

2024 Update Supplement – NSW Response

New Issues Supplementary Consultation (Coal)

January 2024

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

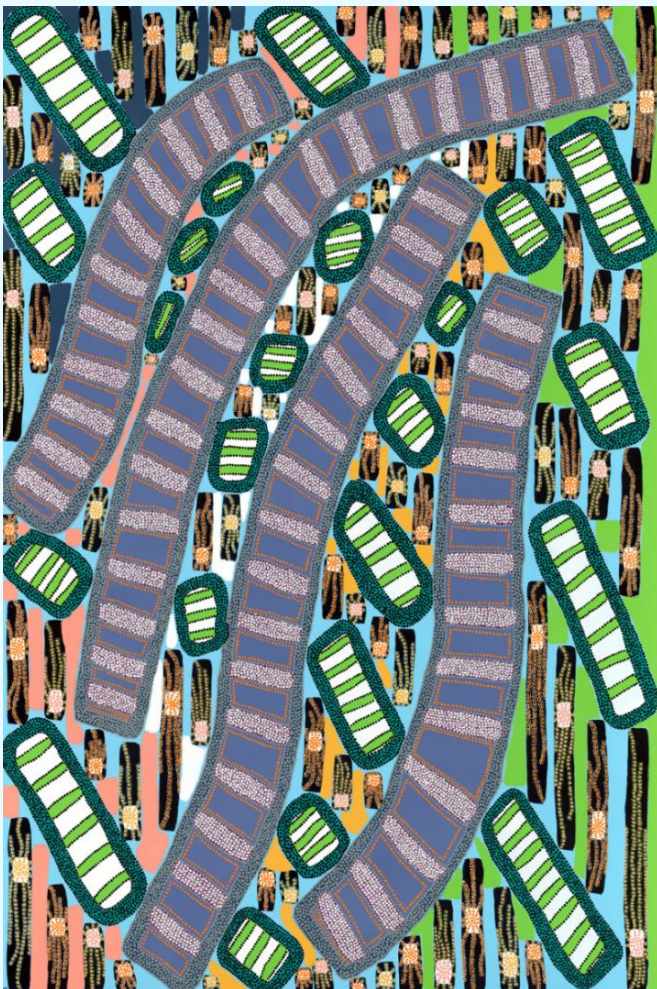
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:

Regeneration by Josie Rose



1 2024 Update – New Issues Paper

1.1 Overview of new issues

- The 2024 Update Supplementary New Issue paper considers the case for separating the current mining assessment coal component into metallurgical and non-metallurgical coal components, provided it is material to do so.
- NSW Treasury supports separately assessing metallurgical and non-metallurgical coal. A separate assessment will better reflect state fiscal capacities.

1.2 Separating the coal assessment

The Commission proposes:

