

Supplementary new issue in the 2024 Update

1. Under the Commission's mining revenue methodology, revenue capacity for coal royalties is assessed using states' value of coal production. Following the receipt of states' new issues submissions, a state asked whether the coal assessment should be separated into assessments of metallurgical and non-metallurgical coal (thermal and brown coal).
2. States are asked to provide comments on the issues in this paper by **12 January 2024**. States should upload their submissions to their private CGC Engagement channel in Teams. The contact officer for queries is Dermot Doherty (dermot.doherty@cgc.gov.au).

Summary of Commission's preliminary views

Assessment issue for consideration

- In the mining revenue assessment, a separate assessment of metallurgical coal is likely to become material in the 2024 Update. Consistent with the 2020 Review method, the Commission proposes to introduce separate assessments of metallurgical and non-metallurgical coal if it is material to do so.

Assessment issue for consideration

Mining revenue — a separate assessment of metallurgical coal if it is material

3. The Commission assesses state mining capacity using a 'mineral by mineral' approach. Under this approach, a mineral is separately assessed if doing so materially affects a state's GST outcome. The remaining minerals are assessed together.
4. New South Wales and Queensland apply their coal royalty rates to both metallurgical and thermal coal. While the price of thermal coal tends to be lower, this is not always the case. Consequently, all coal was assessed together under the 'mineral by mineral' approach.

Background

5. Under the 2020 Review mining revenue assessment method, the Commission said it would continue to exercise its judgment on whether the structure of the category should change if the materiality of individual minerals changed.

6. Queensland's 2023–24 budget papers forecast its coal royalties to double to \$15 billion in 2022–23, but to decline to \$5 billion in 2023–24 and \$4 billion in 2024–25. The big increase was in part due to a recent change in its royalty regime.¹
7. The increase is likely to make separate assessments of metallurgical and non-metallurgical coal material. However, the Commission has not been able to test for materiality because it does not currently collect coal data separately for metallurgical and non-metallurgical coal.
8. Consistent with the existing assessment method, the Commission's preliminary view is to introduce a separate assessment of metallurgical coal royalties if it is material to do so. Thermal and brown coal would continue to be assessed together.

Preliminary view

The Commission's preliminary view is to separately assess metallurgical coal royalties in the 2024 Update if it is material to do so.

Supplementary state data collection

9. To support a separate assessment of metallurgical and non-metallurgical coal, the Commission will ask New South Wales, Queensland, Western Australia and Tasmania to split the coal royalty revenue and value of coal production data they have already provided for assessment years 2020–21 to 2022–23.²
10. The Commission will use states' updated data to test the materiality of separate assessments. If material, the separate assessments will be introduced in the 2024 Update. If they are not material, an aggregated coal assessment will continue to be made in the 2024 Update. The materiality of separate assessments will be retested in the 2025 Review.

¹ Queensland levies coal royalties based on the price of coal. From July 2022, it raised its highest marginal rate from 15 per cent to 40 per cent.

² Victoria's coal production is brown coal which will remain with non-metallurgical coal.