The Australia Institute

Research that matters.

Review of EPBC delay cost claims

Briefing note
September 2015

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TAI

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Introduction

Recent proposals to change the Environment Protection and Biodiversity Conservation Act (EPBC) have caused considerable discussion over whether these changes are in the public interest in terms of their environmental and economic impacts. Several major lobby groups have produced analysis or made public statements making quantitative estimates or qualitative statements. The Commonwealth Department of the Environment has also made an estimate.

Most of these reports contain analysis or claims that are misleading from an economic perspective. They generally exaggerate the costs of environmental regulation and ignore its benefits. This report is a review and critique of documents written or commissioned by:

- Australian Petroleum Production and Exploration Association (APPEA)
- Minerals Council of Australia (MCA)
- Business Council of Australia (BCA)
- Property Council of Australia
- Urban Development Institute of Australia (UDIA)
- National Farmers Federation (NFF)
- Commonwealth Department of the Environment

Several shortcomings are common to these documents.

Firstly, most assume that all time spent under Commonwealth approval results in an equal delay to the project cash flows. This isn't necessarily the case – many other aspects of project preparation, planning and financing occur concurrently.

Secondly, they assume that all projects proposed are financially viable and will proceed immediately following approval. This isn't the case. Many projects are cancelled or delayed after gaining approval due to changes in commodity prices or other considerations. For these projects, there is no time cost associated with EPBC referral.

Thirdly, none consider that there is economic value in conducting Commonwealth environmental approval. In fact, further assessment of environmental impacts often protects valuable environmental assets.

This last point is important - if the government is not sure the project is in the best interests of the state or Commonwealth, and puts the project's documentation through a rigorous approval process, then it is not a "delay" as much as it is a necessary check on the costs and benefits from a public planning perspective. For instance, teenagers view the cost of waiting until they turn 16 before learning to drive as a "delay cost". Most parents view this delay as a necessary risk mitigation strategy, while the wider community enjoys the obvious benefits of not having 14 year olds driving cars.

Most of the documents reviewed here take the teenagers point of view. Worse, much of the economic assessment is also of teenage standard.

A full critique of some of these documents would take considerable time and space. Here we limit ourselves to some key points, a summary of the document and a slightly longer critique. Calculations and further details are available on request.

Australian Petroleum Production and Exploration Association (APPEA)

Report title: *Cutting Green Tape: Streamlining Major Oil and Gas Project Environmental Approvals Processes in Australia*

Authors: APPEA internal

Date: February 2013

Key points

- Claims of approval delay leading to $1.3 billion loss in government revenues are unrealistic and based on:
    - Assumption of delay to a project larger than any in Australia at present, larger than Australia's largest existing gas project, Gorgon.
    - Use of very high discount rate, 10per cent, to make delay cost seem high.
    - Assumes delays attributable only to government, with no value in assessment.
- Wider claims of economic role of oil and gas industry either unfounded or taken out of context.

Summary of paper:

- General economic claims about the oil and gas industry:

    The industry is an integral part of the Australian economy. It:

    - *supplies reliable and competitively priced energy*
    - *invests hundreds of billions of dollars of capital*
    - *directs payment of billions of dollars in taxes to governments*
    - *employs tens of thousands of Australians*
    - *generates vast amounts of export income.*
      (page 1)

- Environmental regulation leads to significant delays which translate into financial costs for industry and government, specifically:

    A delay in construction and production from an offshore LNG project could lead to a loss of nearly $1.3 billion in tax revenue.
    (page 9)

Comments and criticisms:

The general claims are either not supported by any analysis, or are based on other sources, often APPEA's other commissioned reports. Some general context for these claims:

- The oil and gas industry "*supplies reliable and competitively priced energy"*
    - Most of APPEA's members' production is exported and is not supplied to the Australian economy at all.
    - APPEA's members are responsible for linking the eastern Australian gas market to the world market, resulting in a tripling of wholesale gas prices.

    - APPEA and their members then claimed a gas supply crisis was imminent, a claim which has now been contradicted by the energy regulator.[1]
- The oil and gas industry "*invests hundreds of billions of dollars of capital*"
    - This is true, but most of it is in capital that will never be used by any other industry or the public. Much gas infrastructure is also assembled overseas and imported meaning there is no benefit for the local construction industry.
- The oil and gas industry *"directs payment of billions of dollars in taxes to governments"*
    - Part of these payments is royalties, which are not taxes, but a price paid for inputs. This is like a baker claiming that the price of her flour is a tax.
    - The industry also receives billions in subsidies from the state and federal governments, at least $2 billion from the WA government alone between 2008 and 2013.[2]
    - The WA government claims the development of the North West shelf cost it over $8 billion, for which it has seen little return.[3]
- The oil and gas industry "*employs tens of thousands of Australians"*
    - Latest ABS Labour Force figures estimate that Oil and Gas Extraction employs 23,100 people – one of the smallest employing industries in the country with a fraction of one per cent of the workforce.[4]
- The oil and gas industry "*generates vast amounts of export income"*
    - Most APPEA members are foreign-owned corporations, so much of this export income is also exported to overseas shareholders.

Some of these claims are based on a 2012 report by Deloitte Access Economics, commissioned by APPEA, *Advancing Australia Harnessing our comparative energy advantage*. This report uses similar modelling to the BAEconomics report for the Minerals Council of Australia, discussed below. Many of the same criticisms apply to the Deloitte report.

