



MINERALS COUNCIL OF AUSTRALIA
SUBMISSION TO THE SENATE ENVIRONMENT AND
COMMUNICATIONS LEGISLATION COMMITTEE
INQUIRY INTO THE GALILEE BASIN (COAL
PROHIBITION) BILL 2018

21 DECEMBER 2018

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1. EXECUTIVE SUMMARY

The Minerals Council of Australia welcomes the opportunity to make a submission to the Senate Communications and Environment Legislation Committee Inquiry into the Galilee Basin (Coal Prohibition) Bill 2018.

The Bill proposes to prohibit thermal coal mining in the Galilee Basin in Queensland. The MCA recommends that the Committee does not support the passage of the Bill based on three key points.

Firstly, the proposed Bill will not affect thermal coal demand as forecasts clearly suggest that growth remains strong in Asia. Other coal producers will fill any market gap that Australia does not supply, and limiting the supply of coal from the Galilee Basin could inflate market prices and deny millions of people from accessing reliable and affordable energy. Additionally, meeting demand from other producers may actually result in reduced environmental outcomes as coal consumers are unable to access high quality Australian coal.

Secondly, the proposed Bill would have a significantly negative economic impact on the local community and Queensland through the opportunity cost of thousands of jobs and multi-billion dollar direct investment.

Finally, the Bill would create significant regulatory uncertainty and sovereign risk. The Bill undermines the thorough approvals process at the state and Commonwealth level that major mining projects must adhere to. Additionally a blanket ban of mining in a region of Australia will have a significantly negative impact of investors' sentiment in Australia's broader resources sector. In this context, the constitutionality of the Bill needs to be carefully considered, especially in relation to Section 99 of the Australian Constitution where 'The Commonwealth shall not, by any law or regulation of trade, commerce, or revenue, give preference to one State or any part thereof over another State or any part thereof'. In effect this Bill discriminates against Queensland and its regional communities and could cause undue economic harm to Queensland.

Overall, the Bill is part of the current anti-coal campaign which seeks to outlaw coal without respect or consideration of the impact on access to affordable, reliable energy for millions of people in Australia and around the world, as well as the thousands of workers in Australia's mining industry and those that depend on them. The Bill is effectively a political statement and is not a constructive effort to develop policy and legislation to contribute to the sustainable resource management of Australian coal.

2. THERMAL COAL DEMAND IN ASIA

The Galilee Basin coal projects target export markets in Asia where demand for thermal coal remains strong for the foreseeable future.

Importantly, the IEA's flagship annual report, the World Energy Outlook assessed in 2018 that coal will remain the single largest source of electricity through to 2040 under both the current and new policies scenarios.¹

Strong electricity demand is driven by a combination of factors including significant population growth across most Asian regions, industrialisation and urbanisation and a move in policy direction away from nuclear power in Japan, South Korea and Taiwan.

As highlighted in the WEO 'many developing economies view coal as important to their economic development because of its ready availability and relatively low cost. India and Southeast Asia are the growth centres for coal use'.² In this context, Australian thermal coal is highly sought as it is generally of a higher calorific value than domestically available coal.

In the IEA's New Policies Scenario, demand for coal in India and Southeast Asia more than doubles in both regions in the forecast period (2017-2040).³ The growth in these regions offsets the flattening in demand outside of Asia and presents significant opportunities for Australian coal given the proximity to these growth markets. The IEA's five year outlook on coal, Coal 2018, highlights the foundations of this long-term growth in the next five years. Between 2018 and 2023, the IEA forecasts coal power generation growth in India of 17 per cent and Southeast Asia of 26 percent.⁴

The deployment of new, higher efficiency, lower emission coal-fired power stations drive the growth in demand in these regions and Asia more broadly. For example, according to Platts⁵, 150.4 Gigawatts of super-critical and ultra-supercritical coal-fired power is being constructed in Asia to meet new demand. This technology will have an operational life of approximately 40 years. This regional construction is approximately three times the capacity of the entire National Electricity Market.

