

# New Issues supplementary submission

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**Queensland  
Government**

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# 1. A separate assessment of metallurgical coal if it is material.

## Commission staff proposal:

- 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.
- New South Wales and Queensland apply their coal royalty rates [i.e. the same rates] to both metallurgical and thermal coal. Consequently, all coal is assessed together under the ‘mineral by mineral’ approach.
- 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 increase in 2022–23 was in part due to a recent change in its royalty regime.
- 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.

## Queensland position:

Queensland **strongly opposes** any separate assessment of different qualities of coal, in particular any separate assessment of metallurgical coal, in the 2024 Update or any subsequent annual Update or methodology review on a range of grounds, as discussed in detail below.

The Commission’s proposal to separately assess metallurgical coal as a different mineral or commodity to other qualities of coal is vastly different in nature, scope and materiality to the changes to the mining assessment made in previous updates and amounts to a substantial methodology change.

All previous commentary and guidance provided by the Commission under the current mining assessment methodology in relation to separate mineral assessments referred clearly to the potential movements of minerals from separate assessment to the other minerals category (and vice versa). No indication or rationale has been previously provided under the current assessment methodology for considering separate assessments for different qualities of the same mineral or resource commodity.

Coal is a single resource commodity or ‘mineral’ that already is, and always has been, assessed separately as one commodity, and has never comprised part of the ‘other minerals’ component of the mining assessment. As such, there are fundamental reasons why different qualities of coal are not, and should not be considered, as different minerals or commodities.

The geological processes that result in coal are the same for thermal and metallurgical coal, with the quality or classification of coal existing across a broad and continuous spectrum, ranging from peat and lignite at the lowest rank to anthracite at the highest rank.

The ultimate use of various qualities of coal over time can also vary depending on changes in demand for various qualities of coal and changes in technology.

In the middle of the coal quality classification spectrum, coal of the same quality can have an end use in either power generation (as high-quality thermal coal), or directly injected into blast furnaces to reduce the need for high-quality hard coking coal in the steelmaking process. As such, this coal can be classified as either thermal coal or metallurgical coal depending on its specific use.

In addition, blending of different coal types is undertaken to maximise mining tonnages meeting minimum requirements for specific product specifications.

Therefore, it is not practical to split royalty assessments between thermal and metallurgical coal, which depend ultimately on the end user in many cases as well as the underlying characteristics of the coal.

Splitting out metallurgical coal and thermal coal also has substantial limitations and risks in terms of its impacts on HFE over the longer term. The underlying basis for the level and volatility of price and royalty revenue is clearly temporary in nature, with revenues expected to revert to more normal levels in the near future.

This is clearly indicated in the 2023-24 Queensland Budget which stated that *“the recent strength in prices, particularly in relation to coal prices, is primarily driven by a range of short-term supply side factors and disruptions. As such, prices are expected to return to more sustainable levels in 2024.”*

Queensland royalty forecasts, as outlined in the 2023-24 Queensland Budget Update, clearly indicate this, showing that coal royalties are expected to decline substantially over coming years, from \$15,360 million in 2022-23 to \$9,188 million in 2023-24, and then decline further to \$4,342 million in 2024-25. Coal royalties are then forecast to remain at around \$4.2 billion in subsequent years, reflecting the expectation that the current temporary spike in global prices will have unwound and prices will return to medium-term levels.

In addition to the fundamental issues and limitations outlined above, any separate assessment of different qualities of coal would not be appropriate and would be inconsistent with most of the key supporting principles of horizontal fiscal equalisation (HFE). Meanwhile, the materiality and nature of the substantial methodology change being proposed is well beyond the scope of changes that should be considered in any annual update, as outlined below.

The key underlying principles of HFE, as clearly specified by the Commission as underpinning its assessment methodology, include: *‘practicality’* (ensuring assessments are based on sound and reliable data and methods and are simple and material); *‘what states do’* (weighted average policy of all states); *‘policy neutrality’* (ensuring policy choices have minimal interaction on assessments); and *‘contemporaneity’* (minimising the lag between data and assessment).

- The proposed change in approach is not practical or fit for purpose, given:
  - There are significant data limitations given that royalty revenue and data is not collected related to specific qualities of coal.
  - Different qualities of coal are determined by a range of factors including geological processes, chemical composition, market conditions and end product use, and cannot be easily classified according to the Commission’s proposed definitions.
  - The category into which various qualities of coal is put can change through time.
  - The materiality of difference in royalties underpinning the proposed change is highly unlikely to remain permanently material, as outlined in State Budget forecasts, with the factors impacting coal prices considered to be temporary in nature.
  - The materiality of the change in the short term would be significant and essentially impacting retrospectively on the determination of future relativities, impacting the predictability of estimates.
- The splitting of coal by different qualities of coal in the mining revenue assessment is entirely inconsistent with what states actually do:
  - With the exception of Victoria, which only accounts for approximately 1 per cent of national coal production, all other states do not charge any form of differential rates based on coal type or quality.

