A response to the Business Council of Australia's Discussion Paper for the COAG Business Advisory Forum

On environmental assessments and approvals

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Prepared for an alliance of Australian environment groups

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ADDING VALUE TO SOCIETY

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This paper provides a response to the **Business Council of Australia's Discussion Paper for the COAG Business Advisory Forum**. An alliance of Australian environment groups asked Economists at Large to look specifically at the case for priority number 2, "streamline environmental assessments and approvals".

The BCA discussion paper appears to pick costs selectively and in some instances miscalculates costs. The paper also fails to address the potential benefits of the current legislation or the potential costs if the proposed streamlining occurs. Similarly, by focusing just on costs to business, the BCA paper ignores the wider discussion about improving the effectiveness of the EPBC Act.

The BCA discussion paper suggests that the proposed reform will lower costs to business, lift productivity and enhance competition. We find that the connection between streamlining environmental assessments and approvals and these three goals is not adequately presented.

Issues with state based environmental impact assessments can cause delays as community groups voice their concerns and seek amendments to, or cancellation of, projects. A table provided in this paper illustrates some of the issues Economists at Large have uncovered with a range of state-level assessments of projects in recent years.

It is our opinion that the BCA discussion paper falls short in three areas that should warrant caution by policy makers before adoption of the proposed reforms:

- The BCA paper fails to provide reliable figures, apparently cherry picking figures and making methodological errors that result in overstated costs. In addition, figures are provided in absolute rather than relative terms.
- The BCA paper fails to consider the benefits of the EPBC or the potential costs from streamlining it. Further, the BCA paper ignores the wider context of the debate by focusing only on costs to business.
- The BCA paper insufficiently links the stated objectives of lowering costs to business, lifting productivity and enhancing competition with the proposed reform.

Background

An alliance of Australian environment groups asked Economists at Large to review the economic evidence presented for proposal number 2 in the document, Discussion Paper for the COAG Business Advisory Forum (hereafter 'BCA discussion paper'). The BCA discussion paper was prepared by the Business Council of Australia, in consultation with the Australian Chamber of Commerce and Industry (ACCI) and Australian Industry Group (AI Group) (Business Council of Australia 2012a).

Scope of assessment

This scope of this paper is limited to discussion of "Priority 2 - Streamline environmental assessments and approvals" of the BCA discussion paper, p5-6. Particular emphasis is placed on the economic claims of the "evidence" section presented on p6.

Responding to the BCA

Responding to the evidence presented

The BCA paper presents three main pieces of evidence to support the claim that "costs and delays associated with environmental impact assessments are significant" (p.6).

1. High cost to industry

> *An Australian National University study estimated a direct cost to all industries of up to $820 million over the life of the EPBC Act. (p.6)*

The BCA paper quotes the upper end of the range estimated in the source document. The original source for this estimate is Macintosh (2009) which presents a range of values for this cost of between $270-$820 million in nominal terms (p.5 and 135). Macintosh surveyed proponents who referred projects under the environmental impact assessment (EIA) regime between 2000 and 2009. The Australia Institute and the Minerals Council of Australia both supported the research.

In addition, to understand the costs of the Environment Protection and Biodiversity Conservation (EPBC) Act estimated by Mackintosh (2009), they need to be placed in context. While $270-$820m seems a lot to a casual observer, when presented in the context of the value of project investment in Australia, they are only a small portion. In the BCA paper itself, it is stated "there are around $900 billion of committed and prospective investment opportunities in large-scale projects, mostly in resources and economic infrastructure" (p.5). The original source for this figure is another report by the Business Council of Australia (2012b) (p6). From this, we can see that the costs of the EBPC act over its first nine years as estimated by Macintosh (2009) represent just 0.03% to 0.09% of the value of the current investment pipeline for large-scale projects in Australia.

2. High cost of individual referrals

> *the referrals process under the EPBC Act is resource and cost-intensive, with referrals ranging from $30,000 to $100,000 (p.6)*

These estimates are based on amounts provided by property developers to the Productivity Commission (Productivity Commission 2011) (p.469).

In contrast, Macintosh (2010), looking at costs to different sectors, shows that the costs for referrals vary greatly. He reported that "*a large number of respondents reported very low and very high cost*" (p.183). Specifically his research showed that:

- 38% of respondents reported referral costs of ≤ $1,000.
- 47% of respondents reported referral costs of between $1,001 and $100,000.
- 15% of respondents reported referral costs of ≥ $100,000.

