

Mining revenue

Overview

- 1 On 29 June 2023, the Commission issued a [consultation paper](#) on the mining revenue assessment. The Commission proposed retaining the 2020 Review assessment method with 2 additional elements.
- 2 On 12 April 2024, the Commission issued a [supplementary consultation paper](#) on splitting the coal assessment by price band.
- 3 A summary of state and territory (state) responses to each consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed here: [Tranche 1 state submissions](#). State submissions on the supplementary consultation paper can be viewed here: [Tranche 2 state submissions](#) and here: [assessing coal capacity](#).

Consultation questions

- 5 In its consultation paper, the Commission proposed assessing mining revenue capacity using a mineral-by-mineral approach. Under this approach, separate assessments are made for individual minerals where it is material to do so. The remaining minerals are combined and assessed together. Revenue from revenue-sharing agreements with the Commonwealth are assessed using the revenue received by the relevant states.
- 6 The Commission proposed 2 adjustments to address issues relating to the assessment of individual minerals. The first arises when there is an extreme distribution of a mineral, such that one state has a dominant share of production. In this situation, the change in revenue the dominant state would experience from changing its royalty rate on that mineral would be substantially offset by a change in its GST distribution. This could act as a disincentive to increasing royalty rates. The proposed adjustment would assess part of the changed revenue equal per capita, limiting the GST effects of the rate change.
- 7 The second arises when state bans or restrictions are so extensive they materially affect mining production. In this situation, states that allow production are assessed to have revenue capacity, but states that prohibit production are not. The proposed adjustment would assess relevant royalties raised by any state equal per capita, meaning those royalties would not affect GST distribution. The consultation paper suggested this treatment may be appropriate for coal seam gas and uranium.

Do states agree the Commission should continue to assess mining revenue capacity using a mineral-by-mineral approach?

State views

- 8 Victoria, South Australia, Tasmania, the ACT and the Northern Territory supported the mineral-by-mineral approach. Victoria and South Australia said it best captured states' mining revenue capacity.
- 9 The major mining states (New South Wales, Queensland and Western Australia) disagreed. They said the mineral-by-mineral assessment gave rise to policy neutrality issues and they proposed different assessment approaches to address those issues.
- 10 New South Wales and Queensland favoured assessing all minerals together. New South Wales said the mineral-by-mineral approach favours what states do at the expense of policy neutrality. Queensland said assessing all minerals together would provide a superior equalisation outcome and strike a better balance between what states do and policy neutrality. It said this option should be reconsidered as a priority as any move to a more granular assessment was moving the assessment away from policy neutrality.
- 11 Western Australia said observed revenue bases were policy influenced and their use by the Commission created policy neutrality concerns. In addition, assessing minerals individually can give rise to large GST effects when a state with a dominant share of production changes its royalty rate. It suggested a global revenue approach as an alternative to using observed tax bases.
- 12 States commented on 2 other approaches to measuring mining revenue capacity outlined but not proposed by the Commission in its consultation paper – a profitability approach and an external standard approach. There was no support for either.
- 13 New South Wales and South Australia said a profitability approach did not reflect what states do and would likely increase the volatility of the mining assessment. New South Wales also said the lack of available data meant a profitability approach was impractical.
- 14 New South Wales and Victoria said implementing an external standard would be impractical because of the difficulty of choosing an appropriate and comparable external rate.

Commission response

- 15 Assessing all minerals together means mining revenue capacity would be assessed by applying the average (all mineral) royalty rate to each state's total mining production. Compared with the mineral-by-mineral approach, this would increase the assessed capacity of states producing minerals that attract low royalty rates and reduce the assessed capacity of states producing minerals that attract high royalty

rates. It would materially shift GST revenue from the iron ore producing state to the coal producing states (see Table 1). The Commission does not consider this a superior equalisation outcome because it would require states producing low value minerals to apply above-average royalty rates to raise the average revenue. Therefore, the Commission does not support assessing all minerals together.

Table 1 Annual change in GST effects of alternative assessment approaches, average of 2020 Review to 2024 Update (\$m)

Assessment	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
One mineral group	384	-75	951	-971	-134	-44	0	-110	1,335
Two mineral groups (a)	301	9	649	-1,022	29	4	0	29	1,022
Adjusted Gross State Product (b)	960	-285	26	1,152	-870	-340	-361	-283	2,138

(a) The first group in the 2 group assessment comprised royalties imposed on iron ore, coal, bauxite and onshore oil and gas production and the second group comprised royalties imposed on the remaining minerals.

(b) This is the average annual change in GST from assessing state royalty and tax revenue using the adjusted gross state product measure rather than the 2020 Review assessment methods.

Source: Commission calculation.