- Around 99 per cent of national coal production is subject to royalty rates that are applied equally to all types or qualities of coal, either based on overall prices of coal produced, regardless of the quality of coal, or based on the method of extraction (i.e. open cut, underground or deep underground), regardless of coal quality.
- Therefore, splitting the mining revenue assessment by ‘type’ or quality of coal is entirely inconsistent with the key supporting HFE principle of ensuring the assessment reflects ‘what states do’.
- The proposed split of coal qualities would be inconsistent with the policy neutrality principle under which no single state’s revenues should impact the assessment and that the assessment should not impact states’ policy decisions.
  - The proposed change would effectively result in Queensland’s policy settings driving the overall assessment outcomes.
  - The proposed change is also not fit for purpose in the sense of ensuring the Commission’s relativities are practically useful for States to incorporate into their budgets, and the change would likely create volatility in State budgets which have already been set over forward estimate years based on the long-standing and clear methodology applied to coal royalties.
  - It reduces the incentive for jurisdictions to pursue policies in the national interest that ensure that Australians receive a reasonable and appropriate return on valuable and limited natural resources.

In addition, given the nature of the substantial methodology change proposed, the proposal is clearly inconsistent with the Terms of Reference for the 2024 Update which specify:

“The Commission’s assessment **should be based on application of the same principles, categories and methods of assessment** that the Commission used to calculate the GST revenue sharing relativities in its Report on GST Revenue Sharing Relativities – 2023 Update”.

### Detailed discussion of issues related to proposed change

#### **1. Inconsistency with the Commission’s mineral by mineral approach and previous decisions made in relation to separate assessments of minerals.**

The Commission’s proposal to separately assess metallurgical coal as a different ‘mineral’ or commodity to other qualities of coal is unlike any other changes to the mining assessment made in previous updates, and amounts to a substantial methodology change that should not be considered within an annual update, whilst also being inconsistent with a range of key assessment principles,

In implementing the ‘mineral by mineral’ approach to the mining assessment in 2015, the Commission noted its intention to retain the mining structure between reviews but that it would exercise its judgement around the assessment structure in response to ‘a major change in circumstances’.

In its 2020 final report, the Commission outlined its approach to any changes to the mining assessment, based on the approach taken in the 2015 review. Key elements of that explanation included: “If there was a major change in circumstances, for example if another mineral became material or one of the material minerals became immaterial, the Commission would exercise its judgement on whether equalisation would be improved by changing the structure of the assessment.”

Since 2015, the Commission has proposed adjusting the minerals assessment structure in two subsequent annual updates, for nickel (expected for the 2024 update) and lithium (2023). For nickel,

the separate assessment of royalties was discontinued and it was combined into the other minerals component as part of the 2020 review before a separate assessment was again proposed in the 2024 update, while for lithium a separate assessment of royalties was introduced. In both cases, the justification for making changes to whether these minerals were assessed separately or as part of the other minerals component was on materiality grounds.

However, the proposal to separately assess different qualities of coal as different 'minerals' is vastly different in nature, scope and materiality to the changes made to the mining assessment in these previous updates.

Firstly, all previous commentary and guidance provided by the Commission in relation to separate assessments referred clearly to minerals and potential movements of minerals from separate assessment to the other minerals category (and vice versa), with no indication or rationale ever provided for considering separate assessments of various qualities of a specific mineral or resource commodity.

**Different qualities of coal are not, and should not be considered, as different minerals.** Rather, coal is a resource commodity that already is, and always has been, assessed separately and has never comprised part of the 'other minerals' component under the current mining assessment.

Since the inception of the GST methodology, the Commission has assessed all coal as one resource commodity. Since the current mineral by mineral approach to mining revenue was adopted, the Commission has not proposed undertaking different assessments of different qualities of an individual mineral or resource commodity.

To separately assess different types of a single resource, as the Commission is currently proposing, is different in nature to all previous changes made in the mining assessment, and would therefore constitute a substantial and unique methodology change.

As outlined further below, Queensland considers any such change to be inconsistent with an understanding of the fundamentals of coal geology, mining, production and use, inappropriate in the context of several key HFE principles, and any consideration of this proposal is clearly beyond the scope of the TOR for the 2024 Update.

## **2. Inconsistency with fundamentals of geology and nature of coal mining, production and use.**

Treating metallurgical coal and non-metallurgical (or thermal) coal as separate resource commodities, similar to the treatment of separate minerals, is inappropriate as different qualities or types of coal are not the same as separate minerals or elements, each of which can be readily and distinctly identified based on their elemental or chemical composition and orderly internal atomic structure.