So rather than what at first appears to be high costs, research suggests that across all industries for which data is available, the cost of referral can actually vary greatly; from less than $1,000 to over $100,000, although the median figure reported by Macintosh (2009) was $5,000 (p.82). Further, this says nothing of the relative cost of the referral with regard to the size of the project being referred.

3. High cost caused by delays

> *But even these costs pale in comparison to the potential costs of delays. For instance, at a coking coal price of $200 tonne, a 12-month delay to a 10 million tonne per annum export coking coal mine in Queensland could reduce Queensland royalty revenue by $170 million (p.6)*

Delays in collecting revenue do reduce its value, however not to the extent cited in the example given by the BCA. The proper way to value this cost is the interest rate that Queensland would pay to borrow $170 million or inversely, the interest that could be earned from this money. Based on the Queensland government's long-term bond rate of around 4%, the cost of delaying $170 million of revenue by a year is more like $6.8 million. The same applies for project proponents – profits delayed do not disappear, they are discounted at an appropriate rate based on the opportunity cost of costs incurred or revenue foregone.

Looking at proponent costs, available research shows that these are far less than the $170 million reported by the BCA. Macintosh (2010) found that 41% of respondents to his study reported delay costs of ≤ $10,000. Similar numbers reported delay costs of ≥ $100,000. Once again, these figures are not relative to project size.

The wider context of environmental impact assessments

The BCA paper only discusses costs to business from the current EPBC Act. It does not discuss the potential benefits of the EPBC Act or potential costs of streamlining it. Similarly, the BCA paper seems to select findings from the literature that highlight high costs while ignoring that the very same literature often highlights that the effectiveness of the regime also needs to be addressed.

While calculating an economic value for the benefits of the EPBC Act is beyond the scope of this paper, Macintosh (2010) investigated the attitudes of project proponents and found that federal environmental impact assessments introduced under the EPBC Act resulted in *significant improvements* in environmental outcomes for 11% of cases and *slight improvements* in just over 25% of cases (p.181). The authors saw this as a less than ideal outcome and felt that the Act could be more effective.

In-fact, Macintosh (2009) concluded that it is the focus on efficiency that has contributed to reducing the effectiveness of the EPBC Act.

> *The EPBC Act was intended to limit the Commonwealth's involvement in EIA to particular issues of national importance. It was also intended to improve the efficiency with which projects were handled in EIA processes. The price paid for the efforts made to achieve these objectives was a reduction in the legislation's capacity to achieve environmental goals. (p.359)*

The work of Macintosh (2009) followed the Hawke Review (2009) of the EPBC Act. The Hawke Review resulted in a list of thirteen recommendations for reforms to the Act that would contribute to the Act's objective of "protecting the environment and biological diversity and maintaining ecological processes" (p.III).

Macintosh (2009) concluded that the "EIA process failed to capture the activities and sectors that pose the greatest threat to the environment." (p.358) and that the effectiveness of the EIA act has been hindered by:

a. Legislative design.
b. Limited bureaucratic capacity.
c. The government's administration of the regime.

(p.359)

In summary, focusing purely on costs to business ignores the wider context of the debate surrounding the EPBC Act and federal environmental impact assessments.

Will the suggested reform lower costs to business, lift productivity and enhance competition?

The BCA paper suggests that streamlining environmental assessments and approvals is one way to:

> *unambiguously make a significant contribution to lowering costs to business, improving competition and lifting productivity (p.4)*

We believe that insufficient evidence is provided to support this claim.

With regard to the potential to lower costs to business, streamlining environmental assessments and approvals may lower costs to some businesses, but if a project impacts negatively on other businesses, it may increase their costs. In other words, the cost savings to some businesses may be offset by cost increases to other businesses or to society more broadly.