- 16 An advantage of the Commission’s current approach of assessing capacity using observed revenue bases is it is a direct assessment, which links revenue capacity to the activity states are taxing. Importantly, because states apply different royalty rates to different minerals, it produces a different measure of capacity for different minerals. A global revenue approach is an indirect assessment, and the chosen indicator may be unrelated to the activities states tax. Under this approach, the same capacity measure would be used for each tax and mineral.
- 17 The Commission accepts observed revenue bases can be influenced by policy. Where these influences can be quantified and reliably removed, adjustments are made.¹ In the Commission’s judgement, the remaining influences are not so large as to require it to move away from using observed revenue bases. It considers that observed revenue bases provide a better measure of revenue capacity than a global revenue approach.

Commission draft position

- 18 The Commission proposes to continue to assess mining revenue capacity using a mineral-by-mineral approach.

¹ Examples include the adjustments for the ACT’s policy of not aggregating the taxable land holdings of individual landowners and the Northern Territory’s policy of not imposing land tax.

Do states agree that where a dominant state changes its relevant royalty rate, assessing 50% of that state's revenue arising from the royalty rate change equal per capita would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns?

State views

- 19 Queensland did not initially support the adjustment but said the adjustment would be appropriate if the coal assessment was split.
- 20 Western Australia said the adjustment did not go far enough in addressing the disincentive to increase royalty rates. It suggested 2 alternatives:
- assess equal per capita 100% of revenue from rate changes since the introduction of the GST
 - assess equal per capita 100% of revenue from future rate changes for the first 5 years and 50% thereafter.
- 21 The remaining states did not support the adjustment for a variety of reasons. They said the adjustment reduced the extent of equalisation achieved, was arbitrary, and lacked clarity. The choice of the current royalty rates as the benchmark rates to implement the adjustment was noted as an example of this. New South Wales and Tasmania were concerned the approach would exempt some state revenue from equalisation. Western Australia and South Australia queried the arbitrariness of the 50% figure.
- 22 A number of states were unclear how the Commission would implement the adjustment. Their concerns included whether it would apply to royalty rate increases or royalty rate changes including decreases, whether it would be calculated in perpetuity, whether it would disadvantage states that fall short of being dominant, whether and when the adjustment would be reset and how it would deal with multiple rate changes by a dominant state.
- 23 New South Wales, South Australia and the Northern Territory said there was no need for an adjustment because the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* (the 2018 legislated arrangements) effectively insulated a dominant state from the GST effects of changing its royalty rates so long as its relativity remained below the relativity floor. Western Australia disagreed. It said the 2018 legislated arrangements should not factor into the Commission's design of its assessment method.

Commission response

- 24 The Commission accepts a state can face a disincentive when increasing royalty rates on a mineral where it has a dominant share of production. It considers there is merit in an adjustment to mitigate the disincentive. The Commission's proposal to

split the coal assessment (see paragraphs 63 to 111) increases the importance of addressing this issue as it increases the potential for there to be dominant states.

- 25 In the consultation paper, the Commission proposed addressing any disincentive by treating part of the changed revenue from a dominant state's rate change equal per capita. It saw merit in limiting any GST effects to 50% of the additional revenue raised. However, given the complex implementation issues raised by states, the Commission considers it would be too difficult to design and introduce an adjustment in this review. It proposes to continue to examine how the disincentive associated with a dominant state could be best addressed and consult further with states, in preparation for the next review.
- 26 Some states queried whether an adjustment was required given the 2018 legislated arrangements insulated the existing dominant state from any GST consequences of increases in its royalty rates. However, this protection is not extended to a dominant state whose relativity remains above the relativity floor. In its position paper on its approach to fiscal equalisation,² the Commission said the concept of horizontal fiscal equalisation articulated in the 2020 Review remains appropriate for the first step in determining states' GST distributions in keeping with the 2018 legislated arrangements. As such, the Commission considers its methods for estimating relative state fiscal capacities should be developed independently of any consideration of the 2018 legislated arrangements.

Commission draft position

- 27 While it accepts some states face a disincentive to increasing royalty rates, the Commission does not propose to introduce an adjustment in this review. It will continue to examine the dominant state issue and consult with states on how it could be addressed in preparation for the next review.

Do states support the dominant state for a mineral being identified having regard to a state's share of the revenue base, its population share, and the extent to which its GST distribution would be impacted by a change in the royalty rate for that mineral?

State views

- 28 Western Australia said this was the correct way to identify a dominant state.

² Commonwealth Grants Commission (CGC), [Proposed approach and work program for the 2025 Methodology Review](#), CGC, Australian Government, 2023.

- 29 New South Wales and Tasmania said the definition was arbitrary. Victoria, South Australia, Tasmania and the Northern Territory said the Commission did not need to identify a dominant state as the proposed adjustment was not appropriate.

Commission response

- 30 The Commission has decided not to introduce an adjustment in this review. In preparation for the next review, the Commission will engage with states on the appropriate definition of a dominant state as part of further work on how the issue could be addressed.

