

Australia

A tale of two industries

It's a jaw-dropping paradox. While desperately cutting costs, shedding jobs and shelving projects left, right and center, Australian coal mining is simultaneously embarking on an expansion effort that would cost tens of billions of dollars and double the annual rate of coal extracted in the country.

How can this occur? It's largely a tale of two coal industries. On the one hand, there are the long-established mining companies which are suffering the consequences of sustained low international coal prices. Major miners are turning away from new projects. Glencore Xstrata, for instance, announced in September 2013 that it was shelving its massive AU\$7 billion Wandoan coal mine, and BHP Billiton announced earlier that it had no plans to build new coal projects in Australia.

Then there are the “newcomers.” Characterized by a lack of experience, a gung-ho attitude and balance sheets far short of what it would take to build their gargantuan projects, a host of new entrant companies have emerged, accounting for the bulk of Australia's expansion plans.

With analysts predicting bleak prospects for coal, and a growing community of Australians mobilizing to protect their health, environment, water, land and climate from the threats of new mining, it will take a brave investor to back the industry now. In fact, banks are already risking losses on Australian coal export projects that may become stranded.⁶⁷ Either the new entrants know something everyone else doesn't or have bitten off substantially more than they can chew. Either way, banks and other investors are exposing themselves to huge risks if they continue betting on this industry.

Politics and Coal

“Get out of our way,” Queensland Premier Campbell Newman advised new Prime Minister Tony Abbott when they met in September 2013 to discuss Queensland's plans to open up a new series of mega-coal mines.⁶⁸ Coming from a man who had previously clarified that “we [Queensland] are in the coal business,” it left no doubt about the relationship between the coal industry and politics. Not that the Federal Government needs a lot of telling. Historically, the fossil fuel industry has always enjoyed a close and beneficial relationship with Australian State and Federal Governments. It had, at one point, even reached the level where senior lobbyists were allowed to write energy policy.⁶⁹

Concerns have been raised from many sides regarding the standards applied to coal projects that are moving through the environmental approvals process. Former Federal Environment Minister, Tony Burke, rightly described the Queensland Government's Alpha coal mine environmental assessment as a “shambolic joke.”⁷⁰ And new coal mining and infrastructure projects are being rushed through the approvals process even when vital environmental information is not supplied.

In the 2013 Federal Election, the relationship between coal and politics took a more overt turn, as billionaire businessman Clive Palmer won a seat in Australia's lower house, while 3 members of his Palmer United Party were elected to the Senate. Palmer is the owner of several mining companies including Waratah Coal, which is proposing the massive “China First” (aka Galilee Basin Coal) project. In view of the fact that Australia's new coalition Government may well need votes from Palmer's

A growing community of Australians are fighting to protect their environment, land and water from coal mining.

67 “Coal Slump Leaves Australia Port Half-Used, Lenders at Risk,” Bloomberg Businessweek, October 14, 2013

68 “Get out of our way on huge mines, Abbott told,” The Sydney Morning Herald, September 12, 2013

69 „The Greenhouse Mafia,” Four Corners, ABC, 2006

70 “Queensland Alpha project assessment ‘shambolic joke’: Burke,” The World Today, June 5, 2012

United Party to pass legislation in the Senate, it's hard to imagine that the very same government will withhold Environmental Approval when reviewing the impact statement for the China First mine.⁷¹

Big Production, Big Expansion

Australia is one of the world's biggest producers of coal and the second largest exporter, right after Indonesia. Approximately 460 million tons of saleable coal is produced in Australia per year. In 2012, about 125 million tons were used for domestic power stations and in local steel production, while 336 million tons of coal were exported. Of Australia's coal exports, 55% is thermal coal and 45% is metallurgical coal.⁷²

The country's largest coal-producing regions are the Hunter Valley in New South Wales and Bowen Basin in Queensland, both of which produce black coal, and Victoria's Latrobe Valley, which contains brown coal (or lignite). While there are a number of other smaller producing regions in every state, these main regions account for about 80% of the coal extracted in Australia.

With a coal mining industry heavily geared towards exports, it's no surprise that Australia's East Coast is dotted with coal export terminals. The largest is Newcastle, which exported 142.6 million tons of coal in 2012-2013 and has an annual capacity of about 210 million tons.⁷³ Several of the other major export terminals sit along the Queensland Coastline and inside the Great Barrier Reef World Heritage Area.

