Coal in Kingaroy

Briefing note

A coal project proposed near Kingaroy, Queensland, is unlikely to provide benefit in a local economy based on services and agriculture. It imposes uncertainty and costs on other industries and the community. Policy makers should rule the project out on economic grounds.

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Summary

A new coal project proposed for near Kingaroy, Queensland, is unlikely to bring economic benefit and presents risks for existing industries and the community.

The Kingaroy economy is focused on services and agriculture. Various service sectors make up over 50% of employment. Agriculture is 12% of employment and contributes substantially to local manufacturing industries that are centred on food processing. Tourism is a growth area for the local government.

Mining is not a substantial employer in the region overall, with less than 4% of employment. Most of this is centred on the Meandu coal mine and adjacent Tarong Power Station. Meandu only supplies Tarong and will be its only supplier for ‘many more years’ according to its owners, state-owned Stanwell Corporation. Outside of Meandu, mining employs less than 1% of workers in the region.

Meandu and Tarong account for a substantial portion of economic output in the region around Kingaroy itself, but as most of the customers and owners of these assets are outside of the region, local benefits are limited. By contrast, most agricultural businesses are locally owned and service industries such as health care and education clearly provide benefits to a large part of the local community. The wider Wide Bay-Burnett region does not have a significant mining industry.

The proponents of the Tarong Basin Coal Project are Moreton Resources, a small ASX listed company with little cash-flow. Earlier incarnations of the company and the project incurred fines for environmental breaches and Moreton is contesting tax issues with the Australian Tax Office.

A major problem for the project is how to get coal to market. With Tarong seemingly not an option, coal would have to be transported a substantial distance by rail or other means. Reconstructing rail would incur ballpark costs of $1 billion and would displace the recent local investment in rail trails for tourists to travel the region by bike.

This project is unlikely to be economic. Projects like Adani’s Carmichael Project have stalled despite the backing of large corporations. While the ‘inside view’ of the company sees value in the project, in the context of the wider Queensland economy and coal industry, it is unlikely to bring economic benefit.

It is unlikely that the Kingaroy coal proposal is in the economic interests of the Kingaroy community, or indeed the wider Queensland public. Policy makers should rule out the project due to the low likelihood of economic benefit, potential environmental and economic risks and the costs associated with ongoing uncertainty the community.

Introduction

The economics of new coal projects have become ever more difficult as renewable energy gets cheaper, governments act on climate change and investors consider the risks of stranded coal assets. The economics of new coal projects in well-known agricultural regions are more difficult still and when proposed by a small company with a history of environmental and tax problems it becomes extremely unlikely that such a project represents a net benefit to the local community or the wider economy.

Yet this is the situation facing Kingaroy, Queensland, where Moreton Resources' Tarong Basin Coal Project, also known as the South Burnett Coal Project, is proposed in one of Australia's iconic agricultural regions. The project faces considerable start-up costs, has limited marketing opportunities and is set in a region focused on agriculture, services and targeting tourism for growth opportunities.