The more specific claims around tax revenue impacts from environmental regulation are based on APPEA in-house calculations and publications. Sources are marked as "APPEA 2012", which is not included in the reference list and no obvious source publication is on the APPEA website. While most calculations in this section are not explained, there are many reasons to be sceptical regarding the claim that delays to an LNG project can reduce government revenues by $1.3 billion.

The APPEA estimate of project delay of two years leading to a $1.3 billion reduction in government revenue is based on the value of the delay to the government of beginning to receive the revenue stream. APPEA uses a high discount rate of 10 per cent, which works to make the value of the delay seem high, as it values the present much higher than the future. A lower discount rate, such as the 5 per cent used in the Gorgon project environmental impact statement (EIS), would reduce the value of the delay to $900 million, 25 per cent less than APPEA's figure. Using a discount rate of 1.25 per cent, much closer to the Government

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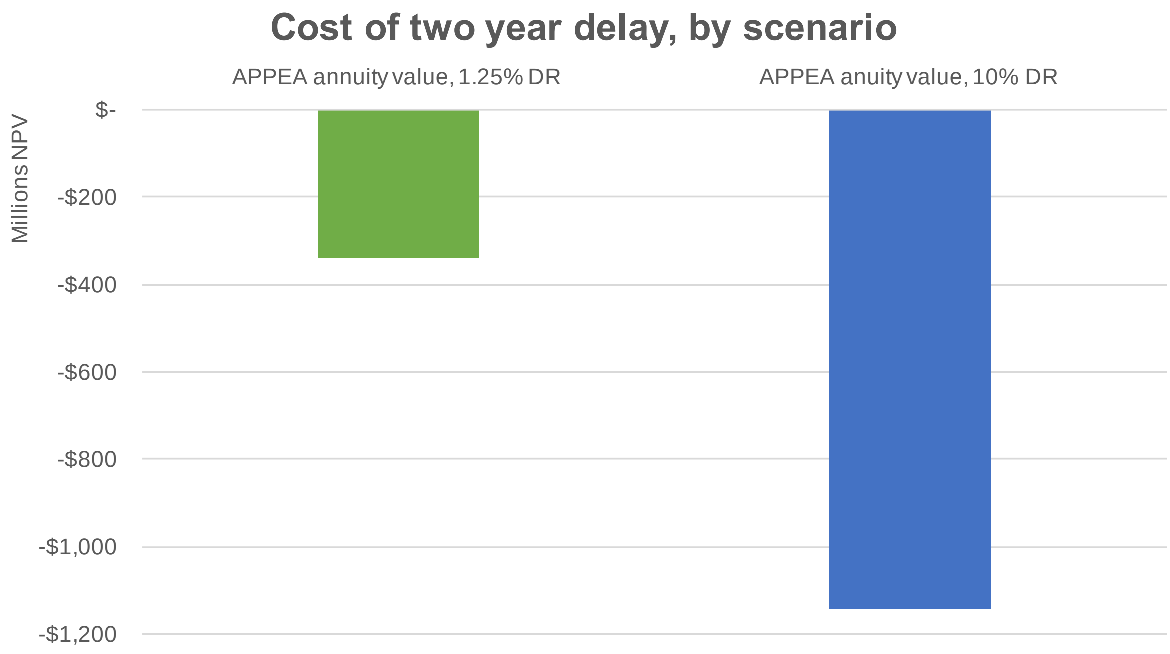
[1] http://www.businessspectator.com.au/news/2015/4/14/policy-politics/green-groups-urge-csg-ban-after-gas-report
[2] http://tai.org.au/content/mining-age-entitlement
[3] http://www.gstdistributionreview.gov.au/content/submissions/downloads/issues_paper/wa_gov.pdf
[4] http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Feb%202015?OpenDocument, Table 06. Employed persons by Industry Subdivision and Sex

borrowing rate reduces the value of delay to around $350 million, as shown in the chart below:



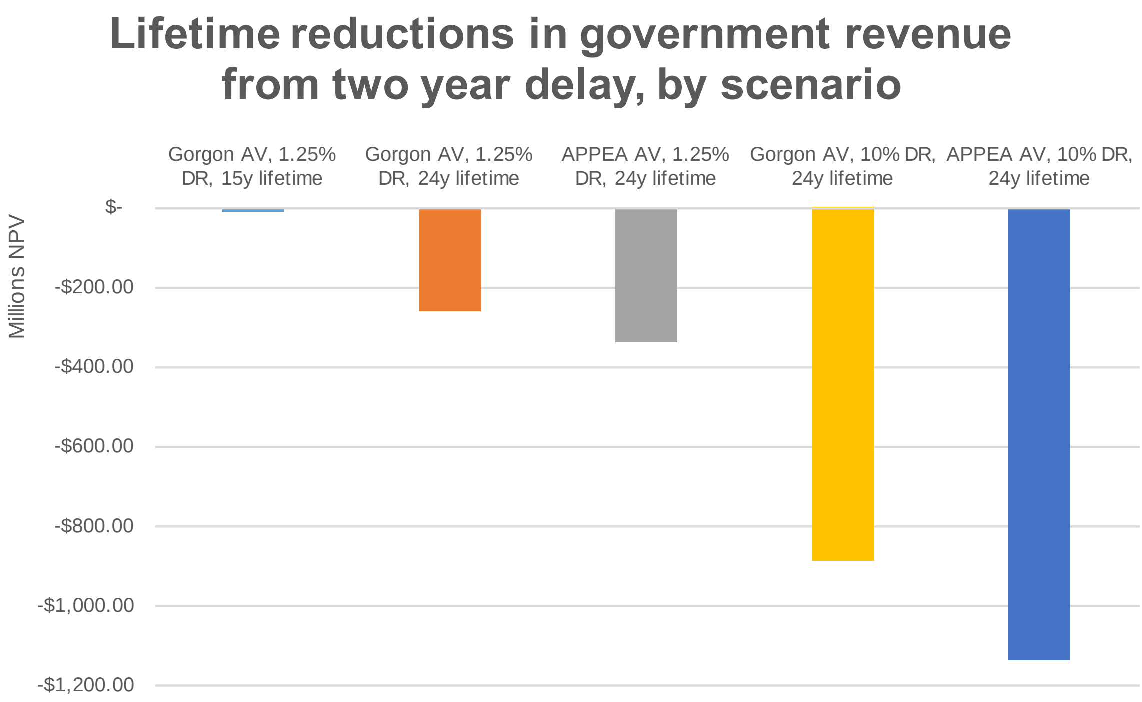
Source: TAI calculations, available on request