It is important to acknowledge the significant role that Australian coal has had to date in the development of Asia and the strategic opportunity that it continues to provide Australia. Australian coal has powered the industrialisation of Japan, Korea and China. In doing so it has directly contributed to hundreds of millions of people being lifted out of poverty and improving the living standards for many more. In China alone, coal has lifted more the 600 million people out of poverty over the past 30 years. Australia has built strong bilateral relationships with these nations which have provided strategic benefits outside of direct trade. Suggesting that Galilee thermal coal should be banned not only flies in the face of IEA projections for Asia, it also pushes billions of people across Asia to rely on lower quality coal or energy poverty.

Commodity Insights, in a report prepared for the MCA in June 2018, shares the view of the IEA.⁶ The report found that Asian thermal coal import demand is expected to grow over 400Mt, from 740Mt in 2017 to 1147Mt in 2030. Notably, the demand is not just reliant on the established markets of China, South Korea and Japan but emerging markets in India and Southeast Asia. The report's other main points include:

¹ International Energy Agency, *World Energy Outlook 2018*, Paris, 2018, p 44

² *Ibid.*, p 215.

³ *Ibid.*, p. 220.

⁴ International Energy Agency, *Coal 2018, Analysis and Forecasts to 2023*, IEA, viewed 19 December 2018 <<https://www.iea.org/coal2018/>>

⁵ Platts Electric Power Database 2018

⁶ Commodity Insights, *Market Demand Study: Australian Export Thermal Coal*, Minerals Council of Australia, viewed 17 December 2018 <

<http://www.minerals.org.au/sites/default/files/180615%20MCA%20Thermal%20Coal%20Outlook%20Study.pdf>> pp. 4, 5, 9.

- Imports by India will increase, yet forecast domestic production will not be able to keep pace with demand growth, especially for coal-fired power plants built away from the domestic production centres
- An increase in coal's share in the power generation mix in large parts of Southeast Asia will help countries diversify beyond gas and hydro power
- Demand growth is spread evenly across the region, with all countries except Japan increasing imports across the period and growth in Chinese demand remaining relatively flat.

Australian coal is ideally placed to meet this growing demand from Asian customers for a number of reasons. Australia's thermal coal is generally higher quality than exports from other suppliers in the region. Australia has a strong reputation for supplier reliability and a stable investment environment. Australia has excellent infrastructure availability and is also close to key markets. Australian thermal coal is also in demand in the Asian market due to its compatibility with modern power plant design.

The proposed Bill will ensure that thermal coal is not extracted from the Galilee Basin. In this case, and given the strong demand for thermal coal, Asian markets will obtain thermal coal from other suppliers such as Indonesia which generally have lower grade of thermal coal than Australia. Therefore the proposed Bill may have the perverse outcome of encouraging the use of a less energy efficient and but more emissions intensive source of coal.

The MCA acknowledges that sustained global action is required to reduce the risks of human-induced climate change. The MCA also acknowledges the clear evidence that thermal coal will continue to be in high demand in Asia as nations seek to provide energy security to their people. A blanket ban on providing high quality coal to these nations from the Galilee is narrow-minded and may have the opposite effect of what the proposed Bill intends to accomplish.

3. THE ECONOMIC IMPACT OF THE GALILEE BASIN

Australia's resource industry contributes to the creation of jobs, supports local communities and businesses and provides significant royalty payments to each jurisdiction through the environmentally responsible extraction of our commodities – metals, minerals and energy. The Galilee Basin represents a major opportunity to continue the generation of wealth from sustainable resource management.

Queensland's current unemployment rate is the highest in the nation. The Galilee Basin projects deliver vastly improved job prospects in regional Queensland. The Office of the Chief Economist estimates that the Galilee projects will result in 18,275 construction jobs and, once developed, 14,533 operation jobs.⁷

The economic benefits of opening up a new basin are not limited to direct employment in the proposed mines. These projects would create indirect benefits from an increased demand for mining equipment, technology and services as well as improving the economic conditions for regional small businesses throughout Central Queensland.

Mining royalties are a significant contributor to the revenue of a number of Australian jurisdictions. Royalties from coal contributed \$5.2 billion to state budgets in 2017-18, funding hospitals, schools, and essential services like the police, firefighting and ambulances. Based on the estimates of the Office of Chief Economist, the Queensland Resources Council has estimated if only a quarter of the Galilee's total coal capacity is developed, the Queensland Government would receive approximately \$290 million per annum in royalties. This would be a significant boost to the public services throughout the entire state, not just regional communities.