In contrast, coal is a combustible sedimentary rock mainly composed of carbon, along with variable quantities of other elements, mostly hydrogen, sulphur, oxygen, and nitrogen. The rank or quality of coal produced depends on how it is formed – as the organic matter is subjected to greater heat and pressure, the carbon content increases.

The geological processes that result in coal are the same for thermal and metallurgical coal. However, each basin and sub basin where coal is located can have varying and unique conditions during formation, including temperatures, pressures, time, volatile matter (ultimately results in ash content) etc, which determine the quality parameters of coal that results and its best use.

The quality and rank of coal is the result of how far along the process that coal reached before being uplifted and the coal formation process stopped. The density of coal (or coal rank) varies depending on how porous the coal is, while coal properties vary depending on how much carbon and other elements (including hydrogen, oxygen, sulphur, and nitrogen) is in the coal.

The quality of coal exists across a broad and continuous spectrum, ranging from peat and lignite at the lowest rank to anthracite at the highest rank.

**Table 1: Coal ranks**

Type of coal / material		Other names	Properties	Approximate carbon content (dry ash-free basis)
Peat			An organic sediment. It is considered to be a precursor of coal.	Less than 60%
Brown coal		Lignite	Usually yellow to dark brown in colour and can have a woody appearance or recognisable plant structures in it.	60 to 70%
Black coal	Sub-bituminous coal	Black lignite	Dark brown to black in colour. It does not have a woody appearance and often has alternating bands of dull and bright material.	70 to 76%
	Bituminous coal	Soft coal, steam coal or rock coal.	A dense, usually black, but sometimes dark brown rock, often with well-defined bands of bright and dull material. The dull bands can contain sedimentary mineral grains.	76 to 86%
	Anthracite	Hard coal	A harder, glossy black coal. It is the highest rank of coal meaning the carbon content is highest.	Over 86%

Source: Geoscience Australia

Over time, coal progresses in rank from lignite to sub-bituminous coal, to bituminous coal and finally to anthracite; a process known as coalification. As the coal increases in rank, the carbon content, and hence the energy content, increases, whilst the moisture content decreases.

In Australia, sub-bituminous, bituminous and anthracite are collectively referred to as black coal, whilst lignite is referred to as brown coal.<sup>1</sup> The majority of the black coal mined in Australia is bituminous and is produced either in Queensland or New South Wales.

Australian black coal is used as either thermal coal for electricity generation (also called steaming coal) or coking coal in the iron and steel industries (also called metallurgical coal).<sup>2</sup> Black coal is also used in cement manufacture, alumina refining, paper manufacture and for other industrial purposes.

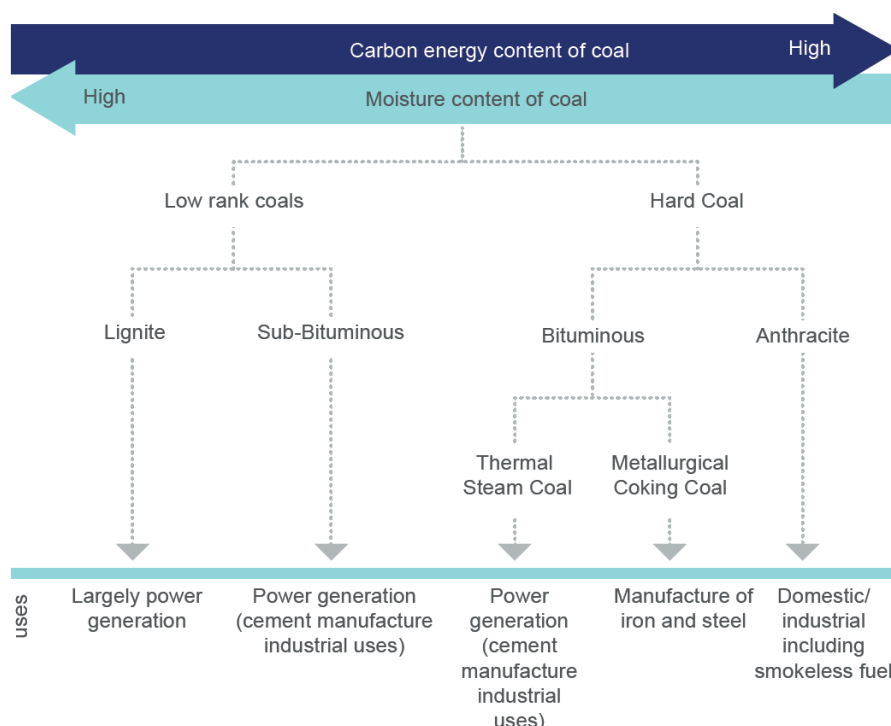
Coals of lower rank are generally used for power generation while coals of higher rank are typically used to produce coke, which is then used in the steel making process (**Figure 1**).

