rail easement that residents of Margaret Crescent have become accustomed to. Discussions with real estate agents have concluded that there could be a minor (and one-off) slight loss of value for some properties which adjoin the rail line, but that all purchasers of affected houses would have known that the rail line had not been closed, but merely dis-used [sic] for a time.*[10]

Not only will residents lose use of the easement, but will be subject to noise and dust impacts. It is not appropriate to acknowledge "minor (and one-off) slight" losses of value to the community without some quantification. Losses that may be minor to Gibbs' client may not be minor to households and could have serious welfare considerations. In Gloucester, "minor" losses of value relating to housing affected by the Rocky Hill mine proposal has had a major impact on residents, many of whom are retirees and "asset-rich-income-poor". Affecting their major asset, even in a minor way, has major implications on these people's lives.[11]

Furthermore, Gibbs makes no mention of potential environmental difficulties that are common to rare earths projects, involving management and disposal of radioactive substances. Management and closure costs relating to the hyrdrological impacts of projects involving radioactive waste can have a major impact on the economics of a project, not to mention on local environmental conditions.[12] The impacts of contamination on water tables or other natural assets could outweigh any financial benefits of the project.

Conclusion

In conclusion, Gibb's assessment of the net benefits of the Dubbo Zirconia project are based on qualitative speculation rather than socio-economic analysis compliant with NSW government guidelines. This assessment should be heavily revised before any decision can be made on the project. Until thorough, standard economic assessment has been carried out, we object to the approval of this project.

Gibbs' lack of conformity with standard economic assessment represents the latest in a worrying trend of NSW major project assessments. Despite the NSW government calling for greater attention to the economic aspects of resource projects,[13] the assessments of the Bulga Coal extension project,[14] Rocky Hill coal proposal[15] and now the Dubbo Zirconia project stray ever further from government guidelines. The Australia Institute urges decision makers to adequately consider the economic impacts of major projects in line with the advice from public service departments and the economics community.

9 (Gillespie Economics, 2009) see appendix specifically relating to Wallaby Scrub Road.
10 (Diana Gibbs and Partners, 2013)
11 (Economists at Large, 2013b)
12 (Economists at Large, 2013c)
13 (NSW Minister for Planning and Infrastructure, 2013)
14 (Economists at Large, 2013d; ECS, 2013)
15 (Economists at Large, 2013b, 2013e; Key Insights, 2013)

References

Diana Gibbs and Partners. (2013). *Dubbo Zirconia Project: Socio-economic impact assessment* (Vol. 3). Specialist Consultant Studies Compendium Volume 3, Part 12.

Economists at Large. (2013a). *Review of Stratford Extension Project Environmental Impact Statement Socio-Economic*. Submission to the EIS of Stratford Extension proposal, commissioned by the Barrington Gloucester Stroud Preservation Alliance. Retrieved from http://www.ecolarge.com/news/submission-on-stratford-coal-project-extension/

Economists at Large. (2013b). *Gloucester socio-economic profile*. a report for Gloucester Shire Council, prepared by Economists at Large, Melbourne, Australia.

Economists at Large. (2013c). *Osos sobre Toro: Assessment of Wiluna Uranium Project*. a report for Senator Scott Ludlam and the member groups of the Anti-Nuclear Alliance of Western Australia, prepared by Economists at Large, Melbourne, Australia. Retrieved from http://www.ecolarge.com/work/osos-sobre-toro-assessment-of-wiluna-uranium-project/

Economists at Large. (2013d). *Review of Bulga Extension Project Environmental Impact Statement Appendix 18 Economic Impacts*. Retrieved from http://www.ecolarge.com/news/ecolarge-submission-on-bulga-coal-project/

Economists at Large. (2013e). *Cumulative impact of resource developments on socio-economics of Gloucester LGA*. report for Gloucester Shire Council, prepared by Economists at Large, Melbourne, Australia.

ECS. (2013). *Bulga Extension Project : Economic Impacts*. Report for Bulga Coal Management Pty Ltd by Economic Consulting Services (ECS).

Gillespie Economics. (2009). *Warkworth coal project EIS: Annex O Economic Study*. Prepared for Warkworth Mining Limited.

Gillespie Economics. (2011). *Maules Creek Coal Project Economic Impact Assessment*. *Assessment*. Prepared for Aston Resources.

Gillespie Economics. (2012a). *Cobbora Coal Project Economic Assessment*. Prepared for Cobbora Holdings by Gillespie Economics.

Gillespie Economics. (2012b). *Stratford Extension Project Environmental Impact Statement Appendix P Socio-economic assessment*. Prepared for Yancoal Australia.

Gillespie, R., & James, D. (2002). *Guideline for economic effects and evaluation in EIA*. Prepared on behalf of Planning NSW. Retrieved from http://cmsdata.iucn.org/downloads/11_guideline_for_economic_effects.pdf

Gloucester Advocate. (2013, January 29). Economist says benefits do not add up. *Gloucester Advocate*. Gloucester. Retrieved from http://www.gloucesteradvocate.com.au/story/1265166/economist-says-benefits-do-not-add-up/

HVRF. (2009). *An economic assessment of the Warkworth coal resource*. Prepared by the Hunter Valley Research Foundation for Coal and Allied Ltd.

Ian Kirkwood. (2013, September 17). Yancoal cuts jobs, chases expansion. *Newcastle Herald*. Retrieved from http://www.theherald.com.au/story/1783271/yancoal-cuts-jobs-chases-expansion/

Key Insights. (2013). *Rocky Hill Coal Project - Socio Economic Assessment* (Vol. 4). Rock Hill Environmental Impact Statement Specialist Consultant Studies Compendium Volume 4, Part 14.

NSW Minister for Planning and Infrastructure. (2013). *State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) Amendment (Resource Significance) 2013*. Retrieved from https://majorprojects.affinitylive.com/public/0d55f5b0068d33c28896cdbc0c7bbaa7/State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) Amendment (Resource Significance) 2013.pdf

NSW Treasury. (2012). *Guideline for the use of Cost Benefit Analysis in mining and coal seam gas proposals*. Retrieved from http://www.planning.nsw.gov.au/LinkClick.aspx?fileticket=1IW95ZTjemY%3D&tabid=205&mid=1081&language=en-AU