There is no single appropriate discount rate to use in such an assessment - it is a subjective choice that analysts must make. The point here is to demonstrate that APPEA's estimate is highly sensitive to the discount rate and the rate they use seems very high for evaluating changes in government revenue.

Possibly the biggest deception of the APPEA estimate, however, is the size of the hypothetical project they examine. While the hypothetical project's exact size and life time is not disclosed, for a present value delay to revenues to equal almost $1.3 billion, the size of the project must be enormous. All together, the Commonwealth revenue net present value of the hypothetical project would have to be larger than those of Australia's largest LNG project, the Gorgon project. Gorgon estimates their total commonwealth payments at $17 billion (real) with a present value of $7 billion at a 5 per cent discount rate.[5]

APPEA's figures of the value of delay are highly sensitive to the assumed size of the project and the discount rate. In the chart below, we estimate the value of delay to our inferred APPEA hypothetical project and to Gorgon, based on the Gorgon EIS figures:

[5] https://www.chevronaustralia.com/docs/default-source/default-document-library/chapter_15_economic_environment_effects_and_benefits.pdf?sfvrsn=0



Source: TAI calculations, available on request.

Other criticisms of this figure include:

- It is assumed that all the delay is attributable to government and that no other factors affect the delay.
- No value is attributed to the assessment process

Minerals Council of Australia (MCA)

Report title: *The economic gains from streamlining the process of resource projects approval*

Authors: BAEconomics

Date: July 2014

Key points:

- Ignores financial feasibility of expansions – claims economic gains from projects that seem unlikely to be financially viable.
- Ignores changes in prices – both those that have occurred since publication, i.e. iron ore price, and changes that would likely occur to iron ore and coal prices should all projects proceed.
- Most benefits accrue to foreign owners, not Australian community – this is disguised by focus on change in GDP and not Net National Income.
- Jobs claims not supported by empirical data.

Summary of paper

BAEconomics compare economic growth under three different scenarios:

- a reasonable baseline of growth in the Australian economy
- a scenario where mining approvals are reduced by one year
- a scenario where mining approvals are reduced by two years

They take their difference between the baseline and the two scenarios as the economic gains of speeding up approvals. They use their own (CGE) economic model to estimate the impact of approval changes on GDP and employment:

- $32-$51 billion difference in GDP in 2025
- 69,000 to 108,000 jobs in 2025

Key inputs into their model are the timeline of when minerals projects are expected to proceed under the baseline and modelled scenarios. All scenarios draw on the Bureau of Resource and Energy Economics (BREE) project lists and forecasts from April 2014 and modelled overseas demand further into the future. Unfortunately many important calculations and assumptions are not disclosed in the report.

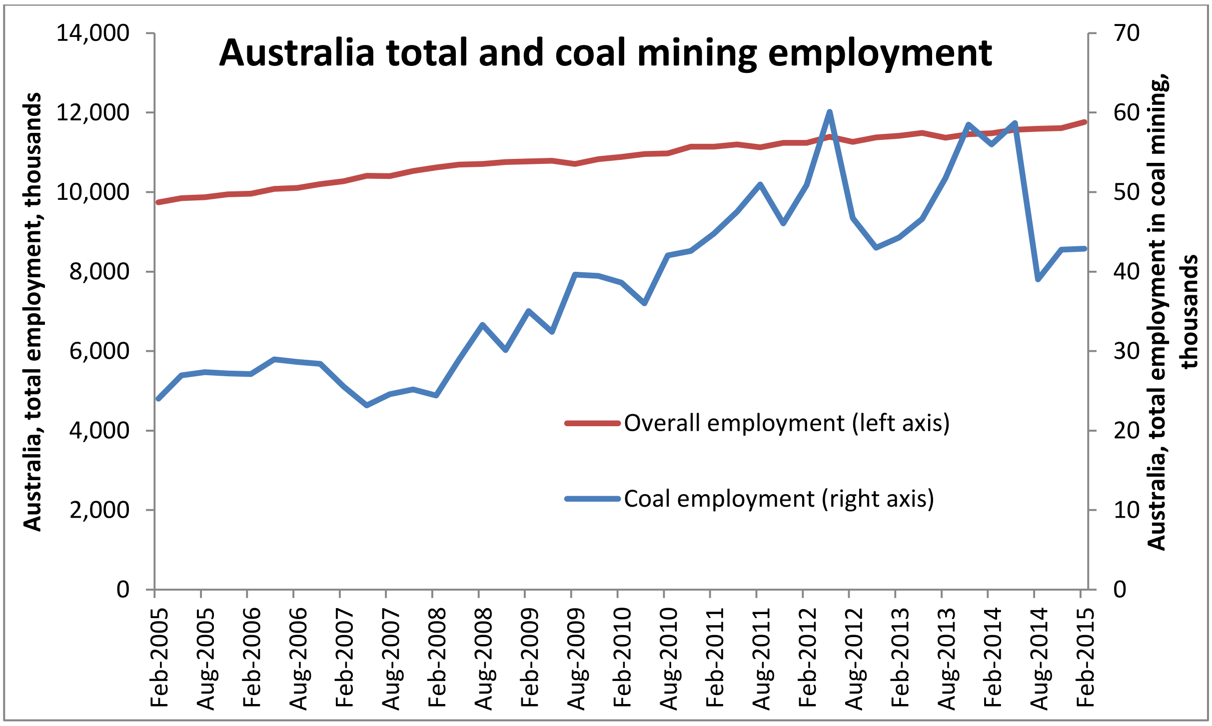
Key criticisms:

