



Peter McLaughlin

The Secretary
Senate Community Affairs Committee
Parliament House
Canberra, ACT, 2600

SUBMISSION TO INQUIRY INTO THE SOCIAL AND ECONOMIC IMPACT OF
WIND FARMS.

Please find attached a submission to the above Inquiry.

I am happy to have the submission posted on the Committee's Website.

I am also happy to have my views subjected to Committee scrutiny.

Yours Sincerely,

Peter McLaughlin
6 February, 2011

SENATE COMMUNITY AFFAIRS COMMITTEE

INQUIRY INTO THE SOCIAL AND ECONOMIC IMPACT OF RURAL WIND FARMS

SUBMISSION BY MR PETER MCLAUGHLIN

Thank you for the opportunity to make a submission to this Inquiry.

INTRODUCTION

I do so as a private citizen, but with a close interest in the wind farm issue, and public policy generally.

My career has been as follows:

- Federal Treasury from 1967 to 1985, from 1983 onwards as First Assistant Secretary;
- 1986 to 1991 with the Business Council of Australia, from 1987 onwards as Chief Executive;
- 1991 to 2001 I built and sold a consulting firm in Organisational Effectiveness;
- Since 2001 I have continued some private consulting and have established a sheep and cattle enterprise north of Melbourne.

In this latter location, I have been involved for the last seven years in a community campaign to stop a large proposed wind farm in a closely settled, high amenity area on top of the Great Dividing Range 100 kilometres north of Melbourne (known locally as the McHarg Ranges) . That threat has now disappeared with the recent change of government in Victoria, as the newly elected Government went to the election on a policy of blocking the development of wind farms in this and other sensitive areas of Victoria.

With no personal axe to grind, I would like to share some reflections that might be useful to the Committee's deliberations on a subject where conflicting views abound.

THIS SUBMISSION

In this submission I wish to comment on three issues:

1. The nature of advocacy by the wind industry and its supporters.
2. The former Victorian Government's approach to the possible health effects of wind farms.
3. The effect of wind farms on land values.

I would expect the Committee to receive numerous submissions going into great detail on the pros and cons of wind farms, and do not propose to rehearse much detail here. The wind power industry is one in which facts and opinions are hotly contested. What I have tried to do below is provide some context and insights that might be helpful in weighing up those contested views.

1 WIND INDUSTRY ADVOCACY

Most industries are subject to some degree of government regulation of one sort or another. This leads them, naturally enough, to represent their industry interests to Government and the community in the best possible light. Experience shows that this will involve behaviour ranging from just putting the best face on things, through to the selective use of facts, covering up inconvenient facts, commissioning favourable research, and so on. Committee members would be used to making allowances for that.

A second and associated rule of business behaviour in protecting its interests, is that the greater the reliance on regulation, the greater the incentive for business to behave in this way, and to invest resources in the process. In earlier times of high border (tariff) protection for manufacturing in Australia, this was known as the 'x - efficiency factor' whereby firms in highly protected industries devoted more energy and managerial skills to lobbying to hold on to their protection than to making themselves more competitive.

Although the circumstances are not the same in the case of wind power, the 'x - efficiency factor' is alive and well. As an industry whose very existence relies on Government distortion of the electricity market in its favour, the wind industry is out on one extreme in terms of the importance it needs to place on lobbying. It could be argued that the main skill required is in influencing and then steering a way through the regulatory and planning processes. Indeed, a discrete niche in the industry involves no more than steering proposed wind farm developments through the regulatory/planning processes before selling the 'ready to go' development on to a wind farm developer/operator.

The relevance of seeing wind power generation as an 'x - efficiency' industry lies in how best to evaluate the advocacy it puts forward. The Committee will receive many submissions pointing out that the industry consistently and habitually:

- Overstates wind's contribution to reducing CO2 emissions;
- Understates the true cost to the community of wind power; and
- Resorts to dubious arguments to deflect or deny serious side effects.

As an industry that would not exist without very large subsidy, and as an industry whose operations are, by their very nature, harmful to the interests and health of innocent neighbouring landholders, it is especially vulnerable and sensitive to criticism. Economists would say that its 'social license' to pocket large subsidies is very tenuous, and continually subject to challenge. It should come as no surprise then that it responds by taking great liberties with facts and arguments. It will be no surprise also if the Committee notices a remarkable similarity in behaviour and use of information by members of the industry. As though there is a 'playbook' in use.

Implications for the Committee

As noted, the Committee will receive many submissions which:

- Question the economic and environmental value of promoting wind energy by interfering in the electricity market in the way the RET scheme does; and
- Point to unbalanced State planning approval processes that result in wind farm projects proceeding without proper regard for the harmful side-effects inflicted on rural communities, including adverse health effects.

