



Gillespie Economics

Environmental and Resource Economics: Environmental Planning and Assessment

Mr Patrick Hodder
Committee Secretary
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Canberra ACT 2600

Mr Hodder

Senate Finance and Public Administration Reference Committee: Invitation to respond to adverse comment

Thank you for the opportunity to respond to The Australia Institutes (TAI's) supplementary submission in relation to the abovementioned Reference Committee.

TAI's supplementary submission includes an attack on Gillespie Economics in relation to consulting services that I have provided in the jurisdiction of NSW. In this respect, TAI makes accusations of "favour" and "conflict of interest".

However, the only "evidence" offered seems to be that almost every economic assessment of coal mining projects undertaken by Gillespie Economics or other economic consultants, disagrees with TAI, an organisation that has been clear in its opposition to coal mining. Therefore, I strongly reject all the accusations levelled at Gillespie Economics by TAI.

My detailed response to the issues raised by TAI is provided in Attachment 1.

Regards

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Attachment 1 – Response to TAI’s Submission

Introduction

A brief bio paragraph is provided in Attachment 1. To summarise, I have extensive qualifications and experience in cost benefit analysis (CBA) and the valuation of environmental impacts spanning 30 plus years. My PhD is in CBA of coal mining projects in NSW and the valuation of environmental, cultural, and social impacts of these projects. As the Principal of Gillespie Economics, I have undertaken numerous CBAs of mining projects and other non-mining projects in Australia for government, private sector, and not-for-profit organisations.

Incentive to Provide Favourable Assessments

Issue: TAI considers that because Gillespie Economics undertook a number Economic Assessments of coal mining projects between 2008-2013, it had a strong incentive to provide favourable economic assessments for coal company clients.

Response: No evidence of this incentive is provided. Economic Assessments that show such projects to have net benefits (using the CBA framework) is not evidence of “favour” or conflict of interest. Indeed, it is no real surprise that mining projects that proceed through the planning process have net economic benefits. These projects involve hundreds of millions of dollars of investment, including hundreds of thousands of dollars if not millions to progress an application through the planning system. Applications for mining approval do not eventuate unless they are assessed by investors as financially viable (after allowance for payment of royalties) and have as few environmental impacts as possible. Mining projects provide royalty, company tax, and net profits (if the project is partly Australian owned) benefits to Australia and NSW. Royalties from a single project alone can be worth hundreds of millions of dollars.

Against these benefits of mining projects must be weighed residual environmental, social, and cultural **after** mitigated, offset, or compensation. The NSW planning system is designed to, as far as possible, internalise environmental, social, and cultural costs of projects into the capital and operating costs of mining projects. For instance: biodiversity impacts need to be offset via provision of physical offsets, purchase of credits or payment into a offsets fund; air quality and noise impacts on adjoining properties need to be paid for by compulsory purchase of badly impacted properties or payment for mitigation measures such as double glazing; impacts on road safety require payment for intersection upgrades while road pavement damage require payments to Councils for pavement maintenance and repairs; impacts on groundwater or surface water must be paid for via purchase of appropriate level of water access licences etc.

Consequently, most of the potentially adverse impacts of mining projects are mitigated, offset, or compensated for (as a requirement of environmental planning legislation) and included in the proponent’s assessment of financial viability, and the calculation of the royalty, company tax, and net profit benefits of the Project. Those impacts that are not internalised, tend to be minor or at least have a value that is considerably less than the value of the benefits. In CBA, as long the benefits outweigh the costs, a project is considered to have net benefits and so is justified from an economic efficiency perspective.

Many of the Gillespie Economics assessments of mining projects have been peer reviewed, as part of the preparation of the economic assessment, and/or as part of the NSW governments approval process, with none that I recall disagreeing with the conclusion of overall net benefits.