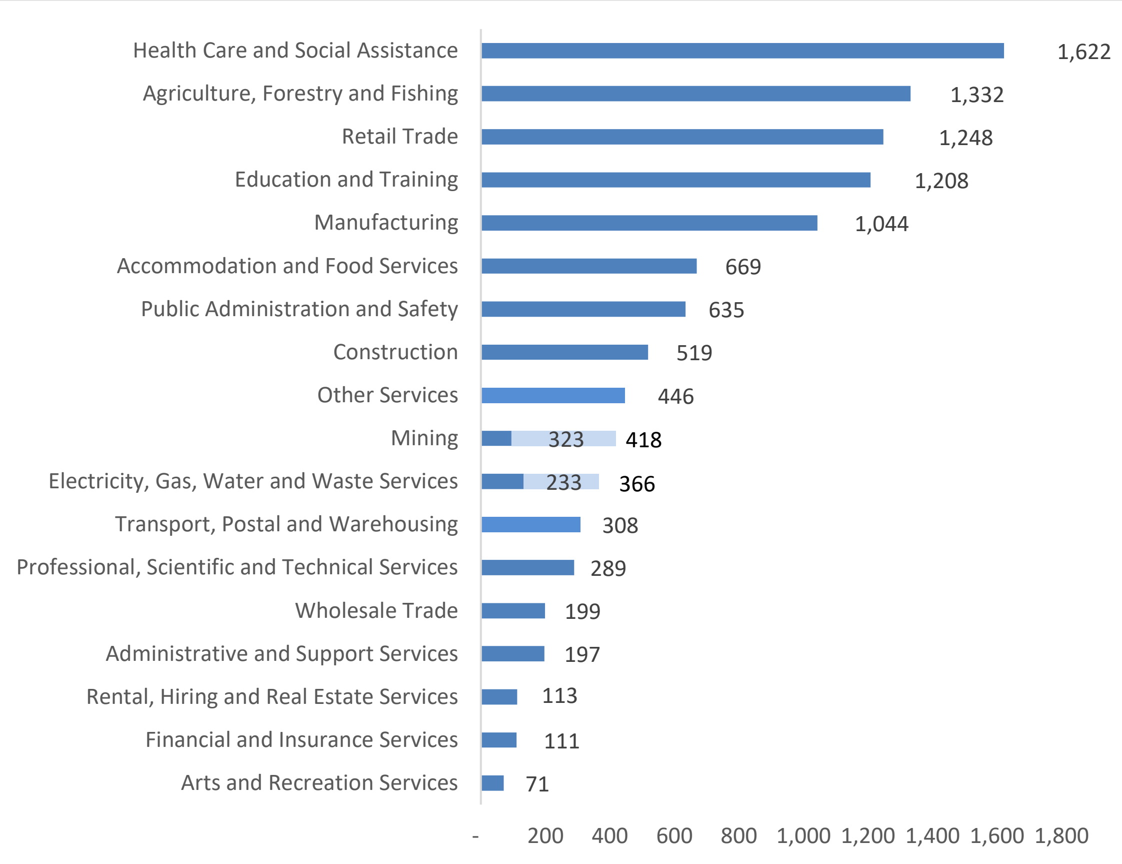
From an economic perspective expanding coal in the Kingaroy region seems to go against wider economic trends and the interests of the local community. It would expose the area to environmental risks which could impact long-term locally owned industries and link it to the future of fossil fuels, which need to be phased out in the coming decades. The Australia Institute has partnered with local landholder groups to undertake this research on the Kingaroy economy and possible impacts of the Moreton Resources project.

Kingaroy economy

EMPLOYMENT

Like most of Australia, and most developed economies, service industries are the dominant employers in the Kingaroy area. Health Care and Social Assistance is the largest employing category. The Kingaroy Hospital is currently undergoing a $66 million redevelopment over the next four years.[1] Retail Trade, Education and Training, Accommodation and Food Services and Public Administration are all significant employers, as shown in Figure 1 below:

Figure 1: Kingaroy district employment by sector



Source: ABS (2016) Census, accessed through TableBuilder Basic – based on Nanango, Kingaroy South, Kingaroy North and Kingaroy statistical areas combined.[2]

[1] Queensland Government (2018), *Kingaroy Hospital Redevelopment,* https://www.health.qld.gov.au/darlingdowns/our-projects/kingaroy-rebuild. Mapstone (2018) *New hospital on track to bring better service*, https://www.southburnetttimes.com.au/news/new-hospital-on-track-to-bring-better-service/3418123/

[2] These areas largely mirror the boundaries of the South Burnett Regional Council with that the exception that the four statistical areas also include the Cherbourg Aboriginal Shire Council (which is not part of the South Burnett Regional Council).