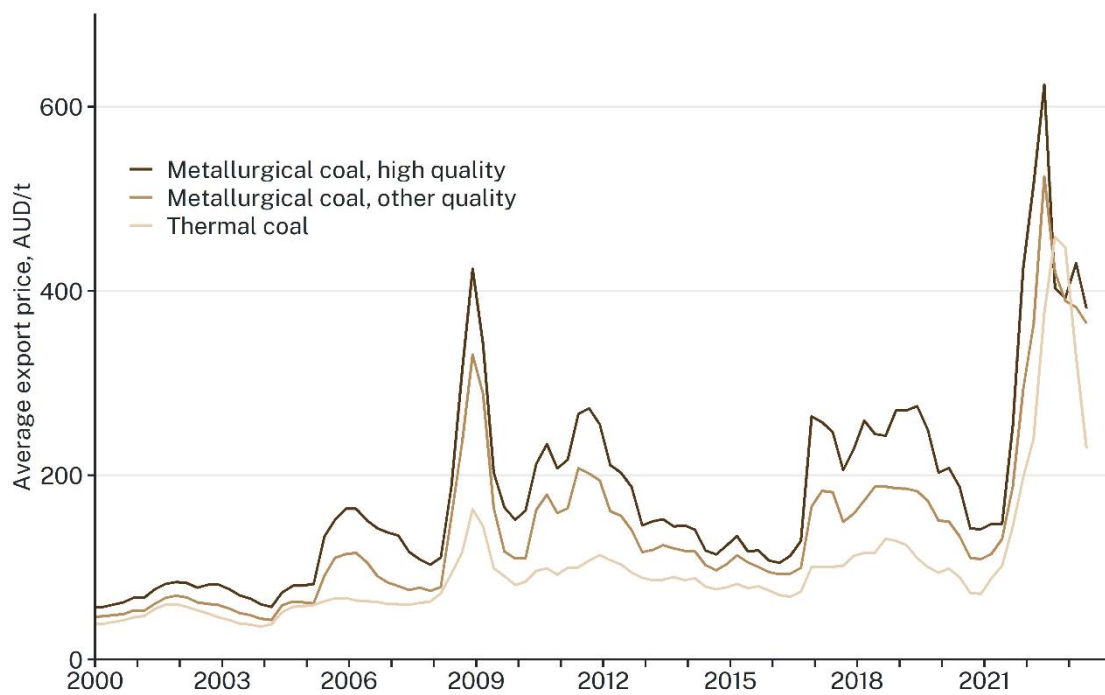
- To separately assess metallurgical coal royalties in the 2024 Update if it is material to do so.
- NSW Treasury supports separately assessing metallurgical and non-metallurgical coal. A separate assessment will better capture relative state fiscal capacities since different types of coal have significantly different values and their distribution varies across states.
- The Commission currently assesses states' capacity to generate mining revenue on a mineral-by-mineral approach, where it is material. This is on the basis that some minerals are more highly valued than others or are more easily mined and states can therefore impose higher royalty rates on those minerals. The Commission argues that an aggregated approach, applying an average royalty rate, would under- and over-state the true revenue raising capacity of various states depending on the nature of their mineral endowments.
- For some minerals, a separate assessment has an immaterial effect on redistribution. These minerals are jointly assessed. As part of its annual update process, the Commission reviews the materiality of each mineral. The Commission intends to begin separately assessing nickel revenue in its 2024 Update.
- Generally, NSW Treasury acknowledges that fiscal equalisation is plausibly improved through a mineral-by-mineral approach. Nonetheless, we have suggested an aggregated approach should be adopted as part of the 2025 Review. We believe aggregation is the simplest and most effective way to balance fiscal equalisation with policy neutrality concerns in the mining assessment.
- However, the 2024 Update must be conducted using the methods agreed through the 2020 Review. As such, a mineral-by-mineral approach will remain in place. Separately assessing different types of coal is consistent with this approach.

Metallurgical vs non-metallurgical coal

- Coal is categorised as either brown or black coal, with black coal further divided between sub-bituminous, bituminous and anthracite grades. Different grades of coal have different characteristics and different uses.
- Higher grade coal (some bituminous and anthracite) can be used to produce coke, which is a critical input into the steel smelting process. This coal is therefore known as metallurgical or coking coal.

- Non-metallurgical coal is typically used for electricity generation (thermal coal) or in other industrial processes. Non-metallurgical coal broadly comprises brown, sub-bituminous and some bituminous graded coal.
- Differences in the quality and use of the various types of coal are well known and reflected in industry analysis and market activity. Every aspect of the coal market is segmented by type, such that metallurgical and non-metallurgical coal are effectively treated as separate commodities.
- Thinking of coal types separately makes it clear that there are differences in both the price and geographical distribution of metallurgical and non-metallurgical coal that results in differential state revenue generating capacities.
- Metallurgical coal is of a higher grade than other coal and as such it has historically sold at a premium to thermal coal. Figure 1-1 below charts the price of high-quality metallurgical coal, other metallurgical coal, and thermal coal between 2000 and 2023.
- Apart from a small blip in 2022, high quality metallurgical coal prices have been significantly above thermal coal prices, with an average premium of 87% over the full time period. Of the 94 quarters between March 2000 and June 2023, average export prices for high quality metallurgical coal were more than double those for thermal coal in 36 quarters (or 38.3% of the time).

