

## LEGISLATIVE CONTEXT FOR ECONOMIC ANALYSIS IN EIA

### Environmental Planning and Assessment Act 1979 and Environmental Planning and Assessment Regulation

- The basis for economic analysis under the *Environmental Planning and Assessment (EP&A) Act 1979* emanates from:
  - the definition of the term “environment” in the EP&A Act which is broad and includes the social and **economic** environment, as well as the biophysical environment;
  - the “objects” of the EP&A Act which includes “*promoting the social and **economic welfare of the community**”;* and
  - Clause 7(1)(f) of Schedule 2 of the EP&A Regulations which requires environmental assessment to provide “*the reasons **justifying** the carrying out of the development, activity or infrastructure in the manner proposed, having regard to biophysical, **economic** and social considerations...*”
- Objects of promoting economic welfare and requirements to justify a project having regard to economic considerations are consistent with the use of BCA. A Note to Clause 7 (1) (f) states that “A cost benefit analysis may be submitted or referred to in the reasons justifying the carrying out of the development, activity or infrastructure.”

### Secretary's Environmental Assessment Requirements

- A project's SEARs vary from case to case but can include a requirement for:
  - The reasons why the development should be approved having regard to biophysical, **economic** and social considerations, including the principles of ecologically sustainable development.
  - An assessment of the likely economic impacts of the development, paying particular attention to:
    - the significance of the resource:
    - economic benefits of the project for the State and region; and
    - the demand for the provision of local infrastructure and services.
- The provision of economic reasons for why a development should be approved is consistent with the use of BCA. Economic benefits for the State and region is also consistent with BCA as well as economic activity analysis, while the demand for the provision of local infrastructure and services is more appropriately dealt with in Social Impact Assessment. The relevance of the significance of the resource in an economic context is discussed further below.

### Other Economic Guidelines

- In 2012 the NSW Government prepared the draft *Guideline for the use of Cost Benefit Analysis in mining and coal seam gas proposals*. This provides an outline of how to undertake of BCA of mining and coal seam gas proposals and identifies that the proponent has the option to submit a BCA with their development application. It identifies BCA as a tool to inform decision-makers.
- NSW Treasury (2007) *NSW Government Guideline for Economic Appraisal*, provides guidance for Government agencies on how to undertake BCA of significant spending proposals, including

proposed capital works, projects and new programs across all public sector agencies. However, many of the principles have broader application.

### **The State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) Amendment (Resource Significance) 2013**

- The Mining SEPP identifies that the consent authority must consider the significance of the resource having regard to:
  - the economic benefits, both to the State and the region including the following matters (without limitation): employment, expenditure including capital investment, and the payment of royalties to the State;
  - any advice from the Director-General of the Department of Trade and Investment, Regional Infrastructure and Services as to the relative significance of the resource in comparison with other mineral resources across the State.
- The Mining SEPP specifically refers to the economic benefits to the State and region and refers to specific economic benefits (**without limitation**) which include:
  - Employment:
    - In standard BCA, employment is generally considered as an economic cost (rather than a benefit), although recent developments in non-market valuation have shown that in addition to the market economic costs of employment to the community the broader community may have non-market values for other people's employment – based on altruism;
    - In economic activity analysis, such as IO analysis or CGE modelling, employment is a measure of economic activity rather than a benefit.
  - Expenditure, including capital investment:
    - In standard BCA, capital and other expenditure are economic costs not economic benefits;
    - In economic activity analysis, expenditure provides direct and indirect economic activity in the region, State or Nation, including employment.
  - Royalties
    - In standard BCA, royalties represent one component of the total net production benefit (producer surplus) generated by a project. This component directly accrues to NSW. Other components of the total net production benefit include company tax and net profit.
    - In economic activity analysis, such as IO analysis or CGE modelling, royalties are part of the value-added of a project – a measure of economic activity.
- Economic benefit has a very specific meaning in economics. It relates to producer and consumer surpluses. Producers of goods and services generate producer surpluses by combining resources in ways that increase their value to society. The producer surplus of a mining project essentially relates to revenues less resource costs i.e. net production benefits. Consumer surplus relates to the willingness of consumers to pay for a good or service over and above what they have to pay for it and extend to non-market environmental, cultural and social goods and services.

- The “**without limitation**” provision of the Mining SEPP allows these strictly defined economic benefits (producer and consumer surpluses) that are estimated using BCA to also be taken into account by the decision-maker.
- With respect to the relative significance of the resource, the Mining SEPP refers to:
  - the size, quality and availability of the resource;
  - the proximity and access of the land to which the application relates to existing or proposed infrastructure; and
  - the relationship of the resource to any existing mine; and
  - whether other industries or projects are dependent on the development of the resource.
- While it is possible to qualitatively consider the relative significance of a resource compared to other mineral resources, from an economic perspective the relative significance of a resource, its proximity and access to infrastructure and relationship to any existing mine has no particular meaning. A more “significant” resource has no greater economic claim than a less “significant” resource. What is primarily relevant is whether the benefits of mining that resource outweigh the costs.
- The extent to which industries are dependent on the development of a resource can be modelled using IO analysis or CGE modelling.