<sup>1</sup> <https://www.ga.gov.au/scientific-topics/minerals/mineral-resources-and-advice/australian-resource-reviews/black-coal>

<sup>2</sup> <https://www.ga.gov.au/scientific-topics/minerals/mineral-resources-and-advice/australian-resource-reviews/black-coal>



**Figure 1: Coal uses by rank**



Source: Australian Department of Industry, Science and Resources

However, in the middle of the classification scale, coals such as pulverised coal injection (PCI) coal can be used in either power generation (as high-quality thermal coal) or injected into blast furnaces to reduce the need for hard coking coal in the steelmaking process. As such, these middle rank coals can be classified as either thermal or metallurgical coal depending on its end use by the purchaser.

Queensland and New South Wales’ coal reserves are black coal (bituminous to anthracite), while most of Australia’s brown coal (lignite and sub-bituminous) is in Victoria (Tables 2 and 3).<sup>3</sup>

**Table 2: Black coal reserves, Australia**

State	EDR (Mt)	SDR (Mt)	Inferred (Mt)
Qld	49,040	655	53,165
NSW	24,113	1,478	13,158
SA	1,329	2,957	13,693
WA	551	177	1,493
Tas	401	3	69
<b>Total</b>	<b>75,433</b>	<b>5,269</b>	<b>81,577</b>

**Table 3: Brown coal reserves, Australia**

State	EDR (Mt)	SDR (Mt)	Inferred (Mt)
Vic	73,526	255,095	102,545
WA	513	365	1,899
SA	0	1,924	784
<b>Total</b>	<b>74,039</b>	<b>257,384</b>	<b>105,228</b>

Source: Geoscience Australia resources by basin area. Basins assigned to state by Queensland Treasury.

EDR= Economic demonstrated resources. SDR = Sub-economic demonstrated resources.<sup>4</sup>

<sup>3</sup> <https://www.ga.gov.au/digital-publication/aecr2023/coal>

<sup>4</sup> **Economic** implies that, at the time of determination, profitable extraction or production under defined investment assumptions has been established, analytically demonstrated, or assumed with reasonable clarity;



Therefore, from a geological perspective, arbitrarily defining coal *in situ* as either metallurgical or thermal coal has substantial limitations. This means that any split of revenue assessment by coal quality would be inconsistent with the simplicity, reliability, quality assurance, and fitness for purpose elements of the practicality principle of horizontal fiscal equalisation.

Different qualities of coal, particularly along the middle range of the spectrum, can be sold as separate products or blended with other qualities of coal by individual producers due to their specific properties and the extent that they match the purpose for which they are bought by end users. End users have an acceptable range for each coal quality parameter to suit their processing. Additionally, over time, end users might adjust their processes to accept and utilise coal with varying properties.

In their development plans, coal companies clearly indicate that they blend their coal products to create a product in line with the end user's requirements. This blending of coal qualities maximises their financial returns to produce a product that meets or exceeds the end user's minimum viable product by mixing in a lower quality product to create an overall greater volume.

The ultimate use of various qualities of coal over time can also vary depending on changes in demand for various qualities of coal – if high calorific value thermal coal is facing supply shortages (e.g. due to weather/mine closure/geopolitical risks), this coal will be in high demand, increasing global prices.

In these circumstances, as has been seen over recent years in the context of highly volatile global prices for different qualities of coal, this can result in users (and, therefore producers), utilising different qualities of coal, including blending of different qualities, to varying degrees.

For example, in 2022, when thermal coal prices reached record highs, producers of lower quality 'metallurgical coal' switched their product into 'thermal coal' markets to benefit from the higher prices<sup>5</sup>, given this quality of coal can be substituted for lower quality coal for the purpose of power generation.

In terms of what is broadly considered as metallurgical coal, there are also specific uses for different qualities of coal within that spectrum, and specific requirements for end users based on the specifications of their blast furnaces.

Given the issues outlined above, **there is no clear distinction between what is classified as metallurgical coal and what is classified as thermal coal.** Many mines produce a mixture of metallurgical and thermal coal, with the data relevant to royalty revenues being aggregated across all coal qualities/ranks and unable to be disaggregated. **Therefore, it is not practical to split assessments between thermal and metallurgical coal, which depend ultimately on the end user in many cases and or the underlying characteristics of the coal.**

### 3. Inconsistency with 'what states do' principal of HFE.

The proposed change to separately assess different qualities of coal implies that royalties are raised by states based on different qualities of coal. However, this is completely at odds with the way that

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**Demonstrated Resources** are the sum of Measured and Indicated Resources, including Proved and Probable Reserves as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves also called the 'JORC Code' (Joint Ore Reserves Committee [JORC], 2012);

**Subeconomic** refers to those resources that are geologically demonstrated but which do not meet the criteria of economic at the time of determination; and

**Inferred Resources**, as defined by the 'JORC Code', are the part of a Mineral Resource for which quantity and grade are estimated on limited geological evidence and sampling. Geological evidence is sufficient to imply, but not verify, geological and grade continuity. An Inferred Mineral Resource has a lower level of confidence than an Indicated Resource and must not be converted to an Ore Reserve.