Figure 1-1 Historical coal prices, A\$/t



- Clearly, states which produce metallurgical coal have a fiscal advantage over states which produce non-metallurgical thermal or brown coal, since these states can generate higher royalties from the same quantity of production.
- Queensland and New South Wales are the dominant producers of coal in Australia. However, there are important differences in the composition of the two states' coal industries that give Queensland a relative fiscal advantage.
- In New South Wales, approximately 88 per cent of total coal produced is thermal coal, and only 12 per cent is metallurgical coal. NSW Treasury estimates that thermal coal has been responsible for 85 per cent of the state's coal royalties from 2019-20 to 2022-23.

- NSW Treasury does not have specific data on coal royalties by coal type. However, coal royalties in New South Wales are levied as a flat percentage rate. The royalty split can therefore be closely approximated by applying the ratio of average metallurgical and thermal free-on-board prices and the proportion of total production quantity that is metallurgical coal to the value of total coal production. Table 1-1 provides a breakdown of relevant coal statistics in New South Wales.

Table 1-1 New South Wales coal industry statistics

		2019-20	2020-21	2021-22	2022-23
Total production	tonnes	197,848,595	185,926,106	184,043,897	170,186,009
- Metallurgical	tonnes	23,521,034	21,597,039	21,949,405	20,150,708
- Thermal	tonnes	174,327,561	164,329,067	162,094,492	150,035,301
Total production	%	100	100	100	100
- Metallurgical	%	12	12	12	12
- Thermal	%	88	88	88	88
Total royalties	\$	1,524,417,818	1,221,161,600	3,555,980,253	4,767,310,306
- Metallurgical	\$	289,157,502	195,922,748	587,816,905	542,405,074
- Thermal	\$	1,235,260,317	1,025,238,851	2,968,163,348	4,224,310,306
Total royalties	%	100	100	100	100
- Metallurgical	%	19	16	17	11
- Thermal	%	81	84	83	89

Source: Coal Services NSW, NSW Treasury calculation

- As can be seen, the New South Wales coal industry is dominated by thermal coal. As a result, the majority of royalty revenue is also derived from thermal coal, with metallurgical coal royalties making up a relatively small fraction of total royalties.
- This contrasts with Queensland. According to its Coal Industry Review Statistical Tables¹, metallurgical coal made up an average of 63.9% of net coal mining output (in tonnes) in the seven years from 2016-17 to 2022-23. This was primarily hard-coking coal. The detailed breakdown is provided in Table 1-2. These figures are based on tonnes of output. Since metallurgical coal is more valuable, its proportion of Queensland's total value of coal production would be significantly higher.

¹ Available at <https://data.qld.gov.au/dataset/coal-industry-review-statistical-tables>

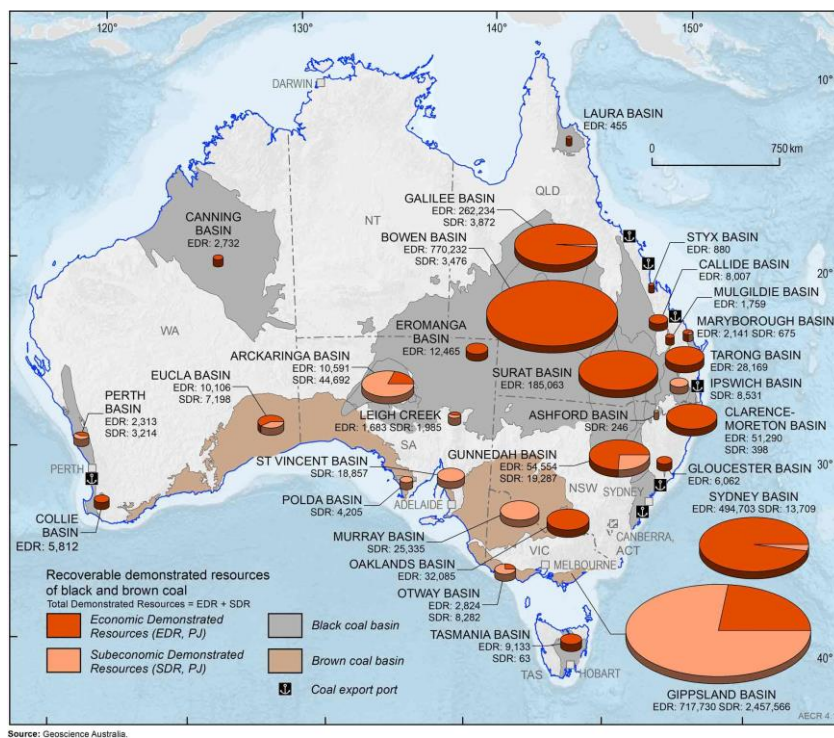
Table 1-2 Queensland saleable coal production, total net output (tonnes), by coal type