Coal jobs represented \$6 billion in wages paid to Australian workers in regional areas. The coal industry directly employs 50,000 people and 120,000 related jobs predominantly in small businesses in regional areas. The Bill ignores these economic contributions and the potential benefits that the Galilee Basin could deliver to Australians.

⁷ Office of the Chief Economist), [Resources and Energy Quarterly – Major Projects Data](#), Department of Industry, Innovation and Science, Canberra December 2017

4. THE BILL CREATES REGULATORY UNCERTAINTY AND SOVERIGN RISK

Mining operations in Australia are planned and undertaken in a way that minimises impacts to the environment, including to land, biodiversity, air quality and water. The MCA regards responsible environmental management as a core part of the mining sector's social license to operate.

The Bill has not taken into consideration the current regulatory framework that mining operations in the Galilee Basin must operate within. Under the Australian Constitution, the Queensland Government owns the state's rich endowment of natural resources. The primary responsibility for regulating resource development sits with the Queensland Government and the Commonwealth Government's main role is to ensure compliance with Australia's international commitments and national legislation, such as the *Environment Protection and Biodiversity Conservation Act (1999)*. It is true that major projects, including coal mines, have a number of impacts, both positive and negative, each of different scope and duration. This is why, despite the risk of duplication and overlap that these projects are assessed and regulated by both state and Commonwealth governments.

All Queensland resource projects undergo a rigorous assessment process, the purpose of which is to ensure an appropriate balance between economic, environmental and social impacts on a community's wellbeing. This process can take years to complete, and is undertaken by credible and unbiased experts in the public service. This assessment process agrees on the scope of the issues to be assessed. A considerable weight of scientific evidence is assembled and presented as a key input into these assessment processes.

Large coal mining projects also require approval under the EPBC Act relating to water impacts. Through this process, the Commonwealth Department of the Environment and Energy must request advice from the Independent Expert Scientific Committee (IESC). As a result the Commonwealth can provide comment, request information and set conditions as part of the project approval.

The proposed Bill effectively undermines existing Queensland and Commonwealth governments' processes and procedures which are in place to ensure the responsible development of the nation's resources. This is poor legislative practice. The MCA also contends that existing provisions in the EPBC Act already allow for the minister to account for a proponent's environmental history where appropriate.

The focus of governments' efforts should be on ensuring current legislative framework is effective and efficient and not introduce measures that undermine this framework and create investor uncertainty. Ultimately this will result in poor environmental policy, increased red tape and a reduction in Australia's competitiveness.

It is unclear whether the development of the Bill satisfies any of the above Council of Australian Governments' requirements for good regulation as the explanatory memorandum fails to address these principles.

The COAG principles of good regulation should be used to guide the development and implementation of new regulation. The MCA is concerned that many of these principles have not been given consideration in the development of the Bill which stress:

- Establishing a case for action before addressing a problem
- Considering a range of feasible policy options
- Consulting effectively with key stakeholders
- Consistency and proportionality.⁸

Should the Bill be passed, it would set a poor precedent and raise significant sovereign risk concerns for companies considering investing in Australia's resources sector. The potential impacts of sovereign risk to the broader economy must also be carefully considered.

⁸ Council of Australian Governments, [Best practice regulation – A guide for ministerial councils and national standard setting bodies](#), Department of Prime Minister and Cabinet, October 2007

The constitutionality of the Bill needs to be carefully considered, especially in relation to Section 99 of the Australian Constitution where 'The Commonwealth shall not, by any law or regulation of trade, commerce, or revenue, give preference to one State or any part thereof over another State or any part thereof'.⁹ In effect the Bill discriminates against Queensland and its regional communities which can cause undue economic harm to Queensland. Similarly, the Bill targets a small number of companies as part of a political strategy. This approach could be considered prejudiced in much the same manner as the discriminatory nature of the Environment and Infrastructure Legislation Amendment (Stop Adani) Bill 2017.

⁹ *Commonwealth of Australia Constitution Act 1900 s 99.*

5. CONCLUDING REMARKS

For the reasons outlined above, the MCA does not support the Bill. The MCA would welcome the opportunity to elaborate on any of the points made in this submission and for the opportunity to appear before the committee to give evidence. The MCA can confirm that the submission is not confidential and the committee is welcome to publish it on the Parliamentary website.