

Coal Free Southern Highlands Inc.

Alan Lindsay, Vice-President

To: **The Independent Planning Commission**

August 9th, 2021

Re: **Second referral of the Hume Coal Project: Request for information**

By email: ipcn@ipcn.nsw.gov.au

Attention: Casey Joshua

Dear Commissioners,

Thank you for the opportunity to comment on the response you have received from the DPIE regarding the questions on notice that were put to the Department following the recent Public Hearing. As our most detailed responses are to questions 6 and 7, we have taken the liberty of addressing the items in reverse order, and hope this will not create any confusion.

Question 7. Project Economics

The DPIE response to this question points out that Hume has provided insufficient detailed financial information to allow the economic benefits of the project to be accurately modelled. However, the company did supply some indicative information, on production levels, unit revenues, initial and ongoing investment, manpower levels and some other expenses to allow some inferences to be drawn.

- Clearly this project is economically challenged. It is unlikely to deliver the stated level of royalties to the NSW government, and we can say with confidence that taxes to the Federal government will be minimal at best. The poor competitive position of the project and the implementation of routine, prudent, tax minimization strategies by POSCO should ensure no company tax is paid.

The accumulated pre-approval losses, which are estimated to be in the order of \$250-300 mm will be amortized as production ramps up, and the degree of financial leverage employed will increase corporate expense and reduce taxable profit. The loans received by the company would most certainly come from POSCO, providing a degree of flexibility in transferring untaxed earnings offshore, a practice commonly adopted by multinational corporations, although it is now under closer scrutiny by the ATO.

Additionally, the use by POSCO of its own construction materials and the likely engagement of its own construction arm, POSCO Engineering and Construction, will provide transfer pricing opportunities which will further ensure that there will be minimal leakage of any revenue from the operating mine into the Federal taxation system.

- The Hume Project is relatively small scale by today's standards. It will be limited to the extraction of just 35% of the available resource, have a short project life of just 19 years and the higher investment requirement per tonne of product than larger, more efficient operations. The product mix is also inferior to many metallurgical coal mines, with the premium coking coal product being just 55% of production.

- Coal production is limited on the upside by potential geological and operational constraints, and the commitment to 35 % resource recovery. There are geological anomalies that will affect the mining operation, many of which have not been properly examined due to the inability to gain property access. These anomalies, and the operational challenges that have been described by the DPIE mining experts, have the potential to significantly impact production and thereby reduce the projected level of royalties, as well as increasing unit costs and further lowering profitability.
- The competitive position of the Hume mine is an issue worthy of close examination. Should coal prices rise to the point where Hume is profitable, it would be a bonanza for larger, more efficient, and more fully depreciated operators and encourage additional production. However, the history of the coal industry tells us that bonanzas are invariably short-lived. On the other hand, a coal price decline is a significant risk for Hume, as larger established operations will be more resilient and profitable than the greenfields Hume operation.

While Hume claims that the design of this mine will have productivity benefits, the fact remains that it is a small mine with high development costs per tonne of coal produced. Hume has also made some expensive commitments to the environmental performance and substantial costs will be incurred managing landowner relationships. It is likely to be lower 3rd or 4th quartile relative to competitive mines, particularly longwall or open cut operations.

- An interesting comparison is the Olive Downs project, an open cut and underground coking coal mine near Moranbah in Queensland that is currently under construction. This region has a long history of open cut coal mining and therefore has the much of the requisite infrastructure. The mine is expected to build up to a production level of 15 MT per annum of which 90% will be coking coal. A mine life of 80 years is projected, and the company says will employ an average of around 1000 personnel.

By comparison, the Hume Project will produce an average 2.1 MT per annum of coal products for 19 years, of which 45% is lower value thermal coal. It will employ 300 people, roughly half the productivity of Olive Downs. Clearly, the profitability outlook for each of these mines is radically different.

The Olive Downs project also has the strong support of the Queensland Government, the Isaac Shire Council and is widely supported in the community, while Hume is opposed by the Wingecarribee Shire Council and the vast majority of local residents.

Additionally, and importantly, Pembroke Resources, the owner of Olive Downs, state that their mine will be 'managed under the stewardship of an experienced team with a proven track record in responsible mining'. By contrast the Hume organisation, from a management and manpower viewpoint, is essentially an empty shell. The community has no idea who they will be dealing with if this project is approved and who will stand behind the assurances that are currently being provided by the consultants working on POSCO's behalf.

As the DPIE mining experts have told us, the underground operations at this mine will require considerable skill, the mining method is novel and not without risk and yet POSCO will be required to create their new organisation of 300 people from a standing start. This is not a simple matter, and it would be a challenge for an established mining company let alone POSCO with no experience in this sector of the coal industry.

In summary, the economic foundation of the Hume project is very fragile with many uncertainties outside the control of the company that will potentially compromise the financial returns to the company, to the state via royalties and to the Federal Government via taxes. The lack of local support and the absence of a credible, established management to undertake this project will also be an obstacle to profitability.

Question 6. Emplacement of coal washery rejects underground.

The handling of the coal washery reject issue by the DPIE and the EPA has been one of the most disappointing aspects of the evaluation of this project as far as Coal Free Southern Highlands is concerned. Hume's plan has the reject material being pulverized, its surface area greatly increased, mixed with groundwater, and pumped as a slurry or paste into coal extraction voids where the water component would separate and remain part of the aquifer. The separated water will almost certainly have a higher level of contamination than the natural groundwater and thus fail the NorBe test.

The EPA acceptance of this proposal comes in the face of its policy guideline (Coal Washery Rejects Exemption 2014) which states that the reuse of the rejects is only acceptable when these materials are 'not applied in or beneath water, including groundwater'.

When Coal Free Southern Highlands presented to the first IPC panel, Dr Bill Ryall, a noted geochemical expert who has serious concerns about the efficacy of the washery rejects plan, gave a detailed presentation to the panel and a link to his material follows.

https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/projects/2018/12/hume-coal-project-and-berrima-rail-project/meeting-presentations/cfsh/hume-coal-ryall_10feb192.pdf

Hume's various submissions have implied that the reject emplacement process is straight-forward and common place, but our understanding is that it is unusual in coal mines and that those who have attempted this work have encountered significant problems.

Question 5. Impacts on tourism, agriculture, and food production.

We have no comments and will leave it to others.

Question 4. The Voluntary Planning Agreement (VPA)

The DPIE has made it very clear that VPA considerations follow the outcome of the IPC determination, and everything done to date, by the DPIE and by the Wingecarribee Shire Council, has followed this procedure. If Hume wanted the Government and the community to know about their willingness to enter into a VPA prior to the determination, they could have publicised it themselves. To expect the Minister to accept this offer rather than follow normal procedures is simply naïve.

Question 3. Air quality impacts of windblown coal dust.

We will leave comment to the people most directly affected, other than to note that the perception that the meteorological data used in the various studies understates peak reality is widely held in the community.

Question 2. Groundwater.

The DPIE response to this question is very comprehensive and we fully support the conclusions they have reached.

Question 1. Train movements.

We will leave comments on this matter to the people with more direct knowledge.

Thank you again for the opportunity to comment on the DPIE response.

Sincerely,

Alan Lindsay

Vice President: Coal Free Southern Highlands Inc.