<sup>5</sup> Department of Industry, Science and Resources, *Resources and Energy Quarterly: September 2022*, p 57.

the vast majority (99 per cent) of Australia’s coal royalties are currently (and have historically been) imposed.

**Splitting coal royalties into different components in terms of the implied royalty rates (and overall revenue) applicable to different qualities of coal is irrelevant and inconsistent with what states actually do.**

As noted in the Commission’s own New Issues paper, “New South Wales and Queensland apply their coal royalty rates [i.e. the same rates] to both metallurgical and thermal coal.”

Further to this, **Table 4** below, sourced from the CGC’s Mining revenue consultation paper for the 2025 Methodology Review, shows that across Australian states, royalty rates are applied consistently across all qualities of coal, with the rates being driven in almost all cases (i.e. 99 per cent of the value of total coal produced in Australia) by the value of overall coal produced by individual producers, not by any classification of the different types or qualities of coal produced.

The only exception to this is in Victoria, where a different royalty rate is applied for brown coal compared with other qualities of coal. However, given Victorian coal comprises only approximately 1 per cent of total coal produced nationally, this is not material and therefore would not be reflective in any way of overall average state policy.

**Table 4: Comparison of state coal royalty rates**

Mineral	NSW	Vic	Qld	WA	SA	Tas	NT
Coal	Open cut: 8.2% of ex-mine value. Underground: 7.2% of ex-mine value. Deep underground: 6.2% of ex-mine value.	Brown coal: 22.8c per kilojoule of energy, adjusted by CPI. Other than brown coal: 2.75% of net market value.	Tiered rate based on average sales price and volume of coal produced.	If exported: 7.5%. If not exported: \$1 per tonne, adjusted with price increases.	3.5% of net market value.	1.9% on net sales plus profit royalty up to max of 5.35% of net sales.	Greater of 20% of net value (less \$10,000) or 1% to 2.5% of gross revenue.

Source: Commonwealth Grants Commission, 2025 Methodology Review Mining revenue consultation paper

As the Commission’s own research (seen in Table 4 above) shows, states do not raise royalties based on differential rates for different types of coal. Therefore, for the purpose of royalties, states do not differentiate between metallurgical and thermal coal. Applying an assessment on that basis would, therefore, be inconsistent with what states do.

In the case of Queensland, royalties are determined and collected based on the total volume of total invoiced payable tonnes and tonnes disposed of or used, regardless of quality or type.

The royalty rate applicable to, and therefore the royalties payable by, a specific royalty payer is calculated based on the average price per tonne for all coal (of all qualities) sold, disposed of or used. Separate royalty rates are not calculated for any specific coal type or quality. Furthermore, royalties payable are net of a range of deductible expenses, which are also applied at the aggregate level and not in any way linked to the different qualities of coal.

Similarly, in New South Wales, the only other state with significant coal production, royalty rates are applied based on the extraction method (i.e. open cut, underground, deep underground) and are in no way linked to the specific quality of coal produced.

It is clear that for the purposes of determining and collecting coal royalties, states on average (and in almost all cases) treat all coal, regardless of quality or end usage, as the same commodity.

Arbitrary segmentation by coal quality or type is not applied at any stage of calculating royalty rates or the royalties payable.

**Therefore, any such arbitrary segmentation would be in complete contrast with what Queensland, New South Wales and all states do on average in relation to around 99% of total coal production in Australia.**

The current approach applied by the Commission in assessing coal royalties already recognises that states with greater value of production have greater revenue capacity and, therefore, the average royalty rate applicable across all coal qualities is already reflective of what states do on average.

Altering this approach as proposed would lead to a skewed assessment, as it would introduce arbitrary sub-components of a particular commodity (that is already assessed separately from other minerals). This, in turn, would result in spurious outcomes when assessing state need, undermining the principle of horizontal fiscal equalisation.

#### **4. Outside the scope of 2024 Update.**

The terms of reference (TOR) for the 2024 Update were issued by the Commonwealth Treasurer on 13 December 2023 and key elements of it are consistent with standard wording from previous TORs in that it states:

**“The Commission’s assessment should be based on application of the same principles, categories and methods of assessment** that the Commission used to calculate the GST revenue sharing relativities in its Report on GST Revenue Sharing Relativities – 2023 Update”.

To move to an approach where the commission assesses different categories or qualities of the same ‘mineral’ or resource commodity in different ways is an unprecedented and significant change to the methodology applied in the mining assessment in the 2023 Update (and all previous updates). As such, Queensland considers this is beyond the scope of the TOR for the 2024 Update or any annual update.