- Ignores whether projects are actually financially viable. While the exact modelled assumptions are unclear, export volumes to 2018 are taken from a BREE publication which assumes Galilee Basin coal projects will begin exporting before 2018. This includes projects like Bandanna Energy's South Galilee Project – now under voluntary administration since Sept 2014 – and the Adani Carmichael project, which the International Energy Agency does not think will proceed:

> *Adani's Carmichael Coal project (60 Mtpa) is currently undergoing the environmental impact screening process. Given the huge investment costs,*

current low coal prices and oversupply of the seaborne market, these projects are unlikely to actualise during the outlook period. (International Energy Agency, 2014, *Coal Information*, Part II, page 30)

- Ignores impact of increased exports on commodity prices. Australia is a major supplier of some markets like Chinese iron ore and the Pacific seaborne coal trade. Increasing our exports can reduce market prices. The BAEconomics study is based on BREE forecasts of iron ore prices of US$87/t. Current prices are under $55/t, with many expecting more falls. The point is not just that this forecast turned out to be inaccurate, but that the modelling appears not to consider the impact that increased Australian export rates can reduce prices. This means GDP estimates are seriously overstated.
- Focus on GDP means that profits to foreign mine owners are included. Increase in Australian national income, a better measure of improvement in Australia, would be much lower.
- Jobs estimates:
    - No estimate provided of actual jobs in the mining industry
    - Instead, the authors write “Most of the jobs created are outside the minerals mining sector.” However, there is no empirical evidence to suggest that mining projects actually lead to any significant net increase in employment, through “indirect” or “flow-on” jobs, as shown in the chart below:



Source: 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 06. Employed persons by Industry Subdivision and Sex

If mining projects really did drive considerable downstream employment, then we would expect to see Australia’s total employment deviate from trend when industries like coal mining sharply increase or decrease their employment levels. As shown above, this does not occur. Results are similar at state level and across the mining industry.

- Jobs increases are based on the modelled increases in GDP, not on actual mining jobs. The models assumptions about labour markets are very important here. Adani's original model for the Carmichael mine estimated that project alone would create over 10,000 jobs. Adani commissioned new modelling with tighter labour market assumptions which estimated the number to be 1,464.[6]
- The BAEconomics model seems to assume a very optimistic labour assumption that half of all workers come from unemployment or from outside the labour force, see page 19. This assumption seems to be closer to the Adani 10,000 jobs assumption than Adani's later 1,464 assumption. Even if no other modelling assumption was violated, changing the labour market assumption to something more realistic would reduce employment impacts to a fraction of the claimed level.

- Global demand forecasts do not seem to consider the changing nature of Chinese production, or other countries. While the Chinese GDP growth rates seem reasonable, there is no discussion of whether this incorporates recent changes in the energy intensity of Chinese production and forecast changes. This will result in substantial changes to world demand for Australian commodities.
- Assumes that mining projects are environmentally and socially costless. Does not consider that the planning process adds any value from the community's perspective, or protects environmental or social assets of any value.
- Assumes that other industries are not affected by any of the proposed mining projects. This is clearly not the case with many on the BREE source list:
  - New Acland – on Darling Downs, intensive agricultural region in SE Queensland
  - Watermark – on Liverpool Plains, intensive agricultural region in Northern NSW
  - Wallarah – underneath Sydney drinking water catchment
  - Russel Vale - underneath Sydney drinking water catchment

  Any impact on these industries would not be considered in this model.
- Assumes that approvals are the only source of delay. In reality, project preparations continue while government assessments are occurring. Financing and other feasibility issues often prevent projects from starting until years after approval, if at all. For example the Glencore Wandoan mine and the Cobbora Coal project in NSW.

[6] http://www.theguardian.com/australia-news/2015/apr/27/adani-coalmine-would-not-deliver-jobs-and-royalties-promised-land-court-hears

Business Council of Australia (BCA)

Report title: *Securing investment in Australia's future: Report of the project costs task force*

Authors: BCA internal, draws on commissioned studies from Deloitte Access Economics

Date: August 2013

Key points:

- Not focused on EPBC act and productivity claims not directly linked to it.
- Compares Australian productivity to a construction industry with far lower safety standards – Australian construction is four times safer than the BCA's example of the USA Gulf Coast.
- Claims of construction cost overruns due to union wage increases not supported – these increases made a difference of 0.1 per cent of total costs**.**

Summary of paper

Not especially focused on environmental regulation, rather increasing project costs in general, including in relation to:

- Scarcity of skilled labour
- Poor project scheduling from proponents
- Government approval timeframes generally
- Workplace relations

The key message of the paper is that costs are high and productivity growth inadequate:

> *Australia's productivity performance is significantly worse than in the US Gulf Coast. Research commissioned by the BCA finds that labour productivity on resources projects is up to 35 per cent less than in the US Gulf Coast. (*page 12)

Key criticisms:

Labour productivity is a ratio of unit of outputs created per unit of inputs. In this instance, the inputs can be considered either hours of labour provided, value of labour provided, or some combination of the two. The claim that Australia's labour productivity for resource projects suffers in comparison to the US Gulf Coast, then, is a claim that Australia's resource industry is receiving less output by value per input than its counterparts in the south east USA.

