New coal mine proposals in Tasmania appear to be aimed more at increasing the value of the company and extracting government subsidy than at developing a mine that could deliver value for the Tasmanian community.
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A proposal by Midland Energy to develop new coal mines in Tasmania is in the headlines and has received a $50,000 grant from the State Government. While the company is talking up its prospects, most of its claims do not stack up.

Midland Energy claims that coal demand is “rampant” in Asia and increasing globally. Growth in Asian coal demand was indeed rampant from around 2000 to 2011, the year Midland Energy was founded. Since then there has been little growth, with demand declining between 2013 and 2015. Globally, coal demand peaked in 2013.

Under the International Energy Agency’s analysis, coal demand remains flat under current policies, but declines rapidly under the Paris Agreement.

Midland Energy claims that Tasmania’s “proximity to Asia” will be a competitive advantage. However, Tasmania is further from Asian markets than all other major coal suppliers such as China, Indonesia, Queensland, New South Wales, Mongolia, Russia and even South Africa. Every shipment of coal from Tasmania to northern Asian ports would incur an extra $100,000 in shipping costs compared to Queensland ports.

Midland Energy suggests its mines will be low cost. This is unlikely given the extra shipping costs and capital investment necessary for a new mine. Most new mines in Australia look to spread capital costs across large coal volumes. The newest mine in NSW produces 10 million tonnes per annum (MTPA) while Queensland’s new projects aim for up to 60 MTPA. Midland Energy is looking to produce initially just 1 MTPA, with a longer term goal of reaching 3 MTPA. On a per tonne basis, it will be difficult for this mine to compete without further and larger government subsidy.

Midland Energy claim coal exports make up 15% of Australia’s GDP. This is incorrect. The real figure is just 2.2%. Energy coal for power stations, such as would be produced by Midland Energy, would be less than half this figure.

New mines in the Midlands would compete with agriculture for water use. A basic estimate of Midland Energy’s water requirements is up to 750 million litres per year.

The Midland Energy proposal dates from 2011, the peak of the global coal boom when prices were high and demand seemed set to grow indefinitely. Other coal white elephants like Adani date from around the same time. The current round of publicity appears to be aimed more at increasing the value of the company and extracting government subsidy than at developing a mine that could deliver value for the Tasmanian community.
Introduction

The Tasmanian economy has performed well over the past five years. Employment has increased by 9,600 jobs, or 8.2% in the five years to November 2018.¹ The unemployment rate decreased from 7.2% in August 2014 to 6.6% in August 2019.² GSP per capita has increased by $3,377 from June 2014 to June 2018, outperforming Victoria, Queensland and South Australia.³

Much of Tasmania’s success has been driven by tourism sector growth, supporting the job-heavy hospitality and retail trades. Much of this success is attributed to the clean, green image of the state.

Tasmania has this image partly because it does not mine or burn significant amounts of coal, unlike NSW, Victoria and Queensland. The island state’s historic investment in hydro-electricity means the state on average runs on 90% renewable energy.

In this context, it is hard to imagine a Tasmanian government of any political persuasion wanting to embroil the state in the coal industry.

Despite this, in May of this year, Midland Energy Pty Ltd received a $50,000 grant from the state government to explore for coal. The company has also created an American ‘special purpose vehicle’, Midland Energy America, to facilitate direct US investment into Midland Energy’s capital raising program.⁴

The following briefing paper looks at some of the claims by the Midland Energy and its American entity.

Fact checking Midland Energy

SELLING LOW COST COAL TO ASIAN MARKETS

**American Company statement:**
Utilizing abundant existing state owned infrastructure and our proximity to Asian markets, Midland Australia is confident of achieving its vision of developing a low cost, high profit margin coal mining business to take advantage of Global demand.⁵

**Fact check:**

*Proximity to Asia*
Tasmania’s Midlands are further from Asian markets than all other major coal suppliers such as China, Indonesia, Queensland, New South Wales, Mongolia, Russia and even South Africa.

Hobart is four extra shipping days to Chinese coal ports than Queensland’s Gladstone and two extra days from Newcastle NSW. Abbot Point, Queensland is a day closer to Mumbai than Hobart, while South Africa’s major coal port, Richard’s Bay, is a full week closer to Mumbai.⁶

Additional shipping costs are significant. Daily rates for coal shipping vessels are currently around $26,000.⁷ With the two- to four-day difference with NSW and Queensland ports, every shipment of coal from Tasmania to Asia costs an extra $50,000 to $100,000.

*Low cost*
With higher shipping costs and a need to invest capital in developing a new mine, it will be hard for Midland Energy’s mines to be cost competitive against closer, existing mines. Furthermore, other new mine proposals are much larger, in order to spread these costs across a greater volume of coal. While Midlands aim to produce 1 to 3 million tonnes per annum (MTPA), the last new mine to begin in NSW produces around 10 MTPA, while the new proposals in Queensland’s Galilee Basin, such as Adani’s

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Carmichael Mine, are targeting up to 60 MTPA.\(^8\) On a per-tonne basis, it is hard to see how a new coal mine in Tasmania can be economically viable without large government subsidies.

*State-owned infrastructure*

Tasmania is well serviced by road, rail and ports. The question is what will be the cost of accessing the rail lines and who will fund the coal loaders required at the port?

Nationally, there is an estimated ‘spare’ capacity for coal at east coast coal ports. The Port of Newcastle, the world’s largest coal port, recently scrapped its plans to expand its coal export capacity (the T4 terminal) due to lack of demand growth.\(^9\) The Wiggin Island Coal Export Terminal near Gladstone has been operating at a fraction of its potential capacity for years as forecast demand has not materialised. If the Port of Newcastle doesn’t see room for expansion, why would Tasports incur any upfront costs of entering a new market?