Commission draft position

- 31 The Commission will engage with states on the appropriate definition of a dominant state.

Do states agree that uranium and coal seam gas royalty revenue should be assessed equal per capita?

State views

- 32 The consultation paper proposed assessing equal per capita royalties for minerals where state bans or restrictions are so extensive as to materially affect production. Western Australia noted that, in its principles paper, the Commission said it would not discount because of policy neutrality. Western Australia said an equal per capita assessment was not consistent with the principles paper because it discounted for policy neutrality.
- 33 Queensland, Western Australia and the Northern Territory supported the adjustment. The remaining states either did not support the adjustment or offered qualified support. They said the crucial issue was the extent to which production was affected by the restriction. States opposing the adjustment said equal per capita should only be considered if the extent of restrictions was such that they meant the observed revenue base was not a reliable measure of revenue capacity.
- 34 Queensland said the distribution of the onshore oil and gas revenue base was policy influenced. It compared the rapid development of its gas industry with the lack of development by other states, despite other states holding substantial proven and probable gas resources and reserves. It cited state moratoriums on gas fracking. Queensland also noted differences in collection and reporting methods. It said the lack of rigour and transparency in collection methods meant state data were unreliable. It also said that it was a dominant state in terms of gas extraction and based its royalty regime on volumes and, as such, a value of production assessment was not consistent with what states do.
- 35 Western Australia supported the adjustment because it did not consider observed revenue bases were a reliable measure of revenue capacity. It said environmental

restrictions were functionally similar to New South Wales' exclusion zones.

Western Australia proposed a tiered system:

- full equal per capita for minerals that were banned or restricted by a majority of states
- partial equal per capita for minerals restricted by some states
- a smaller partial equal per capita for minerals that were not restricted by policy but were rejected systematically on a case-by-case basis.

36 Alternatively, Western Australia suggested the Commission could blend the observed revenue base with land area.

37 The Northern Territory said the adjustment implied revenue capacity should be assessed in states without production if:

- an economically viable resource was reasonably likely to be present in most or all states and
- policies materially restricted the value of production of the resource in those states.

38 New South Wales said an equal per capita assessment should not be used if a clear driver could be determined. It did not support equal per capita where the value of production closely aligned with the distribution of resources. It said using known economic resources would be better than equal per capita. Victoria said the Commission should assess capacity for states that extracted resources because equal per capita did not recognise the inherent differences in endowments. It also said banning did not mean a mineral would be economically viable were it not banned. It said the Commission's adjustment effectively estimated a potential revenue base (that is, what states should do) and would mean the Commission would have to estimate production for any mining proposals rejected by states.

39 South Australia and Tasmania agreed there were inherent difficulties in determining state capacity in relation to minerals subject to state restrictions. They said an equal per capita assessment might be appropriate if bans and restrictions were widespread. However, South Australia said not all endowments were economically viable and it doubted whether equalisation would be achieved by applying an equal per capita assessment. Tasmania said if the states allowing production were the biggest producers, then the Commission should continue to make an assessment. It suggested examining the effect of state restrictions on a case-by-case basis.

Minerals affected by restrictions

40 The consultation paper proposed assessing revenue from coal seam gas and uranium equal per capita.

41 Queensland supported assessing coal seam gas royalties equal per capita because it contrasted states' lack of production with their substantial proven and probable gas resources and reserves.

- 42 New South Wales, Victoria, Tasmania and the Northern Territory did not support an equal per capita assessment. New South Wales, Victoria and the Northern Territory said the only economically viable coal seam gas resources were in New South Wales and Queensland. New South Wales said state value of production closely aligned with the distribution of resources. Tasmania did not consider coal seam gas activity was materially affected by state restrictions and it favoured continuing the existing assessment.
- 43 Western Australia and the Northern Territory said only unconventional gas produced by hydraulic fracturing (or fracking) should be assessed equal per capita as the policy ban was on fracking. The Northern Territory said there were unconventional gas (other than coal seam gas) endowments in most states.
- 44 The Northern Territory supported an equal per capita assessment for uranium royalties. It noted uranium production was low relative to potential production. New South Wales, Victoria and Tasmania disagreed. New South Wales said value of production closely aligned with the distribution of resources. Victoria said states do not have the same capacity to raise revenue from uranium as they have different endowments. Mining companies make decisions to extract uranium based on a range of factors including economic, environmental, legal and regulatory. Tasmania said uranium activity was not materially affected by restrictions and it favoured continuing the existing assessment.