Most of the questioning of the economic and environmental claims of the industry will turn on challenging the factual credibility of the information and arguments advanced by the industry. The industry will try to ignore or deny these criticisms. In the early years of the industry it was difficult to challenge its claims empirically. Now there is a track record globally of industry performance, the Committee has the opportunity to look at independent analysis of actual industry performance against claims made. Does it achieve the emission savings it claims? Does it supply the number of houses it claims? Does it come clean on all the costs of wind power?

Weighing conflicting opinions and use of facts is never easy. State Parliamentary Inquiries in Victoria and New South Wales in recent years have, reflecting the relevant State Government policy of promoting the development of renewable energy, taken the easy way out by accepting industry claims. In effect, the Inquiries were 'captive' to the underlying belief behind those policies that since wind power is renewable it is by definition a good thing, implying that significant social or economic impacts might be justified/tolerated for the "public good". Certainly, this is the only way to explain the staunchly pro-industry cast of the Victorian planning guidelines.

The level of criticism and challenge of the industry about its economic/environmental benefits has risen greatly since those inquiries. This Committee will be closely scrutinised as to how open it is to all the views put to it. The belief that wind power is an unambiguously good thing is now being widely challenged. It would be a lost opportunity if that belief were to be accepted uncritically.

There are economic/environmental benefits and costs to be weighed. A key question for the Committee is whether the 'public interest' benefit is as big as the industry claims. Only if that is done can the Committee then make credible judgements about the social impacts, and the burden that local communities should be asked to bear in that 'public interest'.

I RECOMMEND THAT, AS A NECESSARY BACKDROP TO ITS CONSIDERATION OF SOCIAL IMPACTS OF RURAL WINDFARMS, THE COMMITTEE REACH AND PUBLISH ITS OWN ASSESSMENT OF THE EMISSION SAVINGS BENEFIT OF WIND FARMS (THE PUBLIC INTEREST), AND OF THE FULL ECONOMIC COST OF WIND POWER, TAKING INTO ACCOUNT THE FULL RANGE OF EVIDENCE PRESENTED.

Of course, everybody can be tempted to gild the lily in presenting their point of view. I would urge the Committee vigorously to test all relevant claims put before it, whether they be claims by critics of the industry, by the industry itself, or by environment - oriented government agencies whose record tends to be one of unquestioning advocacy of industry views.

2 HEALTH EFFECTS

The Committee will receive submissions outlining numerous adverse social and economic impacts of rural wind farms. One of the most concerning is the effect on the health of innocent citizens unlucky enough to find themselves living too close to wind turbines.

Although more data needs to be collected and research conducted to tie down the exact cause and extent of the problem, there is substantial anecdotal evidence from all around the world of adverse health effects from wind turbines, evidently associated with low frequency noise and vibration. Certainly, enough to call for caution on the part of government, the companies involved and public health officials. Instead, what we have witnessed in Victoria is government denial of any problem, company denial of any problem, and public health officer denial of any problem. As a result, many innocent citizens have suffered adverse health effects, and many more will do so as a result of several large projects rushed through on the eve of the recent State election in Victoria.

Wind company handling of this issue amounts to a reprehensible failure of Corporate Social Responsibility. It has become almost standard, and predictable, practice in the wind industry in Australia to reply to claims that the low frequency noise of wind turbines can have adverse health effects on some residents where turbines have been placed too close to their homes, by asserting that there is no 'peer reviewed' studies available that prove this to be the case.

In 2010 the Victorian Chief Health Officer was asked by the then State Government to assess affected community concerns. After reviewing some of the literature on

the subject he declared that there was 'no peer reviewed evidence', and referred the issue to the National Health and Medical Research Council.

The NMRC, in turn, conducted what it called a 'rapid response' assessment of claims of adverse health effects, and made exactly the same statement in finding in favour of the industry, ignoring numerous pieces of dissenting peer reviewed research which had been drawn to its attention. It did not seek to speak to or examine the experience or symptoms of dozens of victims who would have made themselves available.

This finding by the NHMRC has been subject to much criticism. Despite that, it is regularly quoted by wind companies in defence of their position. However, some wind companies seem to have less than complete conviction about the defence. While publicly maintaining the 'no peer reviewed evidence' line, some wind companies in Victoria have apparently quietly bought out affected landholders and bound them to secrecy.

There is an eerie parallel between the wind industry's behaviour on this issue, and the behaviour of the tobacco industry forty or so years ago. Parallels exist also with the asbestos industry. Both those industries successfully used similar delaying tactics for decades, in the process inflicting, with Government acquiescence, great violence on many citizens around the world.

Even more regrettably, the former Victorian Government has hidden behind the same language, arguing in a 'Community Cabinet' at Geelong in early 2010 that if individuals had concerns it was up to them to prove that their health problems were being caused by wind turbines. This was extensively documented by Ms Kathy Russell in the August 2010 issue of Quadrant.