- The claims here have little to do with environmental regulation.
- The document the BCA bases much of this claim on was produced more than 10 years ago, before the Global Financial Crisis. Much of the cost difference can be explained simply with the appreciation of the Australian dollar. This makes purchasing local inputs more expensive and imports cheaper. Because of restrictions on the importation of labour in Australia, demand for Australia's labour is relatively inelastic.

The BCA attributes the differences between Australia and the US Gulf Coast to a range of factors:

- unionised workforces,
- costly regulation, and
- unusual demand for labour.

We examine each of these claims individually below.

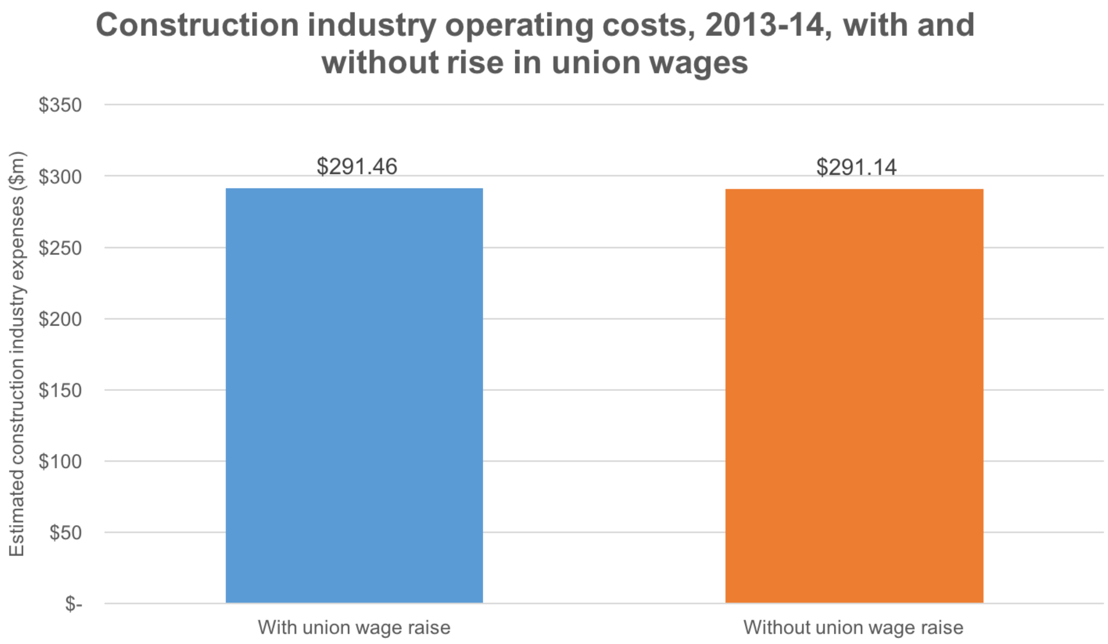
Unionised workforces

The BCA claims:

> *Australian construction wages under enterprise bargaining agreements (EBAs) are increasing at 4−5 per cent per year, compared to 1.5 per cent and 3 per cent in the US and UK respectively.*

Unionised construction workers make up less than 16 per cent of the Australian construction industry's total labour force.[7] Small changes in that minority's wage rate have negligible impacts on total profitability. In 2013-14, unionised workers did receive a larger pay rise than non-unionised workers. Nonetheless, the difference was minor, and the proportion of unionised workers in the construction sector serve to further deflate the impact of this wage increase.

The union wage increase in 2013-14 contributed merely 0.1 per cent of the industry's total costs, according to calculations from The Australia Institute. To conflate the industry's weak performance with this change in cost can only be construed as a political argument, rather than an economic one.



Source: ABS 6310.0 - Employee Earnings, Benefits and Trade Union Membership, Australia, August 2013. Calculations available on request.

Costly regulation

[7] http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6310.0August%202013?OpenDocument

The BCA points to the Gulf Coast of Texas, in the United States, as evidence for how productivity in Australia can be improved. It suggests that Australia is an expensive investment option for mobile capital and welfare would be improved if regulatory burdens were reduced.

Although the BCA relies on the US Gulf Coast as a baseline to unfavourably contrast Australia's construction costs, there is much evidence that such a baseline is not worthwhile for analysis.

The Gulf Coast relies on a transient, low-cost workforce of temporary immigrants with little legal or industrial protections. Nearly half of the industry's workforce are undocumented workers.

The industry's costs are artificially depressed by an internationally low level of safety measures. A 2013 report from the University of Texas found one in every five Texas construction workers will be hospitalised due to injuries arising from on-site accidents. Indeed, in Australia, construction industry fatalities were 3.9 per 100,000 workers in 2010. The Australian construction industry is four times safer than the one the BCA and its consultant compares us to and more than twice as safe as the whole US construction industry.

Declining productivity in the resource sector is not an exclusively Australian phenomenon. Around the world, projects in any number of jurisdictions with different labour markets, different regulatory regimes, and different tax schedules, are all facing writedowns. A May 2014 report by KPMG found 10 out of 12 worldwide LNG projects under construction were either behind schedule or exceeding preliminary budgets by as much as 50%.