**GLOBAL AND ASIAN COAL DEMAND**

*Midland Energy statement:*

With the rampant growth of Asian export markets, the company is confident of achieving its vision of developing a low cost– high profit margin, coal mining business to take advantage of growing global demand.\(^10\)

*Fact check:*

Growth in Asian coal demand was indeed rampant from around 2000 to 2011. Since then there has been little growth, with demand actually declining between 2013 and 2015, as shown in Figure 1 below:

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Figure 1: Asian and world coal demand

Source: BP (2019) Statistical review of world energy

Figure 1 shows that while world coal demand increased slightly in 2017 and 2018, it is still at levels below the peak in 2013. As climate policies are implemented and renewable energy becomes cheaper, demand for coal is likely to decline.

The International Energy Agency projects energy supply and demand based on government policies. The Sustainable Development Scenario focuses on achieving economic growth, universal energy access and meeting climate goals. In this scenario, global coal use goes into immediate and sustained decline.

Figure 1: IEA sees falling coal demand in Sustainable Development Scenario

Even in the New Policies Scenario, based on current government policies, the IEA sees largely flat demand for coal out to 2040, with very little growth in Asia. It is also important to note for two decades the IEA’s New Policies Scenario has underestimated solar uptake every following year.

Figure 2: IEA sees flat coal demand in New Policies Scenario

Australia and other international suppliers have capacity to meet much of this demand from existing and approved coal mines. There is no need for a new coal mine in Tasmania.

**COAL IN THE AUSTRALIAN ECONOMY**

*Company claim:*

Coal is currently Australia’s most valuable export (15% of Australian GDP 2018).\(^1\)

*Fact check:*

It is unclear why this is relevant to investors. At any rate, it is incorrect.

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\(^1\) Midland Energy America (2019) *Introduction to our company*, [https://midlandenergyamerica.com/](https://midlandenergyamerica.com/)
Coal is currently responsible for between 2.2% of Australia’s GDP, according to ABS figures.\(^\text{12}\)

Coal is a bigger share of exports. In 2018 coal was 15% of Australian exports by value.\(^\text{13}\) However, as Australia’s mining industry is mostly foreign owned, most of the profits are also exported.

The value of coal exports is volatile and has increased in recent years because of changes in coal prices, even as export volumes have been flat and below the peak.

The proposed new Tasmanian mine would produce energy coal. Prices have increased far less for energy coal than steel-making coal in recent years. Energy coal is only 5% of Australian exports by value.

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What the company doesn’t say

SUBSIDIES

Midland Energy has already received a grant of up to $50,000 under the Exploration Drilling Grant Initiative. This is unlikely to be the last subsidy the company would look for should the mine go ahead.

Supporting the coal industry has historically cost other states many billions of dollars. From 2009 to 2014 the Queensland Government spent over $8 billion on coal mining and related infrastructure. The Queensland Government itself clearly rejected claims that these costs were recovered from industry, and went on to explain that

**Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.**

The proposed mine is somewhat like Adani’s mine proposal in Queensland, in that it would be the first mine in the area and new infrastructure would be needed. Adani enjoys offers of taxpayer subsidies from all levels of government. State government subsidies on offer to Adani include free unlimited groundwater during mine dewatering and a royalty subsidy of potentially hundreds of millions of dollars. Even in Queensland, coal royalties are a smaller share of the state budget than motor vehicle fees and duties, or than payroll tax.

It is likely if this project proceeds the company would start asking for support from the government. It would make better economic sense to spend taxpayer funds on public services, infrastructure and sustainable development than on a coal mine.

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14 Peel et al. (2014) *Mining the Age of Entitlement: State government assistance to the minerals and fossil fuel sector*, [https://www.tai.org.au/content/mining-age-entitlement](https://www.tai.org.au/content/mining-age-entitlement)


COMPETITION WITH AGRICULTURE FOR WATER RESOURCES

Coal mining requires water for a number of functions such as reducing the hazard of fire, managing dust created when the coal is crushed and for general equipment maintenance. The World Resources Institute identifies Australia as a “high stress” country for water supply.18

Woodbury and Jericho, the two proposed sites for Midland Energy’s mines lie within the Southern Midlands of Tasmania, sitting in the rain shadow of the Central Highlands. Average rainfall for the region is below the states average at just 450–500 millimetres.19 In 2014 the Midlands Water Scheme commenced operation, to service agricultural land surrounding a number of midlands towns, including Jericho and Woodbury. The scheme accesses water from Hydro Tasmania’s Arthurs Lake and aims to supply 38,500 megalitres (ML) of water per year to irrigators.

18 Luo et al (2014) Identifying the Global Coal Industry’s Water Risks, 
19 Southern Midlands Council (n.d.) Weather and Climate, 
Conclusion

The world needs to use less coal to avert dangerous climate change. Coal markets are flat and forecast to decline further. Existing coal regions are already struggling with how to transition their local economies away from coal and to develop other industries.

Given this reality, it is a peculiar time for Tasmania to consider developing new coal mines. New mines in Tasmania are likely to require considerable government subsidy to remain viable, money that could be better spent on public services and more sustainable industries.

The Midland Energy proposal is not new. The company has been in existence since 2011. As shown above, 2011 was the peak of the coal boom, when prices were high and demand seemed set to grow indefinitely. Other coal white elephants like Adani date from around the same time. The current round of publicity appears to be aimed more at increasing the value of the company and extracting government subsidy than at developing a mine that could deliver value for the Tasmanian community.