Numerous consultants other than Gillespie Economics have also undertaken assessments of coal mining projects. These include, but are not limited to:

- BAEconomics – Economic Impact Assessment of Warkworth Continuation 2014 and Mount Thorley Operations 2014, Economic Impact Assessment of the Hume Coal Project.
- GHD Pty Ltd – Carmichael Coal Mine and Rail Project: Economic Assessment.
- AIGIS Group – Angus Place Colliery Extension Project.
- Deloitte Access Economics - Economic and social impacts of the Warkworth Extension Project, Cost Benefit Analysis and Economic Impact Analysis fo the Wilpinjong Extension Project.
- Cadence – Economic Impact Assessment of Invincible Southern Extension Project, Economic Impact Assessment – Integra Underground Mine.
- Economic Consulting Services – BCM Optimisation Project: Economic Impacts
- Ernst Young – Economic Impact Assessment of the Hunter Valley Operations continuation project

All these assessments found that there were net benefits of the projects. Most of these were also independently peer reviewed by experts commissioned by NSW Planning. While there is always debate around some of the technical aspects of CBA, no peer review that I am aware of has concluded that a coal mining project would have net costs to the community.

The outlier in terms of “economic assessments” of coal mining projects is TAI – which rather than being an “independent” evaluator has a stated goal of a moratorium on all coal mining and is therefore biased.

Conflict of Interest Between the Public and Private-Sector Clients

Issue: TAI considers there to have been a conflict of interest between the public and private-sector clients of a single consulting firm because Gillespie Economics undertook consulting projects for mining companies, and these were “accepted at face value by NSW Planning”.

Response: Firstly, no evidence was provided by TAI that assessments reports prepared by Gillespie Economics were accepted at face value by NSW Planning. As a consultant who prepares Economic Assessments of mining and other projects, my contribution ceases after the preparation of the Economic Assessment (and more recently after preparing responses to submissions). I have never had a single meeting or interaction with NSW Planning after preparation of an Economic Assessment, so deny that any conflict of interest has ever existed.

TAI’s Critique of Economic Assessments

Issue: TAI states that it has “critiqued many Gillespie Economics assessments during that period and found that, without exception, the benefits of coal mines were overstated, and their costs were understated.

Response: TAI has opposed every coal mining project (and many other mining projects) in recent, and not so recent, years. All submissions by TAI for individual projects have been responded to in detail, and without exception found by Gillespie Economics, and many other economic consultants to be spurious.

As identified above, many of the Economics Assessments undertaken by Gillespie Economics included peer reviews, as well as being subsequently peer reviewed by economists engaged by NSW Planning. None of the submissions/comments made by TAI are subject to the same level of scrutiny.

Critiques by TAI should be considered in context. TAI is far from independent. It was founded two decades ago by a former Greens Party candidate. The last two Executive Directors are also former Green’s Party staffers. TAI is a left-wing public policy think tank (see Wikipedia description). TAI is on the public record as opposing all coal mining despite the obvious benefits to Australia. TAI's views on the economic assessment of coal mining projects have been found to be at odds with the views of reputable economists and agencies including ACIL, Centre for International Economics, Deloitte, AIGIS Group,

BAEconomics (Dr Brian Fisher OA), Economic Consulting Services, Gillespie Economics, BDA Group, Professor Jeff Bennett (ANU), Professor John Rolfe (Central Queensland University), the NSW Department of Planning and Environment and NSW Treasury.

TAI's current Research Director has previously been found making incorrect statements over the estimated royalties from mining projects and had to make a public admission through the media (refer to the front page of the Newcastle Herald, 15 September 2014).

TAI has also been accused of distorting economic facts in a report where it suggested that imposing a coalmining moratorium would have a minimal impact on jobs and the economy (NSW Mining News, 9 December 2016). TAI's un peer reviewed study did not stand up to review by Cadence Economics who found that job losses from a moratorium would be between 19,200 and 38,400.

TAI's Mining the Age of Entitlement report which purported to show large amounts of government assistance to mining was reviewed by Dr Henry Ergas OA,¹ a prominent Australian economist, with the finding that "the reports claims aren't even wrong; they make no sense."

Warkworth Extension Project

Issue: TAI refers to findings in the NSW Land and Environment Court which did not support the conclusions of the Economic Assessment prepared by Gillespie Economics in relation to the proposed extension of the Warkworth coal mine.

Response: The Economic Assessment undertaken by Gillespie Economics of the Warkworth Extension Project was supported in the Director General's Environmental Assessment Report (2011), the Planning Assessment Commission's report (2012) and evidence to the Land and Environment Court (LEC) by Professor Jeff Bennett, Australian National University - Australia's leading academic in CBA and nonmarket valuation.