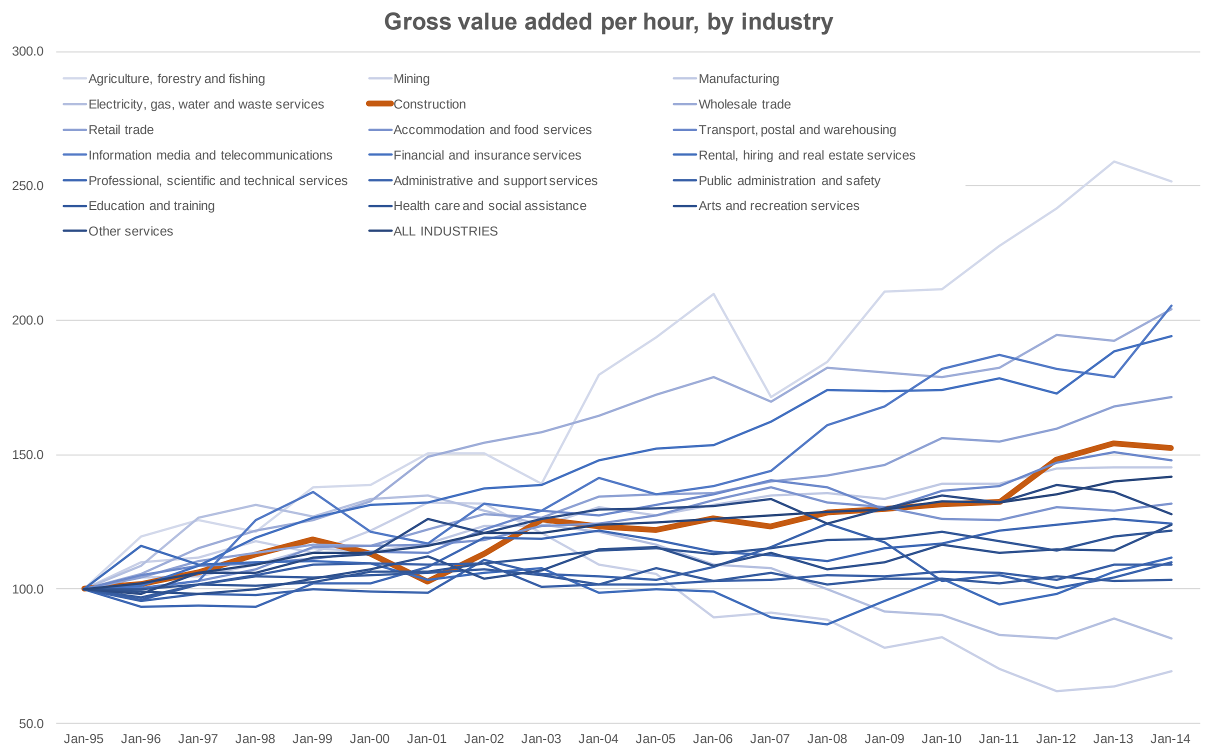
Low availability for labour

The BCA points to the need for a rapid increase in 457 visas granted. It argues major projects are competing with each for an insufficient pool of skilled labour, inflating the costs of a select few and lowering exporter's competitiveness on international commodity markets. It wants to be able to import skilled migrants in greater numbers, to increase the availability of short-term labour and to reduce cost pressures arising from wages.

Before continuing, it is worth noting what it is the BCA is actually demanding: to pay Australian workers less.

The argument is not that this is desired, but that more Australians will be employed because project costs will be reduced enough to incentivise more large companies to invest in Australia.

Construction's labour force continues to enjoy productivity gains, and is not dragging behind the rest of the economy, as some may interpret from the tenor of the public conversation. As depicted below, construction's productivity has improved more than 50 per cent in the last 20 years, more than most of Australia's other sectors.



Source: ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2014.

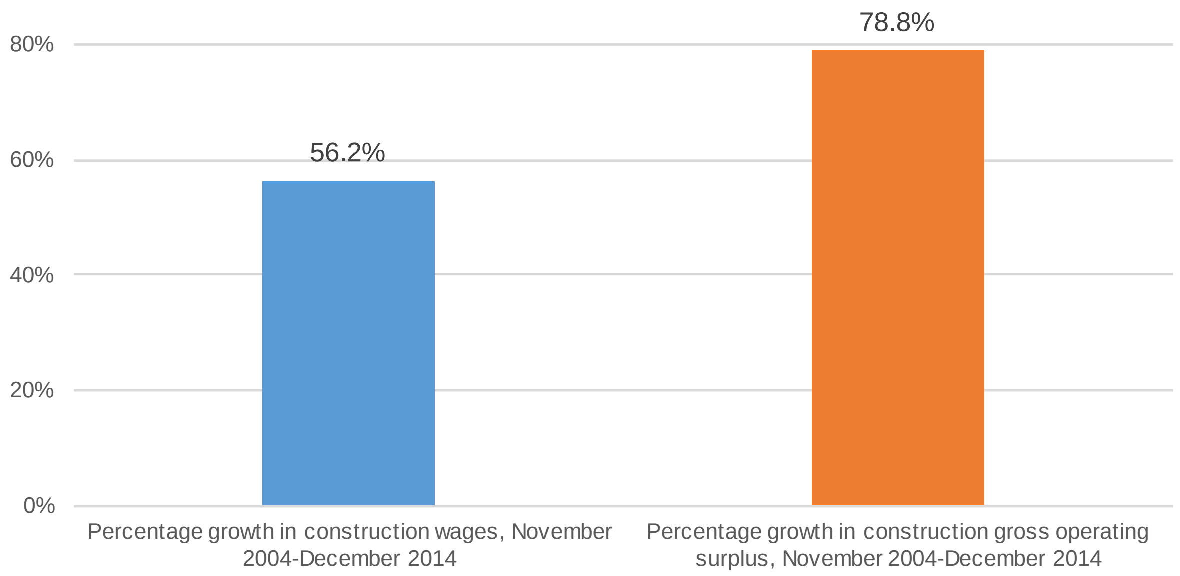
Productivity is important because if firms employing labour are seeing diminishing returns on their investment, it indicates that the employment of these resources is becoming a less-attractive prospect, and firms will seek to utilise other resources that promise greater returns.

