

18th May 2017

Brian Gilligan – Commission Chair
Abigail Goldberg – Commission Member
Stephen O'Connor – Commission Member
Roger Fisher – Commission Member

NSW Planning Assessment Commission (PAC)

Email: pac@pac.nsw.gov.au

Dear Commissioners,

R040/17 – Bylong Coal Project

In addition to my Presentation last Thursday at the PAC public hearing, I draw your attention to the recently completed Australian Senate inquiry into the “Retirement of coal fired power stations”. On Wednesday, 22 February 2017, this inquiry held a public hearing in Sydney, which I attended as an observer, where witness Tim Buckley, as Director of Energy Finance Studies for the Institute for Energy Economics and Financial Analysis (IEEFA), was called and examined. In Tim Buckley’s opening statement, in the *Official Committee Hansard* transcript (http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Coal_fired_power_stations/Public_Hearings), page 39, he said (highlighted text my emphasis):

As I mentioned, I work for IEEFA, a public-interest research organisation. We come at it from a financial analyst perspective, and I look at the global energy market transformation. Today I would like to bring across how that transformation is occurring in the global context and, if I could, I will reference India and China to illustrate the rate of change in two of the largest economies in the world, and to highlight the point that it is an inevitable change. The two largest economies, population groups, in the world are moving far faster than anyone in Australia understands. So I will bring in that global perspective. Secondly, I would like to talk about financial institutions because, globally, financial institutions are rapidly waking up to the issue and are changing their position dramatically to accommodate the inevitability of this change.

On the subject of where the global seaborne thermal coal market is heading, Tim Buckley stated this (on transcript page 42, highlighted text my emphasis):

The seaborne market is, I would guesstimate, 95 per cent 12-month contracts or spot, so 12 months or less. There are no long-term contracts of any magnitude in the seaborne market. To bring it to a close, thermal pricing for exports is determined by Chinese government policy. China has a very clear policy to move away from coal. Coal production in China dropped 9.4 per cent last year alone, and seaborne coal is a marginal high-cost source of supply, so it gets whipped around depending on China’s policy. To me, the more important aspect is what is happening to the volume of seaborne thermal coal demand. In China, it dropped by 10 per cent in 2014, dropped by 30 per cent in 2015, rebounded 26 per cent when they massively curtailed their domestic production and will continue dropping, I think, to probably zero by the end of this decade.

The second largest thermal coal import market in the world is India. Two years ago, Indian energy minister Goyal articulated a very clear plan to cease thermal coal imports by and large by 2020. I do not think it is any surprise that imports in December dropped 25 per cent year on year, and January 2017—the stats came out just yesterday—was down another 22 per cent. His plan to cease thermal coal imports by the end of this decade is entirely economically driven, and his economic rationale is supported by the solar contract I just mentioned. Solar in India is now cheaper than existing domestic coal-fired power generation. It is half the price of new imported coal-fired power generation. So the seaborne thermal coal market is in total structural decline. Australia needs to transition that industry as fast as we transition our domestic power generation.

I urge you to read Tim Buckley's testimony in full as I think it provides valuable insights into how rapidly the global energy transformation is occurring.

My understanding of Tim Buckley's testimony is that it appears likely that **both China and India will not require any thermal coal imports by around 2020**. As China and India currently collectively purchase over 40% of global seaborne coal, and with permanent shifts in both those markets seeing thermal imports reduced towards zero, this has dire ramifications for the world's two largest thermal coal exporters: Australia and Indonesia. If Tim Buckley's assessment is correct, there is no need for Australia to build any more 'greenfield' thermal coal mines, for in a matter of a few years it is likely there will be many existing thermal coal mines here that will become idle because they cannot secure purchasers of their coal, or the coal price will likely be too low to remain economically viable. **KEPCO could very likely have their pick of many idle Australian mines soon for a whole lot less money than developing a new mine at Bylong.**

In a *RenewEconomy* article headlined "**South Korea's new president likely to curb thermal coal imports**", dated 11 May 2017, by Tim Buckley, (<http://reneweconomy.com.au/south-koreas-new-president-likely-curb-thermal-coal-imports-54886/>) it includes these statements:

South Korea is Asia's fourth-largest economy and the fourth largest importer of coal globally, accounting for over 10% of world thermal coal import demand.

IEEFA forecasts that should President Moon Jae-In follow through with his election promises, this will halve the long-term growth rate for South Korea's thermal coal imports.

It would also undermines the viability of NSW greenfield thermal coal developments including Korean-owned mine proposals in [Bylong](#) and at [Wallarrah II](#), and calls into question the strategic merit of other capacity expansions like Whitehaven's Vickers and Shenhua's much delayed Watermark mine developments, as well as the controversial and heavily subsidised Adani Carmichael proposal in Queensland.

The Bylong Coal Project may have seemed like a good idea when it was first proposed, but international thermal coal market conditions have dramatically changed since, and increasing evidence indicates this project should be written-off as unviable. By approving this project, you will likely provide false hope to some people that may commit themselves to circumstances where they may not be able to extricate themselves from later on without penalty.

Please choose wisely.

Yours Sincerely,

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