

**Response to Commonwealth Grants
Commission position paper 2008/10**

Mining Revenue

January 2009



Department of Treasury & Finance

1. Introduction

The Commission proposes to assess Mining revenue in 2 components; energy and non-energy minerals. The Commission intends to classify minerals to the energy and non-energy groups according to their average royalty rate: 6.14 per cent for energy minerals and 3.75 per cent for non-energy minerals.

Victoria supports the approach based on value of production for energy and non-energy minerals. The Commission indicated that the energy group would comprise onshore oil, gas and all types of coal whereas the non-energy group would include metallic, industrial and construction materials and onshore uranium for South Australia. The one oddity in the assessment appears to be the placement of Uranium in the non-energy minerals component. According to the Commission, this is due to States' low royalty rates on Uranium compared to other minerals in the energy component.

Victoria considers that its royalty rate on brown coal is more akin to the rate on uranium than to that on other energy minerals in this category. If the Commission is using royalty rates as the basis for determining the makeup of the components, Victoria considers brown coal should be assessed along with uranium in the non-energy component.

The CGC could use ABS or State-provided data for this assessment. The ABS data does not include a split between energy and non-energy minerals, so the Commission proposes to use the State data to facilitate the split, while using ABS data for consistency with other revenue data. Victoria agrees that mining assessment data should be sourced from the ABS and supports the Commission's intended investigation with the ABS to overcome data timing concerns.

2. Brown Coal

Given that non-energy and energy minerals groups are to be assessed separately to reflect the differences in the royalty rates applied to these minerals, Victoria considers that there is a case for including brown coal with non-energy minerals.

The State coal royalty rate differs depending on the type of coal. The high moisture content of brown coal reduces its net energy value to average 8 gigajoules per tonne on a net wet basis (i.e. as mined), compare to 26 gigajoules per tonne on a net wet basis for black coal. Low grade coals (such as brown coal in Victoria) are used mainly for domestic power generation and typically attract a lower royalty rate than (higher value) metallurgical coal.

Victorian brown coal royalty rates are based on the energy value of the coal mined in the State. At the same time, some other States have coal royalty rates based on coal's sale value (domestic or export).

The difference in calorific values along with variation in domestic and export prices result in Victoria's royalties being low when compared with other Australian jurisdictions such as New South Wales and Queensland. Coal royalties in these jurisdictions are around 11 to 21 cents (per unit of energy) compared with royalties in Victoria, which equate to less than 6 cents (per unit of energy).

Therefore, the brown coal royalties, being approximately half of the black coal royalties, are clearly closer to those of non-energy minerals and should be included with non-energy minerals. This would be also in line with the Commission's intention to assess uranium with the non-energy group because the royalty on uranium are comparable to those applying to non-energy minerals.