The positive productivity result for construction indicates that, despite rising wages, employers continue to receive a benefit from employing additional units of labour.

Wages have grown in the construction sector, due in no small part to the mining boom. Construction wages grew slower than the all-industry average between November 1994 and November 2004, then grew faster than average in the ten years following.

This outcome is what has triggered the BCA to call for a policy response to cool rising wages. However, although wage growth has indeed occurred, it is not the problem the group is making it to be. Indeed, profitability within the construction sector has increased dramatically during this period, outstripping rising labour costs by some distance.

Comparison of growth in construction sector wages to gross operating surplus



Source: ABS 5676.0 - Business Indicators, Australia, Dec 2014. Calculations available on request.

Property Council of Australia

Report title: *Major Project Development Assessment Processes: Submission to the Productivity Commission*

Authors: Property Council internal

Date: October 2013

Key points:

- Claimed numbers of referrals three times higher than those reported by the Commonwealth.
- EPBC referrals represent 0.12 per cent of residential apartment development and less than one per cent of any type of commercial development.
- Less than one per cent of EPBC referrals are rejected
- EPBC impacts on property development in Australia are completely trivial.

Summary of paper

Submission to Productivity Commission relating to project approvals more widely, but with a two-page section on weakening the EPBC act, with key quote:

> *As noted above, the property industry is among the hardest hit by this ongoing policy failing. With over 200 residential and over 100 commercial property developments being referred to the Commonwealth in the last 12 months – construction costs and delays could be directly reduced through the implementation of assessment and approval bilaterals.*

Criticisms:

The claimed numbers of referrals under the EPBC act is not consistent with the number reported by the Commonwealth Department of the Environment. The Department's 2012-13 annual report says that it received only 64 referrals for residential development and 33 for commercial development. Of these, only 13 residential and 11 commercial developments required approval.[8] These numbers are typical when compared with other annual reports.

Even if the claimed referrals were correct it is hard to understand the claim that the property industry is "hard hit" by the EPBC act:

- 200 residential developments would be 0.31 per cent of the total for all building approvals for 'flats, units or apartments in a block' based on ABS figures up to February 2015.[9]
- Similarly 100 commercial property developments is just 0.12 per cent of all non-residential building jobs valued at $50,000 and over, or 0.84 per cent of all non-residential building jobs valued at $1 million or more.

[8] http://www.environment.gov.au/system/files/resources/63db8a54-bfcb-429e-93b4-e5efe21a356e/files/dsewpac-annual-report-12-13new.pdf See page 247.
[9] http://www.abs.gov.au/ausstats/abs@.nsf/mf/8731.0

Urban Development Institute of Australia (UDIA)

Report title: *UDIA Submission to the Senate Inquiry into the EPBC Bilateral Agreement Implementation and Cost Recovery Bills*

Authors: UDIA internal

Date: June 2014

Key points:

- Less than one per cent of all property developments are referred to the Commonwealth as discussed above.
- Using UDIA's own example it seems referral would increase the cost of building a house by around one per cent.

Summary of paper

Submission on amendments to the EPBC act involving Commonwealth-State bilateral agreements (one-stop shops) and opposing cost recovery charges from EPBC referrals.

Key quote: *The Urban Development Institute of Australia points out that the One-Stop Shop will considerably reduce costs and improve certainty for the development industry, supporting jobs, economic growth and new housing supply*

Criticisms:
UDIA represents urban property developers. The number of EPBC referrals that urban developers face is likely to be still lower than those discussed above by the Property Council – a small fraction of one per cent of building approvals.

As only a fraction of property development is impacted by the EPBC act, it is hard to see how any streamlining would "considerably reduce costs for the development industry".

Still more unlikely is the claim that changes to the EPBC act would support "jobs, economic growth and new housing supply." Even if a property development was rejected on EPBC grounds, it is highly likely the developer would develop a similar sized project somewhere else in Australia, rather than stuff their money in a mattress, as this quote assumes.

Even UDIA's claims on costs are exaggerated. They claim EPBC referral costs result in increased building costs of $83,954, based on Commonwealth estimates. In fact, the latest Commonwealth estimates for residential referrals range between $29,000 and $67,000.[10]

These costs are usually for estate developments of around 15 houses, as UDIA points out. UDIA says this could result in an increase of $5,596 per house. The average cost of building a house according to the ABS is $236,000, not including land costs.[11] UDIA's per house cost means this would result in an increase in costs of two per cent. Using the Commonwealth Department's upper estimate on a similar development, plus $100,000 for land, means EPBC referral would increase the cost of a house by 1.3 per cent.

[10] http://www.environment.gov.au/system/files/resources/beb865e6-ebe7-44fa-bc66-7e4c7572771c/files/final-cost-recovery-cris.pdf

[11] http://www.abs.gov.au/ausstats/abs@.nsf/featurearticlesbytitle/2609898B87F95519CA25792D000E2DF5?OpenDocument Although the most recent general estimate available, this source is from 2008 and prices likely to have increased considerably since.