Commission response

- 45 The mineral-by-mineral approach assesses a state with no mineral production to have no capacity to raise revenue. This is appropriate if its lack of production is due to a factor beyond its control (such as a lack of endowments, a lack of economically viable endowments or a lack of commercial interest in developing economically viable endowments). It may not be appropriate if the lack of production is due to a decision not to allow economically viable endowments to be developed.
- 46 Applying an equal per capita assessment means any royalties raised would not affect states' GST shares. In deciding whether to apply an equal per capita assessment, the Commission would have to exercise its judgement as to whether:
- the lack of production in a state is due to a state ban or restriction
 - the bans or restrictions are so extensive as to materially affect production.
- 47 In respect of the second question, Geoscience Australia data on economic demonstrated resources will inform any judgement as to the potential impact of a ban or restriction.
- 48 Western Australia's tiered proposal would link the proportion of revenue assessed equal per capita (the size of an adjustment) to the degree to which mineral production was affected by state restrictions. The greater the effect of the restrictions, the greater the proportion of revenue assessed equal per capita. If an adjustment were introduced, this proposal would be a practical way of linking the

size of the adjustment to the size of the effect of state restrictions. Although it introduces complexity and requires the use of judgement, the Commission considers the tiered system suggested by Western Australia provides a useful guide to implementing the judgements required in this area.

- 49 Western Australia's alternative proposal would blend the current assessment with land area. The Commission does not consider land area to be a reliable capacity measure. It locks states' shares of capacity to shares of land area, regardless of how their shares of national mining activity vary over time.

Assessment of unconventional gas

- 50 State submissions focussed on restrictions due to prohibitions on fracking, including New South Wales' exclusion zones.³ New South Wales' exclusion zones are designed to protect residential areas and its equine and viticulture industries. Western Australia said environmental restrictions were functionally similar to New South Wales' exclusion zones. It is likely other states would limit mining in similar areas.
- 51 Unconventional gas comprises coal seam gas, shale gas and tight gas. Fracking is always required for shale gas and tight gas, but it is not always required for coal seam gas.
- 52 Geoscience Australia economic demonstrated resources data for coal seam gas indicate almost all coal seam gas production and commercially viable reserves are located in Queensland. Currently, less than 10% of Queensland coal seam gas production involves fracking.⁴ It is unclear the extent to which fracking bans have affected production. It is likely states other than New South Wales would limit mining near residential areas and major industries. Given that almost all coal seam gas resources are located in Queensland, there appears little evidence to support a conclusion that fracking bans materially affect production. The Commission is not convinced it should assess all coal seam gas royalties equal per capita.
- 53 Geoscience Australia's economic demonstrated resources data indicate no current shale gas or tight gas production in Australia. The Northern Territory suggested it would become a producer of shale gas before the next review.
- 54 The Commission considers that fracking bans currently have a limited effect on state production of unconventional gas (including coal seam gas). Given their limited effect

³ In October 2013, the New South Wales Government prohibited coal seam gas activity in existing residential zones in all 152 local government areas in New South Wales and future residential growth areas in the North West and South West Growth Centres of Sydney. Coal seam gas exploration and extraction were also banned in 2 kilometre buffers around these zones. The zones included 2 critical industry clusters (CICs) in the Upper Hunter – for the equine and viticulture critical industries. Additional areas were added in 2021. They cover 7 additional village areas and future residential growth areas across New South Wales and the CICs in the Upper Hunter.

⁴ Queensland's Gasfields Commission said typically only a small fraction of the wells drilled in Queensland are fracked. Queensland's Department of Environment and Science said just over 8% conventional and domestic gas wells have been fracked. Although it estimated this could rise to between 10 to 40 as the industry expands. Energy Information Australia said 8.8% of the coal seam gas wells drilled in Queensland's Surat and Bowen Basins have been fractured.

on coal seam gas and the lack of production of other unconventional gas, the Commission has decided not to assess unconventional gas (including coal seam gas) equal per capita.

Assessment of uranium

- 55 The Commission accepts state capacity to raise revenue from uranium mining is uneven and there are a range of factors outside of state control that limit production. For example, the Northern Territory is required to give effect to the advice of the Commonwealth Government before approving uranium mines.
- 56 Uranium mining is a prescribed nuclear action under the Commonwealth's *Environment Protection and Biodiversity Conservation Act 1999*. Before any uranium mine can be developed in Australia, it must be assessed and approved by Commonwealth and state governments. There are long lead times for that approval. Given all uranium deposits are known, the most economically viable are already being mined and the long lead times in gaining Commonwealth Government approval, there are unlikely to be any new uranium mines before 2030.
- 57 Geoscience Australia data indicate there are uranium deposits in Queensland, Western Australia, South Australia and the Northern Territory, but the major endowments are located in South Australia. Currently, South Australia is the only state producing uranium, raising around \$18 per capita in royalties.
- 58 Queensland and Western Australia do not allow uranium mining.⁵ Their restrictions prohibit production in those states, and this provides a justification for assessing some of South Australia's uranium royalties equal per capita. It is unclear how large production would be in those states if they allowed uranium mining. Geoscience Australia data suggest Queensland and Western Australia account for almost 13% of uranium economic demonstrated resources.⁶ Given the small size of uranium endowments in Queensland and Western Australia, there appears little evidence to support a conclusion that uranium bans materially affect production. The Commission is not convinced it should assess all uranium royalties equal per capita.