However, despite this, the LEC judgement took a contrary view. This judgement contained such egregious errors in the basic understanding of economics that a response to them was accepted for publication in an international peer-reviewed journal - *Gillespie, R. and Bennett, J. (2015) Challenges in including BCA in planning approval processes: Coal mine projects in New South Wales, Australia, Journal of Benefit Cost Analysis*, Vol. 6(2).

It is also noted that a subsequent economic assessment of the Project undertaken by BAEconomics, headed by Dr Brian Fisher OA (former Executive Director of Bureau of Agricultural and Resource Economics) also concluded that the benefits of the projects would outweigh the costs and that it would provide significant economic contributions to the region and State. This project was ultimately approved by the Planning Assessment Commission (PAC).

Wallerah 2 Coal Project

Issue: TAI refers to criticisms made by the NSW PAC of the Economic Assessment of the Wallarah 2 Coal Project.

Response: All these criticisms were responded to in detail at the time and the project was subsequently approved in 2018 with both NSW Planning and the PAC identifying net benefits of the Project.

One of the main criticisms that the PAC made of the economic assessment at the time, related to the calculation of the royalties of the project which the PAC claimed, on the basis of accepting erroneous

¹ 30 June 2014, The Australian newspaper, Costs of mining add up to zilch.

advice by TAI, was double what it should be. However, the TAI used the same method that its Director of Research had to concede on the front page of the Newcastle herald, was incorrect.

Decision Making

Issue: TAI points to decisions to deny approval to projects that have been identified as having net benefits in Economic Assessments as an indictment of the quality of economic assessments.

Response: This makes little sense. While economists would argue that society would be better off (wealthier) if the results of CBA were the primary determinant of government decisions, the reality is that CBA does not address other, often conflicting, objectives of governments e.g. relating to equity, the environment etc. Decision-makers therefore needs to consider the economic efficiency implications of a project, as indicated by CBA, alongside the performance of a project in meeting other often conflicting goals and objectives of government, while having regard to the politics of the day. This is exactly what decisions-makers do.

As identified by the NSW PAC (2014, p. iii)² "the courts have consistently held that the public interest is a much broader concept than the economic value of a mining project."

² NSW PAC (2014) Wallarah 2 Coal Project Review Report.

Dr Rob Gillespie - Qualifications, Skills and Brief Curriculum Vitae

Dr Rob Gillespie has a wealth of experience in environmental and resource economics and in particular CBA and nonmarket valuation, gained from 12 years with the NSW Government (including Manager of the Economic Policy Unit - National Parks and Wildlife Service and Resource Economist - Department of Planning) and over 23 years as a consultant and Principal of Gillespie Economics. He has undergraduate degrees in Science (BSc) and Economics (BEc), Master's degrees in Economics (MEc) and Planning (MPlan) and a doctorate of philosophy (PhD). His Master of Economic degree and PhD both included applied nonmarket valuation studies with the latter also involving applied CBA and valuation of environment, social and cultural impacts of coal mining projects in NSW.

He has extensive experience in CBA and nonmarket valuation including:

- lecturing at Macquarie University, Sydney University and University of Technology, Sydney, in CBA and nonmarket valuation
- designing and teaching a course on CBA and nonmarket valuation to NSW Government agency economists and policy officers;
- undertaking CBA of a range of activities/proposals throughout his government and consulting career, including of water supply proposals, conservation proposals, environmental flows, catchment programs, catchment plans, agricultural activities, native vegetation clearing, soil erosion mitigation measures, , mines, quarries, visitor centres, world heritage nominations, recreation facilities, forestry, transitways, sewerage infrastructure, urban growth strategies, residential developments, industrial developments, Council Agenda 21 plans etc.

Rob co-authored the NSW Department of Planning's draft guidelines on Economic Effects and Evaluation in Environmental Impact Assessment.

He has undertaken numerous nonmarket valuation studies including application of the travel cost method, property valuation method, contingent valuation and choice modelling and has published many of these in peer reviewed journals. Rob was commissioned by the NSW EPA on numerous occasions to review and summarise nonmarket valuation studies for inclusion in the ENVALUE database. He has also undertaken many economic analyses which required benefit transfer of values from other studies.