National Farmers Federation (NFF)

Report title: Media release: *Farmers encourage Senate to pass 'one-stop shop' environmental laws*

Authors: NFF internal

Date: September 2014

Key points:

- Only six agricultural projects have been referred to the Commonwealth in the last year. Two the year before and five the year before that.
- The NFF seems not to support one-stop shops when it comes to the water trigger.

Summary of paper

Short media release claiming:

> *The Government's proposed amendments to the EPBC Act will streamline environmental approvals by establishing a 'one-stop shop' in each state and territory. The one-stop shops will reduce red tape for farmers, and the NFF welcomes this reform.*

Criticisms:

The NFF provides no evidence to support their statement. Agricultural projects are rarely referred to the Commonwealth under the EPBC act as shown in the table below.

Agricultural referrals under the EPBC act by year

Year	Agricultural referrals	Total referrals	Source
2013-14	6	304	Department of Environment Annual Report, p210.
2012-13	2	439	Department of Environment Annual Report, p247.
2011-12	5	412	Department of Environment Annual Report, p280

Agricultural projects represent only a handful of projects referred under the EPBC act every year. This is confirmed by other farm lobby groups, such as the Western Australian Farmers Federation:

> *The agricultural sector refers very few actions for approval and is under represented as a sector in considerations of impacts from the EPBC Act process.*[12]

[12] http://www.wafarmers.org.au/every-farmer-needs-know-environment-protection-biodiversity-conservation-act/

It is worth noting that the NFF are far less supportive of ‘one-stop shop’ plans when it comes to parts of the EPBC act that they support, ie the “water trigger”. The NFF say:

> *NFF and its members are seeking that the government puts the appropriate safeguards in place to provide farmers with the assurance that the Commonwealth’s water trigger standards will be upheld by the States. Our view is that, unlike other Matters of National Environmental Significance, Commonwealth approval of the “water trigger” matter of national environmental significance is in its infancy and as such assurances in addition to the general assurance framework on these matters is warranted.*[13]

[13] www.nff.org.au/get/submissions/4577.pdf

Commonwealth Department of the Environment

Report title: *Regulatory cost savings under the one-stop shop for environmental approvals*

Authors: Department of the Environment

Date: September 2014

Key points:

- Seriously deficient methodology
- Ignores that many projects in its analysis are financially unviable
- Ignores that many projects in its analysis have social and environmental impacts that outweigh their financial benefits.

Summary of paper

Estimates of cost savings under a “one-stop shop” for environmental approvals, based on administration savings and costs of delay. The main cost is the cost of delay, estimated at $417 million per year. This is the estimated change in the net present value of projects as a result of being referred to the Commonwealth for approval under the EPBC act.

Criticism

This paper has many major methodological shortcomings from an economic perspective. Limiting ourselves to the most serious:

- The values are based on:

  > *[Each] project’s estimated net present value which was obtained from publicly available sources. In some cases net present value is published by proponents. Otherwise, this has been estimated based on data and/or assumptions about capital expenditure, expected returns and project life (including construction time).*

  Calculating the net present value of major projects is a major exercise and one which involves many subjective judgements. It is inconceivable that the Department could have made thorough assessments from publically available information without consultation with companies and specialist analysts. The Department states that it consulted only with the Office of Best Practice Regulation and industry lobby groups.

- Proponent’s published estimates of project net present value (NPV) are notoriously unreliable. For example, proponents of the Cobbora Coal Project estimated an NPV for their project of around $2 billion, while the NSW Treasury estimated it would lose $1 billion.[14]

- NPV estimates vary hugely with changes in commodity prices. For example, the Department considers that Commonwealth approval of the Santos GLNG project

[14] http://tai.org.au/content/submission-cobbora-coal-project

have reduced its NPV by $138 million. Yet recent declines in the oil price have led to a major bank describing the project as “worthless”, with negative net present value.[15]

- Although the Department has valued these projects with positive NPV, many of them have not proceeded even after gaining approval – i.e. they are not financially viable. Projects included in the Department’s analysis that have not proceeded, have been mothballed, or are very unlikely to be financially viable include:

    - Wandoan Coal Project
    - Eagle Downs Coal Mine
    - Oakajee Port project
    - Wiluna Uranium Project
    - Roper Bar iron ore mine
    - Alpha Coal Project
    - Cloudbreak iron ore expansion

- A crucial consideration in estimating NPV of a major project is working out NPV to whom? While some of these projects may be profitable to developers, their environmental and social impacts may mean their economic value is negative. This was the conclusion of the NSW Land and Environment Court in relation to the Warkworth Mine Extension, included in the Department’s analysis. Other projects in the Department’s analysis with likely negative NPVs to the Australian community include:
    - Gloucester CSG
    - Boggabri Coal
    - Tarrawonga Coal
    - Maules Creek Coal

  These projects all have serious impacts on threatened species and ecosystems and rural communities. Such impacts have economic value that is not considered in the Department’s report.

Conclusion

The documents reviewed here are either based on misleading economic assessment, or include unsubstantiated claims about the costs of the EPBC act in its current form. Unsurprisingly, all analysis is skewed to represent the interests of the lobby groups’ members rather than the public interest.

The EPBC act has not limited economic development in Australia and few projects have been rejected under it. Changes to the act should be based on objective assessment of the public interest rather than low-quality economic assessment.

[15] http://www.abc.net.au/news/2015-01-07/santos-shares-worthless-at-current-oil-prices/6004398