It is early days in this area of research. Peer reviewed articles exist and more will undoubtedly follow. More time needs to elapse to fully understand the cause and extent of the health issues. The widespread anecdotal evidence will quickly turn into scientific studies. In the meantime, there is surely a responsibility on Governments to protect their citizens from possible harm, rather than to put the onus on them.

The proper response by the former Victorian Government would have been to acknowledge the growing anecdotal evidence, set up a proper line of inquiry and put some safeguards in place to minimise the harm to its citizens in the meantime.

In most respects the Committee finds itself faced with the same dilemma.

I RECOMMEND THAT THE COMMITTEE ACKNOWLEDGE THE EMERGING EVIDENCE OF ADVERSE HEALTH EFFECTS OF BEING FORCED TO LIVE TOO CLOSE TO WIND TURBINES, AND ARGUE FOR A

MINIMUM 3 KILOMETRE SETBACK AS THE RECOMMENDED AUSTRALIAN STANDARD.

3 IMPACT ON LAND VALUES

Another area where the Committee will be faced with sifting through conflicting views is whether wind farms depress land values of neighbouring property holders. The industry denies the problem and simply asserts that there are no convincing studies which unambiguously show value depression. My submission is that we will look in vain for a long time yet for statistical studies which will completely resolve this issue.

Briefly, this is because every situation will be different, land values in different situations will be driven by different factors, both of these making large statistical studies inherently difficult. For reasons which come out below, comparisons across multiple wind farms will be hampered by variation between locations in the drivers of land values in a particular area. There will be great difficulties also in statistically isolating the effect of the development of a wind farm in any movement in land prices after the event. This would require perfect knowledge of what the prices would have been for parcels of land over a range of sale dates in the absence of the wind farm development.

None of this means that firm, sensible conclusions cannot be drawn now. My submission is that, while there will be limits to the degree of agreement the Committee will find among 'studies' at this stage, it should certainly examine the studies that have been done globally and the debates about them. However, it will find it more fruitful to rely on two additional approaches to form its conclusions about the impact of wind farms on nearby land values. These are:

- A commonsense approach to the use of anecdotal evidence from Australia and globally; and
- A study of the basic economic principles applicable to land values.

Anecdotal Evidence.

The wind industry is far too ready to dismiss anecdotal evidence about the impact of its operations on rural communities. We saw this in relation to health. The same thing applies in relation to land values. Such stubborn refusal to place any credence on anecdotal evidence is a prime symptom of the 'x-efficiency' factor discussed earlier. It simply suits the industry to show a preference for 'studies' which, as we know, can come up with very different answers from one another and thus be used to muddy the water.

Yet, when one thinks about it, commonsense would tell us that the first information that is going to emerge about the side effects of any new activity is going to be anecdotal. Someone has to be first to notice or feel a side effect, and on it will go from there.

Globally, including in Australia, there is much anecdotal feedback that wind farm development reduces the value of at least some, and probably all, neighbouring land. There are examples of properties that have been rendered unsaleable. Law suits are occurring in the UK and the U.S.A. In my own area near the township of Tooborac (known as the McHarg Ranges) , numerous auctions of first class properties recently failed to attract a bid while the threat of the wind farm development existed.

Commonsense would also suggest that not long after individuals begin to feel adverse impact on their land values, the next group to see the effects would be the makers of the market for real estate—the Real Estate Agents.

I have attached, at Attachment A, a very recent assessment of the impact on land values

says in part:

‘A proliferation of wind towers adjacent to a property has the same effect as high voltage power lines, rubbish tips, piggeries, hatcheries, and sewerage treatment plants, in that, if buyers are given a choice, they choose not to be near any of those impediments to value.

The ultimate effect is that the number of buyers willing to endure these structures is significantly less than if the structures were not there. This logically has a detrimental effect on the final price of the adjoining lands.

Experts assess that loss of value to be in excess of 30%, and sometimes up to half.

My personal experience is that when an enquiry (potential buyer) becomes aware of the presence of wind towers, or the possibility of wind towers in the immediate district of a property advertised for sale, the ‘fall out’ of buyers is major. Very few go on to inspect the property, and even fewer consider a purchase. On the remote chance they wish to purchase, they seek a significant reduction in price.

There is absolutely no doubt, that the value of land adjacent to wind towers falls significantly in value.’

It would be surprising if there were not many more Agents out there coming to the same view. In my submission, it would also be surprising if [redacted] assessment does not become widely accepted in time. Whether that comes to include the wind industry will depend on whether it rediscovers the concept of Corporate Social Responsibility, and an accompanying willingness to compensate neighbouring landholders for the property value damage it causes.

Economic Principles

My expectation that [redacted]’s view will become widely accepted in time is based on a commonsense application of basic economic principles applied to the market for rural land.