Figure 1 shows that aside from health care, agriculture is the Kingaroy district's largest employer. Census data shows that livestock and grain farming is the largest employing agricultural sub-sector, while the area is also famous as the peanut growing capital of Australia. Other major agricultural products are navy beans, maize and sorghum.[3]

Agriculture also contributes to manufacturing as a large employer. Of the 1,044 people employed in manufacturing as per the last Census, some 70% of those people work in food related manufacturing as the Kingaroy area has a pig slaughterhouse and associated processing facility and a wine industry that produces a variety of table wines.[4] Other parts of manufacturing also depend on agriculture, such as the 11 people working in farm equipment manufacturing.

ABS data does not have a category for tourism, as it consists of various industries including accommodation, transport and retail. As a basic proxy the accommodation and food services sector employs 669 people, as shown in Figure 1 above.

While measuring tourism's economic impact is difficult, it has grown in importance for the region. Wineries have developed around Kingaroy with people employed in hospitality and retail as well as the wineries themselves. The Kingaroy Murgon Rail Trail was opened on 3 October 2017. The South Burnett Regional Council expects this to boost tourism,[5] but Moreton Resources proposes to build a railway or slurry pipeline on the route of the Rail Trail to get its coal to market.

Figure 1 shows that 418 people in the Kingaroy area are employed in mining, approximately 3.8 percent of employment. While this may seem a small portion of mining employment, it is well above Queensland's statewide average of 2.4 percent. Overall mining provides a small portion of employment as it is capital intensive – it relies on machinery and employs few people.

The Kingaroy area's relatively high portion of mining employment is due to Stanwell Corporation's Tarong Power Station and the associated Meandu coal mine. Figure 1 above includes bars relating to the Mining industry and the Electricity, Gas, Water and Waste Services industry, which in total employ 418 and 366 people respectively. The lighter sections of those bars in Figure 1 are the subsectors of Coal Mining and Fossil Fuel Electricity Generation that employ some 323 people and 233 people respectively. This means that outside of Meandu and Tarong, just 95 people in this region work in

[3] South Burnett Regional Council (2018) *Annual Report 2017/18*, p6-7, http://www.southburnett.qld.gov.au/documents/41153986/42951224/2017-18%20%20Annual%20Report%20-%2013%20-%20Full%20Report

[4] South Burnett Regional Council (2018) *Annual Report 2017/18*, p6-7.

[5] South Burnett Regional Council (2018) *Annual Report 2017/18*, p113.

mining – less than one percent of employment. Around 133 work in other aspects of utilities management.

While existing coal mines continue to operate few, if any, new coal mines are commencing operations in Queensland. Amongst the hurdles they face, there is the large costs of developing the initial mining infrastructure and transport links (which existing mines already have in place). There is also no reason for Moreton Resources' proposed mine to supply the nearby Tarong Power Station as the power station's existing Meandu coal mine has enough coal to supply the station for 'many more years'.[6]

While further expansion of fossil fuel generation is unlikely, there is interest in renewable energy in the area. The Cooper Gap Wind Farm is in the region employing 'hundreds' of workers in construction of the 453MW project.[7] The project is due for completion in 2019. When construction is completed employment will reduce substantially, but some workers will be required to monitor and maintain its 123 turbines.[8]

Terrain Solar has proposed a solar farm outside Kingaroy. During construction it would provide direct employment of up to 100 skilled and semi-skilled workers. After construction, it will also employ smaller numbers in monitoring and maintenance of the farm. It has been opposed by some stakeholders,[9] and in November 2018 the South Burnett Regional Council rejected the proposal because it did not protect the agricultural land on the proposed site. The project may move to another location.[10]

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[6] Stanwell Corporation (2018) *Meandu Mine, https://yhejitl3sl24wn203q4vn14z-wpengine.netdna-ssl.com/wp-content/uploads/Fact-sheet-Meandu-Mine-MAY-2018.pdf*

[7] AGL Limited (2018), *Big Blades turn at Coopers Gap Wind Farm*, https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2018/december/big-blades-turn-at-coopers-gap-windfarm

