



**Queensland Government**  
**Treasury**

Queensland Treasury Response to  
Commonwealth Grants Commission  
Position Paper 2008/10

**Mining Revenue**

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## **SUMMARY OF QUEENSLAND'S POSITION**

Queensland believes the existing methodologies for revenue assessments are generally robust, measure the revenue base using reliable data and that simplification in the 2010 Review proposed assessments is likely to be largely presentational.

Queensland supports the proposed changes to the assessment of Mining Revenue as they improve the assessment in terms of simplicity, transparency and robustness.

The most appropriate measure of state revenue raising capacity from mining is value of production data sourced from the ABS and states. These data sources are currently being used in the 2004 Review methodology, with the exception of ABARE data for value based minerals, and should continue to be used for assessing mining revenue for the 2010 Review.

Separating the assessment into energy and non-energy minerals components appears appropriate as the royalty rates are markedly different and therefore revenue raising capacities are also different. For this reason Queensland believes that it is also appropriate to assess uranium as a non-energy mineral as its royalty rates are closer to those in this component.

The suggestion by some states to assess domestic coal separately will add an unnecessary layer of complexity to the assessment whilst reducing transparency and robustness by introducing data adjustments of unknown quality. Queensland believes that the proposal as described in the position paper best achieves reliable outcomes whilst being relatively simple, transparent and based on sound data.

### ***Key Issues***

- mining revenue assessed as energy and non-energy minerals;
- value of production used as a broad indicator; and
- all coal to be assessed in the energy mineral component.

## **METHODOLOGICAL ISSUES**

The Commission is proposing to assess a mining revenue category using:

- Value of production for energy and non-energy minerals. Each would be assessed separately to reflect the differences in the royalty rates applied to these minerals; and
- Actual revenues for grants in lieu of royalties.

### ***Assessment Structure***

Queensland has consistently argued that for the most part, revenue assessments are not in need of substantial changes from the 2004 methodologies. In the majority of cases, these assessments are based on sound conceptual methodologies and measure the differences in states' revenue raising capacity.

Queensland is supportive of the proposal to separate mining into energy and non-energy components, and use the value of production as a broad indicator.

### **Data**

Queensland considers that the value of production data from the ABS is the most appropriate data to use in the assessment of mining revenue. The ABS data most accurately matches ‘what states do’ in how mining royalties are levied, and is sourced from state mine departments.

There has been some concern expressed regarding this data, particularly that there are confidentiality issues that limit the publication of some data, and that the data is not published in time for the final year of the assessment.

The Commission currently estimate the data for the final year of the assessment period to overcome the timeliness issue. The actual data is then adjusted in the annual Update report for the following year to reflect the actual data. Queensland does not believe that there is a more appropriate source of data available and that the estimation process should be continued.

The Australian Bureau of Agricultural and Resource Economics (ABARE) data uses a different basis for valuation than states do to raise royalties, and includes production costs that the Commission does not consider should be included in this assessment. If these data were to be used, it would not represent what state governments do in raising mining royalties. Queensland does not believe that ABARE data are appropriate for use in the Mining Revenue assessment.

### **Energy and Non-Energy**

Queensland believes that the proposal to assess energy and non-energy minerals separately typifies the changes that are required for the revenue assessments. The combination of all the sub-components from the 2004 methodology into a simple energy and non-energy split will remove a large degree of the complexity of the assessment without in any way undermining the quality of the assessment.

Energy and non-energy minerals have significantly different royalty rates and Queensland believes that these differences need to be accounted for in a separate assessment. The table below shows examples of the royalty rates for minerals in Queensland and as can be seen the rates for energy minerals range from 7 to 10% whereas non-energy range from 1.5% to 5%.

**Table 1: Queensland Royalty Rates for Selected Minerals**

<b>Commodity</b>	<b>Coal</b>	<b>Petroleum</b>	<b>Gemstones</b>	<b>Mineral Sands</b>	<b>Base/Precious Metals:</b>	<b>Iron Ore</b>
<b>Royalty rate</b>	7-10%	10%	2.5% of value	5% of value	Fixed 2.7% or 1.5%-4.5% variable	2.70%

Source: [http://www.dme.qld.gov.au/mines/royalty\\_rates.cfm](http://www.dme.qld.gov.au/mines/royalty_rates.cfm)

Although uranium is used as an energy mineral, the royalty rates charged on uranium align more closely with the non-energy component. Queensland supports the assessment of uranium in the non-energy component of the mining assessment as this will more reliably measure capacity to raise revenue from uranium than if it were assessed in the energy component.

### **Domestic Coal**

At the 22-23 October 2008 Staff Conference, some states suggested that the Commission assess domestic coal in the non-energy component of the assessment. The reasoning being that the royalty rates of domestic coal are closer to those of the non-energy group.

Queensland and New South Wales produce the bulk of Australian coal and their royalty rates do not differentiate on the basis of the destination of the coal, or the type of coal (eg coking or thermal). New South Wales does differentiate on the basis of the method of extraction as Table 2 shows. Royalties collected on thermal coal tend to be lower, not because of different royalty rates but rather lower prices for the commodity compared with coking coal.

**Table 2-Coal Royalty Rates**

	<b>NSW</b>	<b>Vic</b>	<b>Qld</b>	<b>WA</b>	<b>SA</b>	<b>Tas(a)</b>	<b>ACT</b>	<b>NT(b)</b>
	%	%	%	%	%	%	%	%
Open Cut Coal	8.2	5.88	7	7.5	2.7	5	na	18
Underground Coal	6.2-7.2	5.88	7	7.5	2.7	5	na	18

(a) Tasmania applies a composite royalty, which is a combination of an ad valorem royalty and a profit tax. The composite rate is capped at 5.0 per cent of net value of production.

(b) The Northern Territory applies a profit-based royalty and hence this royalty rate is not directly comparable with the rates applicable in the other States.

Source: CGC 2008 Working Papers-Mining Revenue  
NSW 2008-09 Mini Budget

Table 2 also shows that coal royalty rates in South Australia and Tasmania are notably lower than most other states. However, the lower royalty rates in those states would not alter the average rate any more than it would for 'export' coal.

Following the October 2008 staff conference, the Commission identified that the separate assessment of domestic coal results in only marginal changes to the distribution and it would only just be material for the Northern Territory. Queensland questions whether the materiality of a separate assessment of domestic coal would remain when the recent changes to royalty rates in the New South Wales mini-Budget take effect.

Splitting domestic coal into a separate component would not improve the mining revenue assessment in terms of simplicity, reliability or 'what states do'. Queensland believes that the introduction of another component is at odds with the Commission's desire to simplify assessments and domestic coal should be assessed with energy minerals.

## **CONCLUSION**

Queensland believes the proposed assessment structure in the position paper *2008/10 Mining Revenue* is simple, robust and reliable and supports the assessment being finalised on the following basis:

- value of production as broad indicator, using ABS and State Mining department data; and
- assessing all coal in the single energy mineral component.