The proposed expansion of coal mining in Australia is nothing short of astronomical. The government expects coal exports to reach 455 million tons by 2017. Beyond that, the Bureau of Resources and Energy Economics⁷⁴ has identified 93 coal mining projects between the stages of public announcement and completion. Over AU\$100 billion would be required to enable all of these projects to go ahead.

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Most Australian states have plans at varying scales and stages of development, to start or expand coal exports. Western Australia has been attempting to find viable options for a coal export industry for several years, while in South Australia, proposals to mine the vast Arckaringa Basin and parts of the South East hope to find options for brown coal export. In Victoria, the State Government is considering the allocation of an additional 13 billion tons of lignite reserves to develop exports, despite the fact that Victoria currently has no coal export infrastructure. The largest export plans are, however, in the traditional coal mining states of Queensland and New South Wales. The proposed new mines in these states would be enough to more than double Australia's production of black coal. And, with almost all of the new projects intended to supply the export market, a flood of new and expanded coal export terminals are proposed along Australia's Eastern seaboard.

New coal projects are being met with increasing resistance as awareness grows over the many environmental impacts posed by current and proposed coal mining. In Queensland, GVK's proposed Alpha Coal project has been taken to court by concerned community members and affected landholders. In New South Wales, the Maules Creek mine, proposed by Whitehaven coal, is facing a court challenge from indigenous groups as well as a community blockade that has been in place over a year. Communities along the coastline adjacent to the Great Barrier Reef are also speaking out against new coal infrastructure and its impacts on the tourism and fishing industries.

71 "Clive Palmer's \$6 billion China First coal mine faces last two hurdles," The Guardian, October 25, 2013

72 See Australian Government Bureau of Resources and Energy Economics, Resources and Energy Quarterly, September 2013

73 "Australia's Newcastle port sees record high coal exports in 2012-13," Platts, August 9, 2013

74 <http://bree.gov.au/documents/publications/rempp/REMP-List-2013-04.xlsx>



The Epicenter: the Galilee Basin

Advanced plans are in place to build 9 mega mines in Queensland’s Galilee Basin, a region hundreds of kilometers inland, and as yet, undisturbed through coal mining. 5 of these projects would each be larger than any coal mine currently operating in the country and would produce enough coal to increase exports by 220 million tons annually. With tens of thousands of hectares earmarked for coal mines, the habitats of hundreds of species would be permanently wiped out and unique natural areas, such as the Bimblebox Nature Refuge would be destroyed. The refuge, located in the Deserts Uplands bioregion, is a remnant woodland and harbors over 220 plants and 150 bird species. In 2003, the owners of the refuge signed an agreement with the Queensland Government to permanently protect the property.⁷⁵ This has not, however, stopped the Queensland government from approving Waratah Coal’s plan to use half of the reserve for open-pit coal mining as part of its “China First” project.

Coal and water don’t mix, especially not in Australia where water, already a precious resource, is set to become all the more scarce and erratic as climate change takes hold. In the Galilee Basin, as in other parts of Australia, coal is directly competing with agriculture for both land and water, with coal often coming out ahead. As coal mining threatens the Galilee, the risk of water losses to local landholders is eminent.

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A recent study into the impacts of the Galilee Basin coal mines found that the equivalent of two and a half Sydney Harbors’ worth of water – 1,343 billion liters – would be dewatered from the Basin if the mining goes ahead as proposed. The report found that the Galilee coal mining proposals have “the potential to cause permanent and unacceptable impacts on regional groundwater and surface water resources,” creating risks for local ecosystems and landholders dependant on groundwater.⁷⁶

The Galilee Basin is also a make or break region when it comes to climate change. According to Greenpeace Australia, the CO₂ that is likely to be produced each year from burning the coal mined in the Basin would release 705 million tons of CO₂ to the atmosphere each year. If the Galilee Basin were a country, this would make it the 7th largest emitter on the planet.⁷⁷

Wrecking the Reef

The Great Barrier Reef is described by UNESCO (United Nations Educational, Scientific and Cultural Organization) as “one of the richest and most complex natural ecosystems on earth” and “one of the jewels in the world heritage crown.”⁷⁸ Stretching for 2,000 kilometers along the Queensland coastline, it is the world’s most extensive coral reef system and a site of incredible natural beauty. It is also worth upwards of AU\$5 billion per year to the Queensland economy.