Local residents opposed to the development of a wind farm in the McHarg Ranges (my local area), commissioned a report in 2008 from Access Economics into the economics of the proposal. I have attached, at Attachment B, an extract from that report dealing with the issue of land values. A summary of the main points follows.

It is clear from Access’s work that wind farms are bound to have an adverse effect on land values. It is equally clear that all the available anecdotal evidence to that effect, and [redacted]’s view, are both entirely consistent with what one would expect from basic economic principles.

Access sums up the basic supply and demand forces at work as follows (p 42):

‘the important economic principle here is that, for a wind farm development to impact upon price by reducing demand for the land, not everyone has to share the view that the development is undesirable. Only some do.

This is because a property market, and the eventual price at which a buyer’s willingness to pay meets a seller’s willingness to sell, reflects the aggregated preferences of all potential buyers and sellers. Just because some do not feel that wind farms do not reduce amenity does not mean that the price will not be lower, even if the eventual buyer is one of them. So long as some potential buyers share the concern that a wind farm is not a positive asset to have nearby, the wind farm will be affecting price.’

The Committee will note the similarity between the analysis of the economist (Access), and the field experience of the market practitioner ([redacted]).

As to the potential size of the adverse impact, Access argues that this will depend on the factors driving land values in each particular case. It allows that there might be some circumstances in which the impact could be quite small, for example where the value of the land is determined purely on the basis of its agricultural

productivity. This by definition would be land well removed from capital and large provincial cities with low density of settlement—a rarity in Victoria.

On the other hand, the impact will be larger where there is significant amenity value built into land prices. In the context of the McHarg Ranges, Access calculated that a premium of about 200% above the agricultural productivity price was being paid for land. If half of this premium (a 100% premium) reflected amenity value (the other half being proximity to Melbourne) it saw the potential effect on land values of the proposed wind farm as follows (p50) :

‘A doubling of land values due to the premium paid for amenity places an upper bound on the possible land value impacts due to a wind farm, to the extent that wind farms only undermine amenity value of land. This means, for example, a total loss of amenity value would have the effect of lowering land values by 50%. A loss of half the amenity value would lead to a 25% decline in land values.’

Again, note the similarity between the economist (25-50% decline), and the practitioner (33-50%).

Compensation

The virtual certainty of loss of land value from wind farm development raises a number of questions.

Should any depletion in land values be captured as a cost of wind power in any cost benefit analysis of the industry and of individual projects? Because the depletion of value represents a loss of amenity which has real value for the affected landholders, the resultant loss of wealth is a cost to the community which should clearly be factored into any cost/benefit analysis.

The associated question is whether affected landholders should be compensated by wind companies for loss of value suffered.

Access noted that even quite large depletion of land values would represent relatively modest cost to a wind farm operator compared with the direct costs of construction, operation, and decommissioning. It went on to say (p50) :

However, distributional issues and the burden of who pays is relevant here; whereas the marginal direct cost of wind power is met through millions of power users, the cost of declining land values on properties surrounding wind farms is met by the relatively few surrounding property owners. From their perspective, the impacts on land values only have to be proportionately very small(as a share of total production costs) for the absolute impact on them to be very large. From a public policy perspective, it is debateable

whether the burden of what is a genuine public good—greenhouse gas abatement—should fall so disproportionately on so few.

...from an overall economic welfare and public policy perspective, impacts on land values certainly should be considered so long as the broader public interest remains the standard of policy.

...A failure to accommodate declining land values from a wind farm development is excluding the losers from the equation.'

The Committee will be aware that the new Victorian Government proposes to require wind farm developers to compensate neighbouring landholders. I RECOMMEND THAT THE COMMITTEE ACKNOWLEDGE THE ADVERSE IMPACT ON LAND VALUES OF WIND FARM DEVELOPMENTS, AND PROPOSE ADEQUATE COMPENSATION AS PART OF THE RECOMMENDED AUSTRALIAN STANDARD.

CONCLUSION

This Inquiry comes at an important time for Australian rural communities.

Many communities are being asked to bear personal costs to allow the spread of one particular form of renewable energy which, whatever the available evidence at the time the RET scheme was first introduced some years ago, today looks as though it offers long term CO2 emission reduction certainly no greater than simply moving from coal to gas fired electricity, but at three times the cost. While the RET exists with bi-partisan support at the Federal level that should not prevent the Committee from weighing up objectively the costs and benefits of the industry.

If the benefits are less than initially thought, there is a strong argument either to look afresh at the level of subsidy implicit in RET, and/or to tighten up planning standards so that the costs imposed on individuals are subject to greater control.

I thank the Committee for the opportunity to submit these views and stand ready to have them subjected to direct Committee scrutiny.

Peter McLaughlin,

5 February, 2011