

## Da Vinci, Picasso and Minister Tony Burke

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It has become commonplace for proponents of projects or supporters of a particular government policy to commission consultants' reports and to issue press releases purporting to represent the argument contained therein.

We rely on the integrity of these summary representations. As non-experts, we are often in no position to evaluate the consultant's report for ourselves.

A well-informed public debate requires an element of trust by the non-expert majority. That trust has long since evaporated in the debate over the economic impact of Gunns' pulp mill. Too often proponents of the mill either misrepresent their own consultants' reports, or reveal that they don't understand them<sup>1</sup>.

As part of their Draft Integrated Impact Statement Gunns supplied a report, carried out by the Allen Consulting Group, which modelled the economic impacts of construction and operation of the mill. Table 8.1 of that report summarises the key economic impacts; relevant results are:

- Discounted present value of Gross State Product impacts : \$6.7b
- Average annual construction phase employment impacts in Tasmania: 2,187 persons
- Peak construction phase employment impact in Tasmania: 3,400 persons
- Average annual operating phase employment impacts in Tasmania: 1,617 persons.

It is important to note, and anyone who understood the methodology of the Allen Consulting report would be clear about this, that the numbers cited above include both direct *and* indirect employment impacts.

A recent press release by Gunns (Wednesday 27 August 2008) indicates that they don't understand the methodology of their own consulting report. In the release Mr Carlton Frame is quoted as saying that

'Modelling conducted by Allen consulting Group shows the project will create 300 direct full time jobs and 1700 indirect jobs over the life of the project. That's 2,000 new jobs for Tasmania'.

This statement is inaccurate in two respects:

- The number of employees required to operate the mill (292 in the draft IIS) is a number supplied by Gunns, not a number generated by 'modelling conducted by Allen Consulting Group'.
- More importantly, the 1700 jobs to which Mr Frame refers (presumably rounded up from 1,617) *already includes* the number of persons required to operate the mill.

The issue is not so much that 1,617 has been rounded up to 2,000 (after all, it is always a good thing to round up when reporting benefits) but that Mr Frame does not understand the logic of his own report.

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<sup>1</sup> A prominent recent example related to forestry was the press release for the IMC-Link report on subsidies to Tasmanian industries. See IMC-Link (2009). This press release was quoted enthusiastically, verbatim at times, by Minister Llewellyn in the Budget Estimates sittings of Parliament. See Hansard, Monday 22 June 2009 - Estimates Committee B (Llewellyn) - Part 2. See also Wells (2009) for a critique.

As a second recent example, take Minister Tony Burke's recent claims on the economic impact of the pulp mill.<sup>2</sup> He said that

'At up to \$2 billion in capital expenditure, the mill would be the largest ever private sector investment in Tasmania, and the largest ever by Australia's forest industry. The economic benefits for Tasmania should not be underestimated. The mill will add an estimated \$6.7 billion to Tasmania's economy. Construction of the mill and flow-on investment would create some 8,000 direct and indirect jobs spread across the trades and other areas. Another 1,500 jobs would be created during operation.'

The \$6.7b boost to the Tasmania's economy is an accurate representation of the Allen Consulting report. But where did the 8,000 jobs come from?

To answer that we need to be clear that there were actually *two* modelling exercises on the economic impact of the pulp mill – a Centre of Policy Studies (CoPS) report prepared for the Tasmanian Treasury in 2004, and Gunns' Draft IIS report, also based on the CoPS model, but prepared 18 months later.

Both these reports analyse the impact of a pulp mill on the Longreach site, with construction spread over a three year period (2005 to 2007 in the first case, and 2007 to 2009 in the second).

Although Minister Burke relied on the second of these reports for his \$6.7b boost to the Tasmanian economy, he based his statement about the employment impact on the first.

Does this selective use of consulting reports matter?

Yes.

In this instance it matters a lot.

To see why, consider the Table below, which summarises results from the two reports.