Furthermore, the only noted instance in the TOR for making method changes during an update are to correct ‘data problems’. This is supported by the Commission’s own update process which notes the following:

**“The terms of reference allow methods changes, subject to consultation with Commonwealth and State Treasuries, where data used in existing assessments are found to be unsatisfactory or where they are required because of significant changes in federal financial relations.”**

These longstanding conditions have held across previous updates and are intended to provide certainty and consistency in assessment methods. This in turn is required for adherence to the principle of practicality, which includes fitness for purpose – and, in particular, ensuring the Commission’s relativities are practically useful for States to incorporate into their budgets.

The change proposed by the Commission is not in line with these requirements and, if any consideration was to be given to the differential treatment of different qualities of specific minerals or commodities, including coal, this would need to be considered as part of a five-year methodology review. However, as outlined in this submission, any consideration of this change, even within a five-year review would be considered inconsistent with key principles of HFE, including not being impractical, not being policy neutral, and not reflecting what states do.

## 5. Inconsistency with Practicality and fit for purpose – Relativities must be practically useful for States to incorporate into their Budgets.

The relativities set in the 2024 Update will be informed by revenues in 2020-21, 2021-22 and 2022-23. During 2021-22 and 2022-23, royalty revenue from coal commodities have been extraordinarily high due to temporary global factors affecting coal prices.

The impact of adopting a methodology change such as proposed in the 2024 update will be substantially amplified, due to the higher revenues in the two years to 2022-23, in a way that substantially exceeds the adjustments to relativities generally expected or considered appropriate in an annual update. The framing of the TOR this year (as in past years) outlined above clearly recognises the expectation that such changes are not contemplated in an annual update.

Even beyond this context, it is inconsistent with the overriding principle of practicality, including fitness for purpose in ensuring States can rely upon relativities in their budgeting.

Consideration of a methodology adjustment of such scale should, if contemplated, only occur in a methodology review, and with appropriate time for detailed consideration of implications – i.e. as an issue raised early in a review process to enable impacted states, and the Commission, to comprehensively consider the issue. **Identifying such an issue so late in the program with limited opportunity for states to review calls into question the rigour of the assessment and appears arbitrary.**

## 6. Inconsistency with Practicality and fit for purpose – Substantial data limitations.

The Commission has requested Queensland provide data splitting coal royalty revenue and value of coal production between metallurgical and other coal. However, **Queensland Treasury does not collect or maintain actual data in this form as it is not the basis on which royalties are actually collected and reported.**

Coal royalties are not calculated separately for metallurgical and thermal coal and the type of coal (metallurgical or thermal) is not relevant for the calculation of coal royalty.

For Queensland, the royalty rate, gross value and value are inputs into the calculation of coal royalty.

- The royalty rate is determined by the average price per tonne, which is based on a mix of different qualities or types of coal. The calculation of the average price per tonne includes inputs (e.g. freight and insurance costs) and the value and volume of coal disposed of or used, without any consideration as to coal quality or end use.
- The gross value of coal includes a mix of different qualities and types of coal.
- The value of coal includes inputs which are without any specific attribution by coal type, including accounting for deductions such as port operating costs and non-refundable capital contributions for the building of port infrastructure.

As outlined above, the volume of different qualities of coal and the revenue from different qualities of coal sold, disposed of or used are not critical to the royalty calculation, because only the total coal sold, disposed of or used is used in royalty calculations. In particular, coal royalty for each operation is determined by reference to all coal sourced from that operation that is sold, disposed of or used in a royalty return period.

That is, for coal royalty purposes, it is not legislatively relevant whether the operator sells, uses, or disposes of hard coking coal, soft coking coal, PCI coal, thermal coal, or a mix of these. Further, in a return period, a producer may be liable for both private and state royalty. Private coal royalty is also not separated in anyway by coal type in royalty returns.

Given the substantial materiality and potential volatility in GST distributions that such a segmentation of coal qualities would introduce into the assessment, any estimation of the potential royalties from different coal qualities based on incomplete data would be inappropriate.

Importantly, the apportionment of coal royalty between metallurgical and thermal coal does not exist in legislation, and any estimation of coal royalty by coal type could vary substantially depending on the estimation method applied.

An estimation of the revenue by the Commission would present substantial challenges and add to the complexity of the assessment (as the Commission would need to develop an accurate and reliable estimation approach, with states given appropriate opportunity and time to review).

**Given the substantial data limitations outlined above, any such estimation would be inconsistent with a key HFE principle that data used in assessments needs to be fit for purpose.**

Since 2010, the Commission has adopted practicality as one of its four key principles of HFE. The Commission notes that practicality is an umbrella principle that covers the concepts of simplicity, reliability, materiality, quality assurance, and fitness for purpose.