Year	Metallurgical - coking	Metallurgical - PCI	Thermal	Total	Proportion metallurgical
2022-23	107,599,944	31,987,865	83,811,551	223,399,360	62.5%
2021-22	120,133,811	15,803,346	82,453,895	218,391,052	62.2%
2020-21	148,347,260	-	72,523,925	220,871,185	67.2%
2019-20	152,835,776	-	86,940,027	239,775,803	63.7%
2018-19	155,889,460	-	93,289,986	249,179,446	62.6%
2017-18	159,882,534	-	89,326,345	249,208,879	64.2%
2016-17	154,565,608	-	82,771,155	237,336,763	65.1%
				Average	63.9%

Source: Qld coal industry review statistical tables

- Statistics on the value of coal production by type of coal broadly accord with what we know about the geographical distribution of coal in Australia. Figure 1-2 shows that Queensland has both more and higher quality coal deposits relative to other states, with all of its known coal reserves being higher quality black coal. New South Wales also has large deposits, with a mix of high quality black and lower quality brown coal. Victoria, by comparison, has predominantly lower quality brown coal which cannot be used for metallurgical purposes.

Figure 1-2 Recoverable demonstrated coal resources across Australia



- The differences in price and geographical distribution of the two broad types of coal create disparities in the revenue generating capacities of the two major coal producing states. These differences in fiscal advantage have been magnified in recent years (and will continue in future years) due to unprecedented coal prices and increases in royalty rates in Queensland. The NSW Government has also announced its intention to increase coal royalty rates.

- Queensland's relative fiscal advantage was acknowledged in its own 2023-24 Budget papers. In noting developments in its royalty revenue forecasts, the papers state (emphasis added):

*A large proportion of Queensland's royalties comes from coal mining and **the majority of this revenue is attributable to the hard-coking coal**¹ (HCC) used in global steel production.*

***The lower level of royalties collected from thermal coal mining compared to HCC reflects the smaller volume of thermal coal mined in Queensland, the generally lower values per tonne of thermal coal and the tiered coal royalty rate system, where lower value coal is subject to a lower average royalty rate.** In 2022, HCC, in volume terms, represented around 52 per cent of coal exported from Queensland, with semi-soft/PCI 21 per cent and thermal coal 27 per cent.*

Coal royalties are expected to total \$15.296 billion in 2022-23, more than double that in 2021-22 and around 9 times the coal royalties raised in 2020-21.

- Such disparities in revenue capacity are taken into consideration where they exist for other minerals through the Commission's use of a mineral-by-mineral approach. Separately assessing coal by type would be entirely consistent with the rationale for a mineral-by-mineral approach. Maintaining a combined assessment of coal is not justified.
- We previously argued in our 2024 New Issues submission that, under current arrangements, the Commission should always separately assess royalties by mineral where it is material to do so. No discretion on whether to separately assess should be necessary.
- Taking all the above into account, NSW Treasury contends that fiscal equalisation will be meaningfully improved by separately assessing metallurgical and non-metallurgical coal, subject to materiality.

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