Commission draft position

- 59 The Commission proposes to continue its current approach to state bans and restrictions. It will not introduce an adjustment but will continue to monitor the situation.
- 60 The Commission proposes not to assess uranium royalties equal per capita.

⁵ While uranium mining is not allowed in Western Australia, if a project received approval before 2017 and demonstrated substantial development it is allowed. One mine (Mulga Rock) demonstrated substantial development.

⁶ Geoscience Australia (GA), [Australia's Identified Mineral Resources 2023](#), GA website, 2024, Figure 2, accessed 19 June 2024.

Other issues raised by states

- 61 Some states raised additional assessment issues in their submissions. They were:
- whether the coal assessment should be split to better capture differences in states' coal revenue capacities
 - how the Commission should estimate Victoria's brown coal value of production
 - whether the choice of capacity measure for onshore oil and gas production should be volume or value of production.
- 62 These issues are discussed below.

Splitting the coal assessment

- 63 New South Wales said the Commission should undertake separate assessments of metallurgical and thermal coal to better reflect states' capacity to raise coal revenue.
- 64 The Commission issued a supplementary consultation paper proposing to split the coal assessment by price band.

Consultation questions

Does the 2020 Review method adequately capture all material differences in state capacities to raise coal revenue?

State views

- 65 New South Wales, Victoria, South Australia, Tasmania, the ACT and the Northern Territory said an aggregated coal assessment did not capture all material differences in state capacities to raise coal revenue.
- 66 New South Wales said the assessment captured the higher price of coal sold in a state, but it did not capture the impact of progressive royalty rates. Victoria said it overstated its brown coal capacity.
- 67 Queensland opposed splitting the coal assessment. It was concerned the Commission's mineral-by-mineral approach was already too disaggregated. Additional disaggregation of coal would accentuate its concerns. It favoured a move to a more aggregated assessment because this would strike a better balance with the supporting principles, particularly policy neutrality. In its view, the more granular

the mining assessment, the greater the departure from policy neutrality.⁷ It said this risks a state's policy becoming average policy, which is contrary to policy neutrality.

68 Queensland suggested the Commission consider developing the mining assessment in a way that achieves objectives in addition to equalisation, such as providing an incentive to states to:

- implement and maintain revenue reform that is in the national interest
- expand their revenue raising, reducing their reliance on Commonwealth grants and reducing vertical fiscal imbalance
- support the transition to a low carbon environment.

69 Queensland was also concerned a retrospective change to the coal assessment would penalise it for an enacted policy decision. If the Commission decides to split the coal assessment, Queensland suggests the change not be introduced until the 2025–26 assessment year.

70 While South Australia said not all differences in capacity were reflected in an aggregated coal assessment, it noted detailed revenue and value of production data would be required to determine the materiality of any revenue capacity not being captured by the assessment. It doubted these data were available on a consistent basis.

71 The Northern Territory acknowledged that the mining assessment seeks to find an appropriate balance between equalisation and policy neutrality. It said favouring equalisation over policy neutrality was difficult to justify in the coal context. It preferred an aggregate assessment to an assessment split by price band or type of coal. It noted an aggregate assessment was consistent with what New South Wales did and was the least policy influenced method.

Commission response

72 The Commission's primary task is to estimate states' relative fiscal capacities for the purpose of equalisation. The Commission is not asked, nor given discretion, to decide when other policy objectives should moderate the achievement of equalisation. The Commission's supporting principles, such as policy neutrality, are subsidiary to the equalisation task.

73 The aggregated coal assessment applies the average (all coal) royalty rate to each state's coal production. Queensland produces most of the high value coking coal. By combining all coal, the aggregate assessment is likely to understate Queensland's revenue capacity and overstate the capacities of other coal producing states (particularly those producing brown coal). States would not be able to apply the

⁷ A more granular assessment increases the risk of a portion of a state's royalty revenue being assessed actual per capita, which would give rise to substantial impacts on GST distribution. An aggregate assessment would reduce the influence of any individual state's production on the assessment.

average rate to low value coal and, therefore, those with an above-average proportion of low value coal would be unable to raise the average revenue. When coal prices are high, the overstatement/understatement of capacities could be large.

- 74 The Commission proposes to split the coal assessment, provided it can be done reliably and is material.
- 75 The general practice of reviews has been for assessment changes to be introduced fully in a review. The Commission proposes to retain this approach in respect of any change to the coal assessment.

Commission draft position

- 76 The Commission proposes to split the coal assessment, provided it can be done reliably and is material.
- 77 As is its normal practice, it proposes to implement any change in all assessment years of the 2025 Review.

Do states support a differential coal assessment based on price bands?