[8] South Burnett Times (2018), *Construction starts on Australia's largest wind farm, 7 February 2018,* https://www.southburnetttimes.com.au/news/construction-start-australias-biggest-wind-farm/3328893/

[9] Loftus (2018), *Everything you need to know about the Kingaroy solar farm,* 14 December 2017, South Burnett Times, https://www.southburnetttimes.com.au/news/everything-you-need-to-know-about-the-kingaroy-sol/3290821/. South Burnett Times (2018), *Will Kingaroy Solar Farm be next?,* 7 Jun 2018, https://southburnett.com.au/news2/2018/06/07/will-kingaroy-solar-farm-be-next/

[10] McGrath (2018) *Solar farm could go ahead despite council rejection*, South Burnett Times, 21 November 2018, https://www.southburnetttimes.com.au/news/solar-farm-could-go-ahead-despite-council-rejectio/3581737/

ECONOMIC OUTPUT

Assessing economic output at a local scale is difficult and controversial. Indeed, measuring economic output at any level is fraught with difficulty. What is counted and what is not has been a subject of debate amongst economists and other commentators for as long as measures such as gross domestic product (GDP) have been in widespread use. GDP does not consider whether a community is made better off, but focuses on the market value of what it produces. No consideration is made of non-marketed services such as housework, and external costs such as environmental damage are ignored completely. The sustainability of an industry is not considered – which is a particular problem when considering extractive industries such as mining. Of course, there are also very important values that are not counted in measures of economic output such as the distribution of that economic output within a community, the cohesion of the community, the health of that community and the beauty and cleanliness of the environment in which that community exists.

Beyond these fundamental problems related to estimates of economic output, more problems are encountered when estimating regional economic output. Where to draw the line of the region or area being assessed is a choice analysts must make and can have a major difference on the apparent structure of the chosen area's economy. Official attempts at defining and measuring regional economies are rare, although Queensland's Treasury does occasionally make 'experimental' estimates. They outline their reasoning for this:

> The statistics are labelled 'experimental' owing to the paucity of economic statistics available at the regional level to assist with more rigorous estimation. As such, care should be taken when interpreting changes at the regional industry level.[11]

The Treasury report estimates gross value added for the Wide Bay-Burnett area

- Manufacturing, health and agriculture are the largest industries, each comprising around 9% of economic output.
- Mining is very small of the region comprising only 2.7% of economic output while electricity, gas, water and waste services which covers a much wider range of services still only comprises 5.2% of output.[12]

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[11] Queensland Treasury (2013) *Experimental Estimates of Gross Regional Product*, http://www.qgso.qld.gov.au/products/reports/experimental-estimates-grp/experimental-estimates-grp-2010-11.pdf

[12] Queensland Treasury (2013) *Experimental Estimates of Gross Regional Product*,

Despite the difficulties noted by Treasury of regional estimates, private consultancies make estimates of regional product down to the level of local government areas. Such estimates are not made by collecting local data on business sales, turnover, etc, but are instead derived from state-wide estimates and locally available data such as the census. As such, the dollar value estimates they provide are unlikely to be reliable, but the percentage shares of output may provide some guide as to changes in the region. The Wide Bay Burnett Regional Organisation of Councils commissioned several of these reports,[13] including one for South Burnett, key results of which are summarised below:

Table 1: South Burnett Region: Gross Regional Product 2013/14

Industry	% of total
Mining	13%
Agriculture, Forestry and Fishing	11%
Electricity, Gas, Water and Waste Services	10%
Ownership of dwellings	9%
Manufacturing	8%
Construction	7%
Health Care and Social Assistance	7%
Retail Trade	6%
Education and Training	5%
Public Administration and Safety	4%
Wholesale Trade	3%
Transport, Postal and Warehousing	3%
Financial and Insurance Services	2%
Professional, Scientific and Technical Services	2%
Accommodation and Food Services	2%
Other Services	2%
Administrative and Support Services	2%
Rental, Hiring and Real Estate Services	2%
Information Media and Telecommunications	1%
Arts and Recreation Services	0%
Total	100%