The three-year sequences of construction costs are given, in bold type, in the first row of the table. Note that construction costs for the project had increased in the 18 month period between the two reports.

Model-generated outcomes for the change in Tasmanian consumption, investment and employment are given in the next three rows.

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<sup>2</sup> Tony Burke, 'Ministerial statement on preparing our forest industries for the future' 24 June 2009. Available at [http://www.daff.gov.au/maff/transcripts/transcripts/2009/june/preparing\\_our\\_forest\\_industries\\_for\\_the\\_future](http://www.daff.gov.au/maff/transcripts/transcripts/2009/june/preparing_our_forest_industries_for_the_future)

<b>Comparison of construction-period impacts reported for two CoPS model studies.</b>						
	Treasury report			Gunns Draft IIS report		
	2005	2006	2007	2007	2008	2009
Construction Investment (\$m)	<b>100</b>	<b>500</b>	<b>400</b>	<b>435</b>	<b>870</b>	<b>145</b>
Real Consumption (\$m)	202	1052.3	468.4	105.9	231.5	162.1
Real Investment (\$m)	254.4	1198.1	697.6	509.5	1066.9	285.7
Employment (thousand persons)	1.7	8.4	2.1	1.7	3.4	1.4

*Sources:* Centre of Policy Studies (2004), Table 2; Allen Consulting Report for Draft IIS (2006), Table C2. Data for the CoPS study are expressed in 2001 prices; data for the Draft IIS study are expressed in 2005 prices.

Differences in model outcomes can be expected because of differences in the construction-cost profiles. The model-generated outcomes are, however, *significantly* different<sup>3</sup>. Compare these results over the three-year construction period:

- In the first report, a cumulative investment of \$1b generates a cumulative increase in consumption of more than \$1.7b; in the second report, a cumulative investment of \$1.45b generates a cumulative increase in consumption of just \$0.5b. In other words the ‘consumption multiplier’ in the first report is *five times* as large as in the second.
- In the first report, the \$1b investment generates a peak-period increase of 8.4 thousand jobs; in the second report, with a larger investment, the peak-period increase in employment is 3.4 thousand jobs. The employment multiplier is *three and half times* as large in the first report as in the second.
- In the first report the induced increases in consumption and investment are roughly the same; in the second report the investment response is up to *five times* as large as for consumption.

Clearly, these differences are large, and one might have expected that the RPDC assessment process, or the public hearings which were to have taken place, would have teased out the reasons for these differences. Instead, this task was left to ITS Global, a consulting firm hired by the Department of Premier and Cabinet to review the economic evidence regarding the economic impact of the mill on the Tasmanian economy. ITS Global took both studies into account, as required by the consulting brief. In a 116-page report costing \$270,980, its comparative analysis of the two studies is recorded in a single sentence, noting that

‘Although the two assessments used somewhat different assumptions – notably for the timing and length of the assessment period as well as the

<sup>3</sup> Table 1 provides comparative results over the three-year construction period. However, the long-run results are also markedly different. For example in the 2004 study the long-run percentage increase in household consumption spending is nearly *twice as large* as the long run increase in Gross State Product; in the 2006 study, these two variables increase by virtually the same percentage.

construction and operating costs of the mill – they obtained *broadly similar* results.’<sup>4</sup>

Those of us with a love of art will appreciate the fact that Da Vinci’s *Mona Lisa* and Picasso’s *Weeping Woman* are both portraits of a woman by a famous male artist. But artistic licence does not stretch so far as to say they are ‘broadly similar’.

Quality control on the ITS Global report was poor, to say the least.



What do we conclude about the veracity of Minister Burke’s statement?

Clearly it is illegitimate to take a \$6.7b impact figure from one study and put it alongside an 8,000 employment impact from another. It’s a bit like having a painting with Mona Lisa’s smile and the Weeping Woman’s eyes.

If Ministers want us to trust the accuracy of their press releases, they have to do better.

### *References*

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<sup>4</sup> ITS Global (2007), p23, emphasis added.