Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

**RE: Submission to inquiry into Environment Protection and Biodiversity Conservation Amendment (Retaining Federal Approval Powers) Bill 2012**

Economists at Large wish to make a submission to the inquiry into the Environment Protection and Biodiversity Conservation Amendment (Retaining Federal Approval Powers) Bill 2012. Economists at Large is a Pty Ltd economic consulting company that undertakes paid and pro-bono economic research for clients in Australia and internationally. Much of our work focuses on public interest economics. As such, we are interested in developments regarding the EPBC Act in Australia.

We support the proposed amendments aiming to limit the ability for the Federal Government to transfer responsibility for approving projects of a significant nature to states and territories.

We support the proposed amendment to the EPBC act to retain federal approval powers for five reasons, which we expand on below:

1. There is an inherent conflict of interest in furthering the powers of state governments to approve projects from which they will derive revenue. state Governments' desire for increased revenue may act as a disincentive to adequately assess the environmental and social costs of a particular project and to act on this assessment.
2. There is limited empirical evidence to suggest that the current arrangement is hampering investment or imposing unreasonable costs on individual projects, commensurate with the risk of the project.
3. The EPBC Act should be concerned with effectiveness as much as it is concerned with efficiency. The benefits of federal oversight in improving environmental outcomes and public confidence in approvals processes should not be ignored.
4. There is little empirical evidence that links removal of "green tape" with improved productivity and enhanced competition.

5. Economic assessment of projects commissioned by project proponents need independent review which state government planning departments are proving unable to provide. Federal and other independent reviews have shown serious flaws in economic assessments that have passed state approval. Diminishing federal powers would reduce opportunity for greater economic scrutiny of projects.

The first point is a political economy issue and we believe warrants no further explanation. Indeed, other submissions have also raised this point.

We will focus our submission on points number two, three, four and five.

**1. Conflict of interest.**

Increasing states' powers to approve projects in which they have a financial interest is a clear conflict of interest. Where projects threaten nationally significant environmental and social assets, costs of the project will be borne by the nation, but financial benefits will accrue largely to state governments. The national interest is not served by reducing federal powers in such cases.

**2. Does federal oversight impose unreasonable costs?**

In late 2012 Economists at Large were commissioned by the Australian Conservation Foundation to assess claims made by the Business Council of Australia in favour of streamlining environmental assessments and approvals[1]. We concluded that there is little evidence that 'green tape' imposes a significant cost on business when put into the context of other development costs. Our analysis showed that the costs of the EPBC Act in its current form over its first nine years equal between just 0.03-0.09% of the current investment pipeline for large scale projects in Australia.

Our research also suggested that the cost of individual referrals under the EPBC Act as it stands were highly variable, from less than $1,000 to over $100,000. No data is available in the literature to compare these costs to the project size in order to see relative size of the costs.

[1] Full report available at: www.ecolarge.com/work/response-to-bca-discussion-paper-on-environmental-assessment-and-approval/

We also investigated the claim that delays reduce revenue to state governments. These claims are misleading and equate delayed revenue with lost revenue. While delaying revenue does impose a cost, it is in no way comparable with losing the revenue source altogether.

While state governments and proponents have an interest in "fast-tracking" projects, hasty approvals without proper oversight may impose greater costs on a wider group of stakeholders in the community. A change to the EPBC Act that might lower costs to one group of stakeholders (project proponents and state governments) while at the same time increasing costs to local communities or the Australian public is not desirable.

**3. The benefits of federal oversight and effectiveness of EPBC Act should not be ignored**

The effectiveness of the EPBC act in achieving environmental outcomes should be equally of concern along with issues of cost or efficiency. The Associate Director of the Australian National University Centre for Climate Law and Policy, Andrew Macintosh, raised this point in a review of the cost-effectiveness of the Act (Macintosh 2009).

> *The EPBC Act was intended to limit the Commonwealth's involvement in EIA to particular issues of national importance. It was also intended to improve the efficiency with which projects were handled in EIA processes. The price paid for the efforts made to achieve these objectives was a reduction in the legislation's capacity to achieve environmental goals. (p.359)*

Quantifying the benefits of the EPBC Act is a difficult task because it would involve estimating many non-market values. The EPBC act has arguably saved the Mary River Turtle, by overturning approval of the Traverston Crossing Dam project. This clear benefit of the act is difficult to quantify, but is nonetheless a tangible benefit. Such benefits need to be considered alongside estimation of costs.

Giving greater control of approvals to state governments may reduce the public's confidence that the environment is being valued objectively and in the economic interests of all Australians, rather than short-term financial interests of project proponents.

**4. Little evidence linking 'green tape' with productivity and competition**

The BCA provided little to no evidence linking the removal of 'green tape' with increased productivity or competition. The underlying causes of productivity growth are difficult to disentangle as highlighted by a study into Australian productivity by D'Arcy and Gustafsson

(2012). We do not feel that a good case has been made to show that streamlining environmental assessments and approvals would have any impact on productivity.

With regard to competition, we are concerned that without federal oversight, a 'race-to-the-bottom' may ensue between states and territories trying to create favourable conditions for major projects. A lack of homogenous standards across Australia may in such circumstances actually hinder competition.

**5. Issues with economic assessments**

Economists at Large are frequently asked to review economic assessments commissioned by project proponents and submitted to state planning processes, often as an appendix of Environmental Impact Assessments. These assessments invariably overstate projects positive impacts – jobs, revenue, etc – while understating environmental and other costs. In most states cost benefit analysis is not required or conducted, despite the recommendations of treasuries and finance departments.

Project economic assessment often consists only of input-output analysis, which always overstates positive impacts, includes no consideration of labour market or exchange rate impacts of major projects. With minerals projects exerting considerable pressure on exchange rates and other industries, simplistic analysis at the state level is unacceptable.

**Conclusion**

In summary, we believe there are five main reasons why maintaining federal oversight of approvals for projects likely to have a significant environmental impact is in the interests of the Australian economy. We have outlined these reasons above. Any calls for streamlining approvals or delegating greater responsibility to the states would imperil further the integrity of a process that is already too focused on efficiency at the expense of effectiveness.

Tristan Knowles - Director
Economists at Large Pty Ltd
www.ecolarge.com

**References**

D'Arcy, Patrick, and Linus Gustafsson. 2012. *Australia's Productivity Performance and Real Incomes*. *Bulletin*.

Economists at Large (2012) *A response to the Business Council of Australia's Discussion Paper for the COAG Business Advisory Forum: On environmental assessments and approvals*, prepared for an alliance of Australian environment groups, prepared by Economists at Large, Melbourne, Australia.

Macintosh, Andrew (2009) *The Environment Protection and Biodiversity Conservation Act 1999 (Cth): An evaluation of its cost-effectiveness.* Environmental and Planning Law Journal, Vol. 26, No. 5, pp. 337-362, 2009