Source: South Burnett Regional Council (2018) South Burnett Economic Brief, June 2015, http://southburnettdirections.com.au/wp-content/uploads/2016/08/South-Burnett-Economic-Brief-June-2015.pdf

[13] Lawrence Consulting (2015) Wide Bay-Burnett, http://www.lawrenceconsulting.com.au/localeconomy/widebayburnett/wbb.html

Table 1 shows that in the South Burnett Regional Council the Mining sector produced the greatest portion of gross regional product, with Electricity, Gas, Water and Waste Services also a major part of this estimate, with 10%. As discussed above, this relates to the relatively small size of the region, which includes the relatively large Meandu coal mine and Tarong power station.

While these industries provide benefits to the people who work in them, and to the people who buy their end product (electricity), little of the returns of these industries remain in the local economy. Stanwell Corporation is owned by the State Government rather than Kingaroy residents. While mining and electricity generation appear to be large industries in such analysis, their importance for the wider Kingaroy community is less clear, particularly given the relatively small shares of employment shown in Figure 1 above. Furthermore, as discussed above, there is little prospect of expansion of coal mining and power generation, industries which are required to decline in coming years due to their carbon intensity.

By contrast, most agricultural businesses are locally owned and service industries such as health care and education clearly provide benefits to a large part of the local community.

Moreton Resources Limited

OVERVIEW

Moreton Resources Limited is a small ASX-listed resource company, with two major projects, the Kingaroy coal project and the Granite Belt silver mine, acquired from the Queensland Government following its abandonment by the previous mining company. It also has interests in the Surat and Bowen Basins. With little income it has relied primarily on share issues and debt funding from significant shareholders to finance its operations.[14,15]

In September 2018 Moreton lost a case with the Australian Taxation Office (ATO) resulting in a payment to the ATO of $9 million. Moreton will appeal the decision.[16]

The company is undergoing a strategic review and could sell the Kingaroy proposal - a data room has been set up for potential buyers to assess the project.[17] Any steps towards mining approval would add to the price Moreton Resources could receive for the project.

A demonstration of this process of monetising steps along the project assessment pathway is the approval Moreton gained for the Texas mine in October 2017. With this approval Moreton revalued the mine to being worth over $13 million and after they paid only $10,003 for the mining licence from the Queensland Government.[18] The Queensland Department of Environment and Science currently holds a $3.96 million final assurance bond for their Granite Belt project[19]. Moreton had managed to

[14] Moreton Resources (2018) Annual Report, p41 and various Moreton Resources ASX disclosure notices particularly Moreton Resources (2017) *Moreton to raise up to $11 million for Granite Belt Re-Start,* 31 May 2017.

[15] Moreton Resources (2018) *Annual Report 2018*, p20, total cash outlay on operating activities and investing activities. http://newswire.iguana2.com/af5f4d73c1a54a33/mrv.asx/2A1100868/MRV_Moreton_Resources_declares_11_Million_in_underlying_profit

[16] Moreton Resources (2018) *Appeal to the Federal Court against ATT decision on R&D*, 9 October 2018, https://newswire.iguana2.com/af5f4d73c1a54a33/mrv.asx/2A1109362/MRV_Appeal_to_Fedral_Court_against_AAT_R_D_Decision

[17] Moreton Resources (2018) *Market Clarification - Strategic Review – South Burnett Coal Project,* *https://www.asx.com.au/asxpdf/20181129/pdf/440sbnlj1gfhkh.pdf*

[18] Moreton Resources (2018) *Annual Report,* p39.

[19] Moreton Resources (2018) *Annual Report,* p36.

negotiate the bond down from a previously proposed $11.5 million bond.[20] Despite mining approval being gained, Moreton says re-commissioning of its Texas silver mine faces operational and environmental challenges.[21] The difficulties and cost of developing re-opening the Granite Belt mine have been a significant reason behind Moreton's current strategic review.