As noted above, **Queensland Treasury does not collect the required royalties data split by metallurgical and non-metallurgical coal, and royalties are not in any way determined or calculated on that basis.**

Alternatively, should the Commission consider attempting to estimate splits of metallurgical and non-metallurgical coal, this would introduce a new layer of complexity and uncertainty into the mining assessment, and would be in contrast to the objective of simplicity. Furthermore, without a means of accurately determining an appropriate split, states would have no meaningful way of quality assuring any proposed method of estimation.

The loss in practicality and simplicity arising from any splitting of coal royalties by coal quality would also coincide with a substantial weakening of other key principles (what states do, as discussed earlier and policy neutrality, as discussed further below).

## **7. Lack of materiality on a permanent basis.**

In considering whether to separately assess minerals within the mining assessment, the Commission needs to consider the materiality of this change. This is based on current revenue generated *and* forecasted future revenue, using forward estimates in state budgets as a guide. This is intended to avoid minerals changing categories from one update to the next, thus reducing volatility in the mining assessment.

However, splitting out metallurgical coal and thermal coal has substantial limitations and risks in terms of its impacts on HFE over the longer term, given that key factors behind the increase in coal royalties over recent years, and thus the underlying basis for the proposed change, are clearly temporary in nature with revenues expected to revert to more normal levels in the near future.

This is elaborated on in the 2023-24 Queensland Budget which noted that:

*‘Coal and oil prices rose substantially across 2021–22, providing a substantial short-term boost to revenues. Global prices have since moderated somewhat but remain elevated compared to historical levels.*

*However, the recent strength in prices, particularly in relation to coal prices, is primarily driven by a range of short-term supply side factors and disruptions. As such, prices are expected to return to more sustainable levels in 2024.’*

Queensland royalty forecasts, as outlined in the 2023-24 Queensland Budget Update, clearly indicate this, showing that coal royalties are expected to decline substantially over coming years, from \$15,360 million in 2022-23 to \$9,188 million in 2023-24, and then decline further to \$4,342 million in 2024-25. Coal royalties are then forecast to remain at only slightly above \$4,000 million in subsequent years, reflecting the expectation that the current temporary spike in global prices will have unwound and prices will return to medium-term levels (Table 5).

**Table 5: Queensland royalties**

	2021-22 Actual \$ million	2022-23 Est. Actual \$ million	2023-24 Forecast \$ million	2024-25 Projection \$ million	2025-26 Projection \$ million	2026-27 Projection \$ million
Coal	7,243	15,360	9,188	4,342	4,272	4,149

Source: Queensland Treasury, 2023-24 Budget Update

This demonstrates that the royalty rate changes implemented by Queensland that have partially attributed to the increased royalties during the temporary period of high prices, represent additional revenue that is only activated when coal prices are at high levels. When coal prices return to more in line with medium term prices, the new higher royalty tiers will largely not be applicable.

Importantly, in comparison, New South Wales' latest forecasts, published in their 2023-24 Budget Update, show that New South Wales total royalties revenue (which comprises almost entirely of coal royalties) is forecast to increase in 2024-25 to \$3,737 million and then only decline moderately to \$3,239 million in 2025-26 and \$2,949 million in 2026-27.

As such, this implies that the increased royalties expected in New South Wales over the longer term and once prices return to medium term levels, reflecting the recent increase in royalty rates in that state, will only be around \$1,000 million less per annum than the forecast coal royalties raised in Queensland.

In reality, this will be reflected in New South Wales actually receiving total coal royalties that are significantly closer to the levels of royalties received in Queensland going forward than has been the case historically during periods when prices are more in line with medium term levels.

However, despite New South Wales' and Queensland's royalty revenue converging, **Queensland would be materially and unfairly penalised on an ongoing basis (possibly by several hundreds of millions of dollars a year) in additional re-distribution of GST.**

However, given the recent increase in New South Wales' royalty rates applies to all qualities and types of coal, regardless of prices at any point in time, this will result in a substantial and permanent uplift in New South Wales' royalty revenues compared to historical levels, even once prices return to more normal levels following the current temporary period of higher prices.

Therefore, an assessment between different qualities of coal would be not only impractical and unprincipled, but as prices moderate, it will likely be immaterial, requiring the Commission to consider reversing the approach in a subsequent update.