State views

- 78 New South Wales, Victoria, Tasmania and the ACT supported splitting the coal assessment by price band. Tasmania's support was conditional on an assessment being material. The ACT's support was conditional on states being able to provide reliable data.
- 79 New South Wales said the coal assessment must recognise that coal sold at a higher price is, on average, subject to higher rates of royalty. It said an assessment by type of coal or by price band would capture that additional capacity. However, an assessment by price band was more practical and more closely reflected what states do.
- 80 Queensland, South Australia and the Northern Territory did not support an assessment by price band. They were concerned a price band approach would give rise to policy neutrality concerns (particularly, the dominant state issue).
- 81 Queensland said its tiered royalty regime was designed to collect additional material revenue only in exceptional circumstances, when coal prices were at high levels. Splitting the coal assessment would redistribute that revenue and would severely and unfairly penalise Queensland for undertaking its revenue reform. It was concerned that splitting the coal assessment is being considered because of its policy choice to introduce additional tiers to its progressive regime. The inference is that it is being penalised for its reform. It was also concerned there appears to be a judgement-based application of supporting principles.

- 82 South Australia said aligning the price bands with Queensland's royalty tiers also meant Queensland's policy could directly influence its assessed revenue capacity. The Northern Territory agreed, saying the proposed top price band would be heavily influenced by Queensland's policies.
- 83 The Northern Territory said only one state imposed progressive rates, so progressive rates were not average policy.

Commission response

- 84 The purpose of revenue equalisation is to measure the revenue states can raise from their own sources. For example, when a state experiences a mining or property boom, the revenue assessments capture the subsequent increase in its revenue capacity. In its position paper on its approach to fiscal equalisation, the Commission acknowledged that equalisation was not an exact science. It said alternative assessment methods often involve trade-offs between principles. It has not established a relative weighting or hierarchy of supporting principles. Instead, it uses its judgement in each case to determine the most appropriate measure of states' relative fiscal capacities.
- 85 The average policy is determined as a weighted average of each state's individual policy. As Queensland accounts for a majority of coal value of production, its policy has the majority weight in determining average policy. As it has a price-based royalty regime, splitting the coal assessment by price band is consistent with what states do. It is also consistent with Queensland's actual capacity to raise coal royalties flowing from the state's endowments of higher value coking coal.
- 86 A price band approach would require states to provide relevant and reliable data. New South Wales said it can provide data. Queensland said providing data by price band was likely to give rise to confidentiality concerns. Tasmania also said a price band approach would raise confidentiality issues because of the small size of its mining sector. It advised it had no reliable data to support an assessment by price band.
- 87 Without reliable data, an assessment by price band may not be practical. This issue is discussed further in the following sections.

Commission draft position

- 88 Provided reliable data are available, the Commission's proposes to split the coal assessment by price band because it provides a better measure of state coal capacities.

Are the proposed three price bands sufficient to appropriately capture differences in state capacities to raise coal revenue?

State views

- 89 New South Wales said 3 bands were too few. It noted the volatility of coal prices could create difficulties for a 3-band approach because of the likelihood of metallurgical and thermal coal falling into the same price band even if there were significant differences in their respective prices. In these circumstances, the 3-band approach would default to an aggregate assessment and would fail to measure differences in underlying taxable capacities under a progressive royalty rate framework. A second concern was that small coal price movements around a price band could result in significant changes in the assessment. New South Wales proposed price bands in \$50 increments up to at least \$500 as a way of overcoming both issues.
- 90 New South Wales also proposed a second option – a 2-band approach. Under this option, the value of coal sold above the average price for the assessment year would be in one band and the value of coal sold below the average price in the other.
- 91 Victoria was concerned the proposed price bands could overstate the value of brown coal. It said further work was required to ensure brown coal was appropriately accounted for. It also said a price band approach should adequately respond to changes in the market and ‘band creep’.
- 92 Queensland opposed splitting the coal assessment by price band on policy neutrality grounds. It also said splitting the coal assessment was likely to give rise to data confidentiality issues. However, if the Commission was disposed to split the coal assessment by price band, it proposed different price bands for the 2-band and 3-band approaches. It suggested setting the bands with respect to states’ effective royalty rates rather than their headline legislated rates (which in its case are marginal rates).
- 93 South Australia expressed concerns about aligning price bands with Queensland’s royalty tiers. It suggested basing the bands on price parameters not directly related to one state’s regime.
- 94 Tasmania said the proposed price bands appeared reasonable but may need to be reviewed if other states introduced tiered royalty regimes. The ACT said the Commission should analyse the appropriate number of price bands.

Commission response

- 95 While a price band approach can capture differences in states’ capacity to raise revenue from high and low value coal, it is reliant on state-provided data and is likely to give rise to a dominant state issue for Queensland and, potentially, New South Wales.