TARONG BASIN PROJECT

Moreton Resources has a long history of attempting to develop its Kingaroy site. From 2007 Moreton Resources (under a previous name, Cougar Energy) tried to develop underground coal gasification at the site. However in 2010 and 2011, the Kingaroy pilot plant was shut down by authorities after carcinogenic substances were detected.[22] In September 2013 Cougar pleaded guilty to contravening environmental conditions and was fined $75,000 plus $40,000 costs.[23] Following this, there was a change in board members and management, the company changed its name to Moreton Resources and it focussed on developing other proposals and changed approach at Kingaroy. The current proposal aims to produce 10 million tonnes of coal per year (Mtpa) and claims a coal resource of 517Mt (134Mt measured, 384Mt indicated).[24]

A key challenge for the Moreton Resources Kingaroy proposal is what to do with the coal. In the past, Moreton Resources has speculated that it could sell its coal to the nearby Tarong Power Station. However that appears quite unlikely. Stanwell Corporation which owns Tarong Power Station states that its Meandu Mine (which

[20] Moreton Resources (2018) *Update on MRV Metals Financial Assurance*, 20 March 2018. https://newswire.iguana2.com/af5f4d73c1a54a33/mrv.asx/2A1072244/MRV_Update_on_Financial_Assurance_Decision_for_MRV_Metals.

[21] Moreton Resources (2018) *Annual Report,* p5.

[22] The Australian Dairyfarmer (2010) *Outrage at Cougar gas water contamination,* 16 July 2010, http://adf.farmonline.com.au/news/state/agribusiness/general-news/outrage-at-cougar-gas-water-contamination/1887610.aspx

[23] Courier Mail (2018) *Cougar Energy fined $75,000 for releasing cancer-causing chemical into groundwater at Kingaroy,* 24 September 2013, https://www.couriermail.com.au/news/queensland/cougar-energy-fined-75000-for-releasing-cancer-causing-chemical-into-groundwater-at-coal-seam-gas-trial-at-kingaroy/news-story/7b5bd2ec9979a5c284e2874a89f532d7

[24] Moreton Resources (2018) *Annual Report,* p3, https://newswire.iguana2.com/af5f4d73c1a54a33/mrv.asx/2A1100868/MRV_Moreton_Resources_declares_11_Million_in_underlying_profit; Moreton Resources (2018) *About South Burnett Coal Project,* *http://moretonresources.com.au/subsidiary-overview/mrv-tarong-basin-coal/mdl-385/*

supplies the mine via a 1.5km pipeline) has enough coal to supply the power station “for many more years”.[25]

The other option is transporting product coal. This would require either a railway line or coal slurry pipeline to connect to other infrastructure 131 kilometres away. This option would likely use the route of the old Kingaroy branch railway line. A significant part of this route has just been made into a rail trail to boost tourism.[26] The railway line or coal slurry pipeline would severely disrupt the rail trail, reducing the value of the council’s investment and likely making use as a rail trail impossible.

The requirement to build a railway line would require a large investment which would put the Kingaroy coal project at a severe cost disadvantage compared to existing mines and possibly make it uneconomic. EY estimated that railway lines cost between $8 million to $74 million per kilometre to build in Australia with an average of $37 million per kilometre. On this basis, a railway mine would cost at least $1.0 billion.[27]

These challenges mean the proposal is unlikely to be economic. As Australia’s energy system moves away from coal and world markets are flat or declining, new coal projects in undeveloped areas are struggling economically. Despite the backing of large multinational mining companies, projects like Adani’s Carmichael Project and Glencore’s Wandoan mine are delayed due to a range of related factors including lower than expected coal demand and price, climate action, falling costs of renewable energy and abundant existing supply of thermal coal.

