Boikarabelo coal project

Submission to Efic

Australia's export credit agency, Efic, should not finance a large thermal coal project in South Africa. At best it represents a financial risk. At worst it contributes to climate change and competes with Australia's own coal industry

Submission

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INTRODUCTION-SUMMARY

Jubilee Australia Research Centre (JARC) and The Australia Institute (TAI) welcome this opportunity to provide comment on the Efic proposal to Resource Generation Limited (ResGen) for the Boikarabelo Coal Mine and Railway in Limpopo province, South Africa.

The project should not be funded by Efic for a range of reasons relating to:

- Assessment of environmental and social impacts is below standards expected in Australia.
- It is unclear exactly what the project consists of. 2011 documents suggest the project is export-oriented, while current media statements claim the project is closely linked to construction of a coal-fired power station.
- If linked to construction of a power station, Efic would be violating an agreement not to fund new coal-fired generation. If export oriented, the project is unlikely to be financially viable.
- If financially viable, exports from Boikarabelo compete directly with Australian coal exports in the important, but shrinking, Indian market.
- Whether Boikarabelo's coal is burned in South Africa or abroad it will contribute to climate change.

Given these points, it is hard to see any possible justification for Efic, and therefore Australian taxpayers, to support this project.

ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT

The Environmental and Social Impact Assessment (ESIA) on the Efic website and the more complete document provided to JARC is not of a standard that would be acceptable in Australian coal mine assessment processes. The Australia Institute has considerable experience with the New South Wales and Queensland planning processes for coal mines. In our opinion, this ESIA document would not be acceptable to planning authorities in either of Australia's major coal producing states. This sets a dangerous precedent for Efic to fund projects based on lower standards of assessment than are required by other Australian government agencies.

Another key concern is that the project has changed considerably since the 2011 ESIA document was prepared. For example the ESIA suggests the project will produce 32 million tonnes of run-of-mine (ROM) coal per year, while media reports suggest 6-12 million tonnes of saleable coal. This is a significant change of project scale. It likely involves a different mine plan and therefore different environmental impacts and different mitigation measures. Exactly what project Efic would be financing is not transparent and makes it difficult to make informed submissions about environmental and social impacts of the project.

LINK TO COAL-FIRED POWER GENERATION

The most obvious change to the project since the 2011 ESIA is the relationship of the project to construction of new coal fired power stations. The ESIA states:

> Boikarabelo Coal Mine will provide both the domestic and export market with coal. Eskom grade coal will potentially be supplied to the third Eskom coal power station to be built in the Steenbokpan area or will be exported to another Eskom Power Station in Mpumalanga. It is currently unclear if this power station will be constructed, therefore Eskom grade coal will be sold to the internal market for power generation. The export quality coal will be dispatched by rail to Richards Bay (or an alternative port), where it will be sold Free On Board to the European, Asian and Indian markets on long term contracts and also into the spot market.[1]

More recent media reports are clear that a new power station is involved. ResGen themselves emphasise their intention to build new coal-fired generation capacity and the importance of this to the Boikarabelo project:

> Lowe intends to diversify ResGen downstream from coal into energy. Those companies which look to transition from coal producer to energy producer are better perceived by the public and potential investors. The independent power producer (IPP) market will add value to ResGen's business model and is an ideal diversification strategy, Lowe points out. A power station will also absorb coal that Boikarabelo produces and ultimately help fill South Africa's energy void. Lowe has subsequently reignited a shelved study for a 245 MW IPP power station, which already has environmental and land use approvals. "New desktop studies however reveal that a 600 MW power station is a more optimal size and so we will revisit approvals based on the new data."
>
> Feasibility studies for a 600 MW power station have begun and ResGen has also started engaging with potential power plant contractors and funders. "This

[1] ResGen and Digby Wells (2011) *Boikarabelo Coal Mine & Railway Line ESIA Report*, http://resgen.com.au/downloads/Boikarabelo-Summary-ESIA-Report.pdf

> project component will happen, it is part of our plans and the necessary work to deliver on this is well underway."[2]

Resgen's move to incorporate a power station is in line with other analysts' views on developing the Waterberg basin:

> Mr Prevost said the only way for a new mine to be feasible in the Waterberg was for it to be contracted to supply a new power station, to which it would be able to sell its "middlings" or low-grade coal output — 80% of the mine's output.[3]

If the project involves the construction of a power plant then Efic's involvement would break the agreement of the OECD Export Credits Working Group. This group has agreed that export credit agencies will no longer support the construction of new coal fired power stations.[4] Australia is a member of this working group, therefore binding Efic to its agreed terms. Yet Efic will violate this agreement if it supports this project.

PROJECT FINANCIAL VIABILITY

If the Boikarabelo project is not closely linked to new coal fired power generation in South Africa, then the uncertainty around thermal coal export markets makes it a risky proposition. The project gained approval at the height of the 2011 coal boom, and yet even when coal prices were high, the project was not able to secure commercial funding.

It is unclear why a project that was not able to attract finance in 2011 would be able to do so now. Thermal coal markets and prices are now heavily impacted by the policy decisions of major governments. China, Indonesia and the USA have policies in place to restrict supply. India has a policy of reducing coal imports. All of these policies have a major impact on thermal coal markets.