## 8. Policy neutrality and contamination

A key principle of HFE is that assessments need to be policy neutral. In particular, in the Commission's occasional paper discussing the impact of state revenue policy decisions and HFE, it was stated:

"The Commission's policy neutrality principle seeks to ensure state policy choices have minimal effect on its assessments and, in turn, the assessments have minimal impact on state policy choices."<sup>6</sup>

**This proposed change, should the Commission decide to enact it, would ensure that states (in particular Queensland) coal mining revenue policy choices have a material impact on the mining revenue assessment.**

**Given Queensland's dominance in metallurgical coal production, the state's coal royalty revenue policy will equate to average national royalty policy, thereby leading to Queensland's revenue policy driving the revenue assessment.**

**This means that any such change would be clearly moving further away from the policy neutrality supporting principle.**

Such a change would retrospectively impact on key policy decisions already made and implemented by Queensland in 2022-23. This change would also retrospectively apply to assessed GST shares in years prior to the current policy change, with two of the single years affecting the 2024-25 relativities (2020-21 and 2021-22) before the 2022-23 additional mining royalty tiers were introduced.

As such, this change would substantially impact on the outcomes of previous policy decisions (i.e. to raise appropriate returns to the people of Queensland for the state's valuable natural resources during periods of high coal price) that were clearly implemented on the basis of the Commission's longstanding approach to the GST treatment of coal.<sup>7</sup>

States' have previously raised concerns that the Commission's approach to revenue assessments is influencing policy decisions and resulting in economic inefficiencies. For example, Queensland stated as part of their submission to the Productivity Commission into HFE:

"[The Commission's] approach can distort state decisions to alter their tax mix to enhance economic efficiency and minimise deadweight losses."<sup>8</sup>

The Commission has also acknowledged the impact their revenue assessments can have on influencing state revenue policy and is investigating how it can ensure that states are not made worse off because of revenue policy reforms as part of the 2025 Methodology Review.

## 9. Detrimental impact on policies in the national interest.

In addition to the inconsistency with the policy neutrality principle for individual states, as outlined above, the proposed change (including the potential precedent it could set or uncertainty it could create related to potential future changes to other assessment methodologies), could have substantially negative and unintended consequences, including disincentivising and undermining the effectiveness of government policies that are in the national interest.

Importantly, royalties are critical revenue policies that are in the national interest. They are specifically designed to ensure that Australians (including in the states where specific resources are

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<sup>6</sup> Commonwealth Grants Commission 2021. *Occasional Paper No. 2: GST distribution and state tax reform.*

<sup>7</sup> Noting that this mineral-by-mineral approach is already a breach of the policy neutrality principle and is opposed by Queensland.

<sup>8</sup> NSW Treasury 2017. *NSW Government Submission: Productivity Commission Inquiry into Horizontal Fiscal Equalisation.*



located), receive a reasonable and appropriate return on the valuable and limited natural resources owned by the people in order to fund essential public goods, infrastructure and services.

In particular, as clearly outlined by the Queensland Government, Queensland's new progressive coal royalty tiers were designed to collect material revenue only in exceptional circumstances, when coal prices were at high levels, to ensure a fair return to the people of Queensland in times when coal producers are receiving extraordinary revenues and profits.

As highlighted in ministerial statements, the "Progressive coal royalties ensure a fair return to the people of Queensland when profits are extraordinary, but will protect coal producers and coal jobs should prices decline."

The existing coal assessment methodology applied by the Commission already ensures that a substantial proportion of additional royalties raised in any given state during periods of high prices is redistributed over time to other states and territories through the GST system, thereby ensuring that all states and territories nationally also benefit from the increased royalties derived from the use and sale of the countries' limited and valuable natural resources.

**The nature of the proposed change, including the retrospective nature of the change to the assessment approach, is likely to lead to substantial uncertainty in the context of states considering such important policy decisions that are in the national interest.** In particular, it reduces the incentive to pursue such policies that are designed to rightfully and appropriately protect the interests of the citizens who own the natural resources.

**Ultimately, to the extent this does impact on or disincentivise consideration of potential policies that are in the national interest, this would ultimately reduce the benefits flowing to all Australians over time.**

## 10. Procedural fairness

Queensland considers that the proposed change does not follow the standard procedural fairness that should apply when considering any substantial method changes.

It is expected that, prior to releasing a new issues paper, the Commission would undertake rigorous background research into an issue, including appropriate testing of materiality thresholds, before any change should be proposed.

However, the apparent lack of detail within the supplementary paper and its sudden release late in the 2024 Update process indicates these steps have not been taken. This is further supported by the fact that states are being requested to provide a response to the proposed change and submit the required data (despite that data not being available and the clear and substantial data limitations as outlined earlier in this submission) to potentially support such a change on the same date.

Given the nature, complexity, and potential materiality of the proposed change, the proposed timeframes for consideration and a response on this issue are manifestly inadequate.

States and Territories must be provided with sufficient opportunity to thoroughly consider any such material method change. In addition to responding to the conceptual case and assessment against the fundamental principles of HFE, the opportunity needs to be available to properly quality assure any change in method. The rushed consideration of this matter is unfortunately indicative of an arbitrary assessment and approach to HFE.



**Queensland**  
Government