The Reef, however, stands between the Queensland coal rush and the power plants in Asia, for which the coal is destined. The huge volume of planned exports will require extensive new infrastructure to be built in the Great Barrier Reef World Heritage Area. These coal export ports will have disastrous impacts on sensitive coastal environments and marine species. One area particularly targeted for coal port development is Abbot Point, where 4 new coal terminals are proposed, one just meters away from a turtle hatching ground. For coal ships to be able to access these new coal terminals, 3 million cubic meters of sea floor would have to be dredged, severely impacting a much wider area and destroying the feeding grounds of dugongs and green turtles.

75 “Cooking the Climate, Wrecking the Reef,” Greenpeace Australia, September 2012

76 “Draining the life-blood: Groundwater Impacts of Coal Mining in the Galilee Basin,” Hydrology Environmental consulting, September 2013

77 “Cooking the Climate, Wrecking the Reef,” Greenpeace Australia, September 2012

78 <http://whc.unesco.org/en/news/606/>

Government and industry forecasts estimate that the number of coal ships moving through the Great Barrier Reef will increase 4-fold between 2012 and 2032.⁷⁹ If all proposed new ports and terminals were to go ahead, around 11,000 ships a year would cut through the Great Barrier Reef, causing an incredible rise in pollution, and greatly increasing the risk of shipping accidents resulting in oil spills and groundings. Australians were given a reminder of the dangers of shipping accidents to the reef in 2009 when a Chinese coal freighter ran aground on the Douglas Shoal. In the following weeks it was dragged over 300,000 square meters of coral.⁸⁰

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The environmental impacts of coastal coal infrastructure have not been lost on UNESCO and the World Heritage Committee. Both called upon the Australian Government in 2012 to not permit any more coastal development that would impact negatively on the Outstanding Universal Value of the Great Barrier Reef. The World Heritage Committee is now considering placing the Great Barrier Reef on the “World Heritage in Danger” list in 2014 if sufficient action is not taken.⁸¹

Who is Bankrolling this Coal Infrastructure?

The Australian NGO Market Forces recently undertook extensive research to determine which banks have been financing coal and gas export terminals along Australia’s East Coast since 2008.⁸² As coal infrastructure projects are the “door-opener” for new mine expansions, we thought it important to present the portion of Market Forces’ data that refers to coal infrastructure.⁸³ The following chart shows the top 10 lenders to coal ports in Australia.

Top 10 Lenders to Australian Coal Ports 2008-2012

Bank	Amount loaned (in million euros)
ANZ	1,120.4
Commonwealth Bank	770.1
National Australia Bank	755.4
Standard Chartered	734.7
State Bank of India	667.9
Westpac	573.1
Sumitomo Mitsui Banking Corp.	419.4
Bank of Tokyo-Mitsubishi	348.0
Crédit Agricole	274.5
DBS Bank	212.4
exchange rate: 1,4972 AU\$ dollars for 1 euro	

79 “Great Barrier Reef Shipping: Review of Environmental Implications,” prepared by PGM Environment for the Abbot Point Working Group

80 “Marine Shipping Incident Great Barrier Reef Marine Park – Douglas Shoal,” Great Barrier Reef Marine Park Authority, 2010

81 The World Heritage Committee, 37th Session, June 2013

82 “Financing Reef Destruction,” Market Forces, 2013

83 Market Forces’ data was sourced from company filings and finance industry databases including Project Finance International and Reuters Project Finance.

Top Coal Mining Banks for Australia

Our own chart shows the top 15 banks which financed the operations of 15 coal mining companies and one coal infrastructure company active in the Australian hot spot. When comparing our ranking with the research undertaken by Market Forces, it is evident that Australian banks clearly play the lead role in coal infrastructure finance, while the top 2 positions for overall mining investments are held by international banks.

When looking at investment banking and loans combined, Credit Suisse and BNP Paribas top the list in our ranking. Each of these two banks provided a total of over 790 million euros to the companies in our sample. A significant part of this finance was, however, raised through bond or share issues. Credit Suisse, for example, underwrote a share issue of 290 million euro for Whitehaven Coal in 2011. When considering only direct lending, it is notable that 2 Indian banks (State Bank of India and ICICI Bank) and 3 Australian banks hold the top 5 positions.

Banking on Australian Coal, 2011 – mid-2013

