

## Australia's Coal Mines: Adani Was a Bad Investment in 2014. It's an Even Worse One Now.

Despite winning approvals and commencing construction, Adani's Queensland coal mine is as controversial as ever.

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*2020 has not been a good year for thermal coal.*

*Trends that were already underway have accelerated as a result of the pandemic. As the energy source with the highest marginal cost of operation, coal has borne the brunt of reductions in electricity demand. As a result, planned closures have been brought forward and new closures have been announced.*

Financial institutions have announced ever more stringent divestiture policies, making new coal mines and coal-fired power stations increasingly uninsurable and unbankable. Insurance premiums for new and existing coal projects [have risen](#).

National governments including major coal consumers like China, South Korea and Japan have announced plans to reach net zero emissions by 2050 or 2060. Reaching this target implies a rapid end to new coal projects, and an accelerated phase-out of existing ones.

It is striking, then, that emerging reports suggest that the State Bank of India (SBI) might lend \$1 billion to Bravus, the absurdly renamed Adani Mining, to finance its Carmichael coal and rail project in the Galilee Basin. A similar proposal, which reached the stage of a memorandum of understanding, was considered and rejected back in 2014.

A source associated with the proposal has been quoted as saying the situation has changed:

Much water has flowed in the last five to six years. The concerns raised in 2014 are no longer there. Most of the local regulatory approvals are in place and the company is expected to start producing coal from 2021 onward.

This is, at best, a half-truth. Despite winning approvals and commencing construction, the mine is as controversial as ever. Even if Bravus succeeds in shipping coal, the pressure to shut the project down will be relentless, and sooner or later, successful. The toxicity of the project is such that even financial institutions without a strong general divestment policy have refused to touch it.

Considered as a commercial investment, the proposed loan looks far worse than it did in 2014, and not just because of the general decline of coal. The original proposal was for a \$6

billion dollar project, producing up to 60 million tonnes of coal a year by 2022. The exposure of SBI, as a senior secured lender, would have been a small fraction of the total project value.

In 2018, however, Adani announced a revised project, with a cost of \$2 billion, to produce 10 million tonnes of coal a year. The proposed loan from SBI would amount to half the project's value. If the project falls short of its goals regarding output, sales price or cost efficiency, SBI will very likely be exposed to some of the loss.

The problems continue at the other end of the chain. The project has always been envisaged as a "pit to plug" operation, with coal from Carmichael being delivered (via Adani-owned railway, port and shipping) to Adani's power plants in India.

The most important candidate is the proposed Godda power station, which has a contract to export power to Bangladesh at prices that aren't competitive with low-cost renewable energy, or even with other coal-fired power. Now that Bangladesh looks like abandoning or scaling back its coal-based strategy for domestic electricity generation, this contract could well be repudiated or renegotiated.

The only thing that has shifted in Adani's favour is the domestic political situation in India. In 2014 Narendra Modi was a populist demagogue, fond of cronyist politics, but most of the institutions of Indian democracy were functioning as checks on outright corruption. During the Trump presidency, Modi has moved, like others of his kind, towards a personal dictatorship, where these constraints are weaker.

Perhaps he can push SBI to offer his good friend **Gautam Adani** a loan that is unlikely to be repaid.

However, it's been some time since news leaked of the supposedly imminent decision on the loan. Perhaps the board of SBI has seen sense. Or perhaps the rumour was never solidly based. With luck, the whole idea will simply fade away.

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