With regard to lifting productivity, the link between streamlining environmental assessments and approvals is not apparent from the evidence provided in the BCA paper. Productivity and its causes is a complicated issue. In a recent bulletin, D'Arcy and Gustafsson (2012) investigate Australia's productivity performance and draw several interesting conclusions. The authors find for the mining sector, declining productivity is occurring as the industry increasingly invests in what were previously considered marginal deposits that require greater inputs to extract minerals. For Australia as a whole, the authors find that although productivity has declined since the 1990s, "*the difference between trend growth in the 2000s and the long-run average…is less marked*" (p.27). D'Arcy and Gustafsson discuss the importance of technology and education in increasing productivity but suggest that broader economic policy reforms of the 1980s and 1990s are the "*most widely accepted explanation for the acceleration and subsequent slowing in productivity growth over the past two decades*" (p.30). As their analysis illustrates, the underlying causes of productivity growth are difficult to disentangle. But perhaps most relevant to the issue of streamlining environmental assessments and approvals is a footnote on (p.31):

> *Although regulations may reduce measured productivity, the impact of a specific regulation must be assessed on both the costs and benefits results from its introduction. Regulations are typically introduced to remove, or reduce, some perceived negative externality, and the benefit of doing so may offset the costs resulting from decreased productivity.*

With regard to enhancing competition, it is unclear how streamlining environmental assessments and approvals will achieve this. In fact, it is unclear what the BCA paper means by enhancing competition. The key issue is competition vis-à-vis who? A common national approach to project approvals may be preferable in this regard by providing a common approach to project assessment. State-by-state approval may in-fact create an uneven playing field and a regulatory 'race to the bottom' in an attempt to attract investment. The proposal does not make this clear what it means by 'enhancing competition' so it is difficult to comment further on any arguments provided to support this.

Economic issues with delayed projects

Economists at Large are often asked to review the economic impact section of environmental impact assessments. We have observed that these are frequently carried out insufficiently and tend to overstate the net benefits of projects and ignore non-market impacts. Due to this, projects can suffer from delays as affected community groups identify and raise concerns about the estimated impact of projects due to the proponents poorly conducted environmental impact assessments. The table below lists some projects Economists at Large has been involved in as part of state-based environmental impact assessments (EIAs). The table highlights areas we found to be lacking in each assessment. In most of these cases, the projects faced delays and additional costs responding to community concerns and amending sections of the EIA.

Project Name	State	Type	Capital cost	Comments
China First	QLD	Coal mine	$8.8 billion	No cost-benefit analysis, despite major negative impacts on manufacturing, tourism and agriculture identified.
				No assessment of non-market values.
Kevin's Corner	QLD	Coal mine	$6.9 billion	No cost-benefit analysis at local, state, national or global level.
				Inappropriate use of Input-output model to estimate economic impacts. Employment and output impacts heavily overstated.
				Inadequate and flawed assessment of non-market values.
Traveston Crossing Dam	QLD	Infrastructure	$1.6 billion	"Piecemeal" economic assessment failed to apply consistent cost-benefit framework.
North Stradbroke Island	QLD	Sand mine	$125 million	No cost-benefit analysis
				Input-output model heavily overstates economic impact of the project.
				No assessment of non-market values.
Maules Creek	NSW	Coal mine	$5.1 billion	Cost-benefit analysis heavily overstates value of project to NSW community due to methodological shortcomings. Overstatement later acknowledged by proponents.
				Inappropriate use of Input-output model to estimate economic impacts.
				Inadequate and flawed assessment of non-market values.
Dargues Reef	NSW	Gold mine	$42 million	No cost-benefit analysis
				Economic impact assessment minimal and non-transparent
				No assessment of non-market values.
Bastion Point Boating facility	VIC	Infrastructure	$6 million	Deeply flawed economic assessment, heavily overstating present value of the project
Port Philip Channel Deepening Project	Vic	Infrastructure	$600 million	Cost-benefit analysis heavily overstates value of project to VIC community due to methodological shortcomings.
				No assessment of non-market values.

Source: All reports or submissions that this table drew upon are available upon request or at our website, www.ecolarge.com

Our conclusions

The BCA paper suggests six 'reform initiatives' as part of ongoing COAG efforts to deliver a Seamless National Economy. This report is a response to the evidence presented by the BCA in arguing its case for reform initiative number two, *"streamlining environmental assessments and approvals".*

It is our opinion that the BCA discussion paper falls short in three areas that should warrant caution by policy makers before adoption of the proposed reforms:

- The BCA paper fails to provide reliable figures, apparently cherry picking figures and making methodological errors that result in overstated costs. In addition, figures are provided in absolute rather than relative terms.
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- The BCA paper insufficiently links the stated objectives of lowering costs to business, lifting productivity and enhancing competition with the proposed reform.

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