[25] Stanwell Corporation (2018) *Meandu Mine, https://yhejitl3sl24wn203q4vn14z-wpengine.netdna-ssl.com/wp-content/uploads/Fact-sheet-Meandu-Mine-MAY-2018.pdf*

[26] South Burnett Regional Council (2018) Annual Report 2017/18, p113, http://www.southburnett.qld.gov.au/documents/41153986/42951224/2017-18%20%20Annual%20Report%20-%2013%20-%20Full%20Report

[27] EY (2011*) Infrastructure - Project Cost Benchmarking Study*, p58 https://www.parliament.nsw.gov.au/lcdocs/other/8460/111121%20Transport%20for%20NSW%20Unfrastructure%20Project%20Cost%20Benchmarking%20Study.pdf

Kingaroy coal in wider context

Anybody who has undertaken a major house renovation will know that the project takes longer than expected and costs more than planned. The same outcomes occur in major projects. Assessments of major projects almost always over-estimate benefits and under-estimate costs. This is well documented, particularly by megaproject expert, Bent Flyvbjerg, and in the work of Nobel Prize Winner for Economics Daniel Kahneman and his colleague Amos Tversky.

Their work identifies systemic flaws in major project assessment including:

- Optimism bias – where analysts underestimate the costs, completion times and risk of planned actions, whereas they overestimate the benefits of the same actions.
- Planning fallacy – the tendency for people involved to base their forecasts of the future on the best case rather than the likely case.
- Strategic misrepresentation – where proponents have an incentive to present the best case to investors and regulators.
- Principal agent theory – where an agent or consultant has an incentive to deliver work that furthers the interests of their principal or client. [28]

The Australia Institute has participated in many major project submission processes in Australia, including mining projects in Queensland, and these flaws exist in virtually all projects we have assessed.

Kahneman and Tversky say those involved with a project take *the inside view*. People who take the inside view:

- make forecasts by focusing tightly on the project at hand, considering its objective, the resources they brought to it, and the obstacles to its completion; and
- construct in their minds scenarios of their coming progress and extrapolate current trends into the future.

[28] Kahneman & Tversky (1979) *Prospect theory: An analysis of decisions under risk* in Econometrica, 47, p 313–327; Kahneman & Tversky (1979) *Intuitive prediction: Biases and corrective procedures* in Makridakis & Wheelwright (eds) *Studies in the Management Sciences: Forecasting*, vol 12

This results in overly optimistic forecasts.[29] Kahneman and Tversky contrast the inside view with the *outside view*. The outside view examines the experiences of a class of similar projects, lays out a rough distribution of outcomes for this reference class, and then positions the current project in that distribution.[30] Taking the outside view and considering the Kingaroy project in the context of other greenfields coal projects in Queensland, such as all Galilee Basin projects and most in the Surat Basin, there appears little likelihood of success.

[29] Flyvbjerg (2008) *Curbing Optimism Bias and Strategic Misrepresentation in Planning: Reference Class Forecasting in Practice* in European Planning Studies 16:3-21, p 9, https://www.researchgate.net/publication/233258056_Curbing_Optimism_Bias_and_Strategic_Misrepresentation_in_Planning_Reference_Class_Forecasting_in_Practice

[30] Paraphrasing Flyvbjerg (2008) *Curbing Optimism Bias and Strategic Misrepresentation in Planning,* p 9

Conclusion

The Kingaroy region has a well-established agriculture and service industries which form the basis for most employment in the region. The Meandu Mine and Tarong power station account for most of the mining and utility activity in the region. While statistics present these as key sources of economic output, they are not locally owned and more importantly, are unlikely to expand as the National Electricity Market moves to cleaner alternatives. Outside of Meandu, there is little mining in the region.

A new coal proposal seems out of place in this context, going against the grain of the existing economy and the likely future trends of the energy sector. Moreton Resources seem unlikely to have the financial resources to develop the project, while its ongoing existence brings disruption and uncertainty to other industries. With this background it is unlikely that the Kingaroy coal proposal is in the economic interests of the Kingaroy community, or indeed the wider Queensland public. Policy makers should rule out the project due to the low likelihood of economic benefit, potential environmental and economic risks and the costs associated with ongoing uncertainty the community.