- 96 The Commission reviewed the various price band approaches:
- the multi-band approach proposed by New South Wales
 - the 3-band approach proposed by the Commission
 - the 2-band approach proposed by New South Wales.
- 97 A multi-band approach will capture differences in metallurgical and thermal coal because it is unlikely they will fall into the same band due to their different prices. Compared with the existing aggregate assessment, this could produce materially different GST distributions for New South Wales and Queensland. The advantages of a multi-band approach are that small changes in coal prices around a price band are unlikely to materially affect the assessment, the approach is responsive to changes in market conditions and the price bands are not related to Queensland's royalty tiers. The disadvantages of a multi-band approach are that it is more data intensive and more susceptible to data confidentiality issues.
- 98 In its supplementary consultation paper, the Commission proposed a 3-band approach. Queensland suggested a variation using price bands based on state effective royalty rates. The Commission agrees that if fixed rates are chosen, state effective rates would be preferable to state legislated rates. The 3-band approach will produce the same outcomes as an aggregate assessment when metallurgical and thermal coal fall within the same band. This may be appropriate if their coal prices are similar. However, it might not be appropriate if their prices are materially different, but they fall within the same band because the price band is too wide. Having fewer bands makes the approach less susceptible to data confidentiality issues but using fixed price bands can mean it is less responsive to changes in market conditions. In addition, small changes in prices around a fixed price band can have material effects on the assessment. Queensland suggested setting the bands around effective royalty rates rather than its royalty tiers. Other states agreed with not aligning the bands with Queensland's royalty tiers because they were concerned it could mean Queensland's policy would directly influence its assessed revenue.
- 99 New South Wales proposed a 2-band approach. Queensland suggested a variation using price bands based on state effective royalty rates. A 2-band approach is the least data intensive and the least likely to be susceptible to data confidentiality issues. Queensland favoured fixed price bands, while New South Wales favoured bands determined by an average annual price. The latter approach would be more responsive to market conditions because the average annual price would move in response to changes in coal prices. The derived average price would be unrelated to Queensland's royalty tiers. A disadvantage of the average annual price approach is it involves a 2-step process for collecting state data.⁸ This raises the possibility of

⁸ States would initially provide annual volume and value of production data, which the Commission would use to derive an annual average price. States would then split their annual royalty and value of production data into that above and below the average annual price.

state-provided data becoming available late in an update. Another disadvantage is the approach will always deliver a split coal assessment, even when there is not much divergence in coal prices.

- 100 The Commission proposes to split the coal assessment. It considers a 2-band model is a simple way of capturing the impact of progressive royalty rates on differently priced coal, is the least data intensive, and mitigates confidentiality concerns. Its preliminary view is to have price bands above and below \$200 per tonne but proposes to collect state revenue and value of production data by price band to finalise its position.

Commission draft position

- 101 The Commission proposes to collect state data to determine the most appropriate price to split the coal assessment. The position in the Draft Report may change based on these data. As soon as possible, the results of the split assessment and quantitative impacts will be provided in an addendum to the Draft Report.

If a price band approach is not feasible, do states support an assessment based on the type of coal?

State views

- 102 New South Wales, Victoria and Tasmania supported an assessment based on type of coal. Tasmania's support was conditional on an assessment being material. Victoria said the approach would need to distinguish between black and brown coal and appropriately price brown coal.
- 103 Queensland, South Australia, the ACT and the Northern Territory did not support an assessment by type of coal. Queensland, South Australia and the Northern Territory said it did not reflect what states do.
- 104 Queensland said an assessment by type of coal was not feasible or appropriate. It was inconsistent with the mineral-by-mineral approach, and the 'what states do' and policy neutrality supporting principles.
- 105 South Australia said there was a broader issue about how and when a mineral could be split into 'types'. A defined set of criteria was required. It queried whether reliable revenue and production data were available to support an assessment by coal type. In the absence of these data, the Commission would need to apply judgement to develop an assessment. It queried whether the subsequent increase in data uncertainty (due to the use of estimates) would improve equalisation or justify the change to GST distribution.
- 106 The ACT said the assessment may not reflect the value of production reported by states.
- 107 The Northern Territory noted that moving away from an aggregated coal assessment could cause Queensland to become fiscally stronger than New South Wales, which

would mean its relativity could fall below the relativity floor prescribed by the 2018 legislated arrangements. In these circumstances, other states would finance the cost of lifting Queensland's relativity to the floor. The Northern Territory concluded this would lead to a less accurate assessment, because it would lower the GST shares of non-coal producing states.