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[2] Mining Review South Africa (2016) *Resource Generation 'South Africanises' Boikarabelo*, https://www.miningreview.com/magazine_articles/resource-generation-south-africanises-boikarabelo/

[3] Ryan (2014) *Warning for small coal miners eyeing Waterberg reserves*, http://www.bdlive.co.za/business/mining/2014/01/30/warning-for-small-coal-miners-eyeing-waterberg-reserves

[4] See Annex VI, OECD, 'Arrangements on Official Supported Export Credits', 1 February 2016, p. 120.

COMPETITION WITH AUSTRALIAN COAL PRODUCERS

If the project is not focused on domestic power generation and does manage to operate as a viable exporter of coal into Asian and Indian markets as originally envisaged, then it represents competition to Australian coal exporters. European coal demand is declining, as are imports into India.

It seems likely that any increase in exports from Boikarabelo and other Waterberg projects would affect the price and or quantity of Australian coal producers into these markets. It is unclear why Efic would join South African taxpayer-supported organisations such as their Industrial Development Corporation and Public Investment Corporation. In short, even if the project can profitably export coal and provide a return to Efic as an investor, it is likely that the project is not in Australia's economic interests, as it would reduce Australian coal shipments, resulting royalties and employment.

CLIMATE CHANGE

Looking beyond Australian economic interests, the project is not in the global interest due to its impact on climate change. If the project is focused on domestic coal fired power generation, then it will increase greenhouse gas emissions relative to investing in cleaner energy in South Africa.

If the project succeeds in exporting significant volumes of coal, it will impact on global coal production. The global seaborne thermal coal market is around 1,000Mtpa and Australia exported around 200Mt in the last year.[5] The 2011 ESIA, on which Efic's financial consideration is based, allows for 32 million tonnes of thermal coal per annum (Mtpa) of run-of-mine coal (ROM).[6] The project represents a significant expansion of coal supply.

Even if recent media suggests more modest saleable output in early stages of the operation, the implications of Efic's decision will not end there. The Boikarabelo project could open up the whole Limpopo Province by providing the infrastructure for

[5] Department of Industry (2016) *Resources and Energy Quarterly*, http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Pages/Resources-and-energy-quarterly.aspx#

[6] ResGen & Digby Wells Environmental (2011) *Boikarabelo Coal Mine and Railway ESIA Report: Non-Technical Summary.*

other coal projects in the area. At an estimated 75 billion tonnes, the Waterberg coal field is said to be the fourth largest coal reserve in the world.[7]

This project's approved capacity alone represents an expansion of the seaborne thermal coal supply of several percent, and with other Waterberg projects could lead to considerably more. Basic economic theory suggests that this will put downward pressure on coal prices, resulting in greater coal consumption and therefore greater greenhouse gas emissions.

According to the scientific journal *Nature*, keeping global temperature rise to less than 2 degrees will only be possible if 80 per cent of known coal reserves are left in the ground.[8] In practice, this means that new coal reserves like the Waterberg field need to be left untouched. The proposal to fund this project risks this goal and is contrary to Australia's policy position under the Paris agreement.

The implications of not meeting our climate targets will be severe for Australians and our nearest neighbours. A more than two degree temperature rise has been predicted to, among other things, significantly impact the durability of Murray-Darling basin irrigated agriculture, bring large cost increases to urban water supply infrastructure, significantly increase heat-related deaths and other negative impacts of vector-borne diseases. The major dislocation in coastal megacities in South-East Asia and the displacement of Pacific island populations will affect Australia's economic security and put pressure on our immigration programs.[9]

Unfortunately, Efic's environmental and social policies do not require it to consider the broader social, environmental and economic impact of fossil fuel exploitation on the future hardship and suffering of Australians and other of the world's inhabitants. This is without question a deficiency of Efic's current policies. However, while Efic does not have to consider these issues, it certainly can and should. Efic must consider its image and reputation among Australian stakeholders, and should reject involvement with the Boikarabelo project on environmental grounds alone.

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[7] 'Waterberg Coal Fields: Land of Plenty?', *Mining Mirror*, 1 November 2012, p. 26, http://www.srk.co.za/files/File/South-Africa/pressreleases/2012/11_November_2012/mining_mirror_waterberg_coalfields_land_of_plenty_01_nov_2012_p26-29.pdf

[8] Christophe McGlade & Paul Ekins, 'The geographical distribution of fossil fuels unused when limiting global warming to 2 °C', *Nature* Vol 517, Jan 2015, 187-190. http://www.nature.com/nature/journal/v517/n7533/full/nature14016.html

[9] http://www.climateworksaustralia.org/importance-two-degree-target

CONCLUSION

Efic should cancel all involvement in the Boikarabelo project. The poor standard of environmental and social assessment alone justifies this. It is unclear to Australian taxpayers exactly what sort of project Efic is looking to finance.

If the project is focused on domestic coal fired power stations, then Efic is violating the Australian Government's export credit agreement with other OECD countries. If the project is oriented more towards export of coal then it is unlikely to be financially viable.

Even if Boikarabelo is financially viable it is unlikely to be in Australia's interests as it will compete with Australia-based coal mines in markets that are already shrinking.

In any case, if 'successful' the project will increase greenhouse gas emissions in South Africa or abroad, contributing to climate change. It is hard to see any possible justification for Australian taxpayers supporting this project.[10]

[10] Although the project will be on Efic's Commercial Account, and will not directly come from tax dollars, nevertheless Efic's privileged position in Australian finance is reliant on an implicit government backing of all its activities.