Commission response

- 108 An assessment by type of coal will capture differences in state capacities to raise revenue from metallurgical and thermal coal. However, because it requires the Commission to estimate missing data, the measured capacities may not be reliable.
- 109 If states are unable to provide value of production data by type of coal, the Commission would have to estimate the missing data from states' coal volumes. This would require the Commission to obtain estimates of average prices. In addition, the Commission would have to estimate the split of royalty revenue by type of coal for states with progressive royalty regimes. Queensland said approaches based on estimates (such as for average annual prices) were likely to produce an unreliable assessment.
- 110 Some states suggested splitting the coal assessment could result in implications for the 2018 legislated arrangements. In its position paper on fiscal equalisation, the Commission said its view was to retain the approach to horizontal fiscal equalisation articulated in the 2020 Review as the first step in determining GST distributions in accordance with the 2018 legislated arrangements. As such, the Commission considers its methods for estimating relative state fiscal capacities should be developed independently of any consideration of the 2018 legislated arrangements.

Commission draft position

- 111 The Commission's preference is to split the coal assessment by price band. However, if states are unable to provide the data to support a price band approach, splitting the coal assessment by type of coal remains an option. The Commission acknowledges the concerns some states have over the reliability of the estimates used to support this approach.

Estimating Victoria's brown coal capacity

- 112 Victoria is the only state producing brown coal. Its coal is not sold on the market but is almost entirely used for electricity production.
- 113 Brown coal does not have a price as it is largely an internal transfer within mining/generation entities. Consequently, Victoria is not able to provide a value of

production for its coal. The Commission estimates a value using Victoria's royalty revenue and an estimated effective royalty rate.⁹

State views

114 Victoria said its brown coal capacity was overstated because of this estimation approach and because the Commission assesses brown coal with black coal.

Commission response

115 In the absence of a price for brown coal, there is no reliable way to derive Victoria's value of coal production. The Commission agrees assessing brown coal with black coal will overstate Victoria's coal capacity. As it is the only state with brown coal production, any separate assessment of brown coal would assess Victoria's capacity equal to the revenue it raises.

116 The Commission's intention is to use Victoria's revenue as the measure of its coal capacity.

Commission draft position

117 The Commission proposes to assess Victoria's coal capacity equal to the revenue it raises.

The capacity measure for onshore oil and gas

State views

118 Queensland said it was the major producer of onshore oil and gas and it levied its royalty on a volume basis. Therefore, the Commission's current approach of assessing revenue raising capacity using value of production did not reflect what states do.

119 Queensland was also concerned about differences in collection and reporting methods. It said the lack of rigour and transparency in collection methods meant state value of production data for onshore oil and gas were unreliable.

Commission response

120 The Commission agrees assessing onshore oil and gas royalties on a volume basis would be consistent with what states do.

Commission draft position

121 Providing states can provide the required data, the Commission proposes to assess onshore oil and gas royalties on a volume of production basis.

⁹ The estimate was based on royalty and value of production data that Victoria previously provided.

122 As the Commission has yet to collect these data from states, it has not been able to quantify the effect of this change.

Draft 2025 Review assessment method

123 Following consideration of state views, the Commission proposes to retain the 2020 Review mineral-by-mineral assessment method.

124 The Commission proposes to make one change to the mineral-by-mineral approach. It proposes to assess onshore oil and gas royalties using volume of production.

125 The Commission proposes not to introduce an equal per capita assessment for either coal seam gas or uranium royalty revenue.

126 A decision on whether and, if so, how to split the coal assessment is outstanding. The quantitative impacts of a Commission proposal to split the coal assessment by price band will be included in an addendum to the Draft Report.

127 Table 2 shows the proposed structure of the 2025 Review mining revenue assessment.

Table 2 Proposed structure of the mining revenue assessment

Category	Driver	Influence measured by driver	Change since 2020 Review?
Iron ore	Value of production	Recognises states with greater value of production have greater revenue capacity.	No
Coal	Value of production by price band for black coal	Recognises states with proportionally more of high value black coal have greater revenue capacity.	Yes
	Actual per capita for brown coal.	Recognises states with brown coal revenues have greater revenue capacity.	Yes
Gold	Value of production	Recognises states with greater value of production have greater revenue capacity.	No
Copper	Value of production	Recognises states with greater value of production have greater revenue capacity.	No
Lithium	Value of production	Recognises states with greater value of production have greater revenue capacity.	No
Nickel	Value of production	Recognises states with greater value of production have greater revenue capacity.	No
Other minerals (a)	Volume/value of production	Recognises states with greater volume/value of production have greater revenue capacity.	Yes (b)
Grants in lieu of royalties	Revenue received	Recognises states that receive a greater share of these payments have greater revenue capacity	No

(a) Includes assessed royalties for bauxite and onshore oil and gas. These royalties are assessed separately and, for confidentiality reasons, the results are reported with the other minerals assessment.

(b) Onshore oil and gas were previously assessed on a value of production basis.

Indicative distribution impacts

128 While the assessment method has changed, the Commission does not yet have data to quantify the effects of splitting the coal assessment and assessing oil and gas royalties on a volume basis.

129 The impact on the GST distribution in 2024–25 from the proposed change to the coal assessment will be presented in an addendum to the Draft Report.