Queensland response to Draft Report Addendum (Mining) 2025 Methodology Review

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Queensland Government

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1 Mining revenue

Proposed changes/positions

Based on the information provided in the Draft Report and Mining Addendum, the key elements of the Commission's current positions are:

- The Commission proposes to split the coal assessment by price bands, using the following two price bands: *above and below $200 per tonne.*
- The Commission proposes to split brown coal from black coal and assess brown coal royalties using the revenue received (i.e. actual per capita (APC)).
- The Commission proposes to assess onshore oil and gas revenue capacity using the volume of production.

Commission position

- *The Commission proposes to split the coal assessment by price bands, using the following two price bands: above and below $200 per tonne.*

Queensland position

As has been noted in previous submissions to the Commission, Queensland does not support further attempts at disaggregation in the mining assessment generally, or the coal royalty assessment specifically.

Queensland maintains its view that a full aggregation of the mining assessment, or at the very least retaining the existing methods, offers an approach that best achieves Horizontal Fiscal Equalisation (HFE), while giving regard to important supporting principles such as policy neutrality. Therefore, it is disappointing that the Commission has chosen to proceed with an approach to split the coal royalty assessment by price bands.

However, if the Commission ultimately decides to progress with a price band approach, Queensland considers the proposed approach outlined in the Addendum (i.e. using two broad price bands of *above and below $200 per tonne*) is the least worst outcome. This is because the use of any greater number of narrower price bands, would significantly compound the policy neutrality shortcomings, as well as introduce and/or exacerbate data confidentiality limitations.

Queensland <u>does not support</u> this change.

It is important to recognise that the conditions which support the use of price bands in some other assessments do not apply in relation to coal royalties.

Despite the claim in the mining revenue supplementary paper (and reiterated in some other state submissions) that other revenue assessments which apply value bands, such as stamp duty and land tax, are similar to coal, Queensland considers this is a flawed argument and does not justify a similar approach being adopted in relation to coal royalties.

The way that commodity prices and markets work, including the volatility in those markets, is substantially different to the way that prices and values are determined in relation to property and land.

Coal prices are highly volatile and can fluctuate on a daily basis, while land and property values trend upwards much more stably over time.

Property markets also comprise a substantial number of landholders and property transactions across a broad range of values that better support a breakdown by value bands. However, this is not the case in

coal markets, with a limited number of producers selling coal at various price levels, and the adoption of disaggregated coal price bands giving rise to substantial confidentiality issues as a result.

The large number of land and property transactions also enable an appropriate blending of tax bases across states which allow for a more policy-neutral assessment compared with the proposed application of coal price bands.

Queensland strongly maintains its position opposing any disaggregation of the coal revenue assessment. There is a range of clear and rational reasons for not making this change and these have been covered extensively in previous Queensland submissions in response to this issue as part of the 2024 Update and in response to the Issues paper issued as part of this methodology review.

It is disappointing that the Commission has decided to ignore many of those arguments and proceed with an approach that is clearly not policy-neutral and is inconsistent with HFE principles.

The key arguments previously put forward by Queensland against any more disaggregated approach to assessing mining royalties are outlined below. Most concerningly, the proposed change moves further away from policy-neutrality in that it introduces the likelihood of the Commission assessing coal on an APC basis in certain price bands, with the assessment outcomes primarily reflecting differences in royalty settings in New South Wales or Queensland.

In addition to the ongoing policy contamination issues that plague other parts of the mining assessment, in particular the gas revenue assessment, the changes proposed in the Addendum will mean that coal is now assessed on a vastly different basis to other minerals, which continue to be assessed differentially across all states.

As outlined in Queensland's previous submissions and discussed further below, the changes proposed in the Addendum are inconsistent and in stark contrast to the approach adopted by the Commission in relation to the gas revenue assessment. In the gas revenue assessment, the Commission has also disregarded the policy-neutrality principle but is inappropriately assessing some states as having no or very limited revenue capacity, despite clear and intentional policy decisions by those states to severely limit development of their gas industries and their potential gas royalties. **The magnitude of this inconsistency is indicative of arbitrary decision making that unfortunately does not demonstrate the disciplined application of HFE principles.**

This is a perverse outcome and should be considered further, including in terms of how these conflicting approaches align with the key principles of HFE, as part of the 2030 Review.

However, if the Commission ultimately decides to progress with a price band approach for coal, Queensland considers the proposed approach outlined in the Addendum (i.e. using two broad price bands of *above and below $200 per tonne* would at least mitigate some of the substantial policy-contamination and perverse outcomes that would be delivered by any alternative options with more disaggregated or narrower price bands.

As has already been established in Queensland's previous submissions and observed by the Commission in their analysis outlined in the Addendum, the use of a greater number or narrower price bands would significantly compound the policy-neutrality issues, as well as introduce or exacerbate data confidentiality limitations.

Further to Queensland's ongoing concerns with the proposed disaggregation of coal royalty revenues, Queensland considers it is essential that the mining assessment more broadly should be considered as a priority area for further review as part of the 2030 Review.

Impact of a split by price bands

The Commission states that its proposal to split the coal mining assessment is driven by an attempt to "better reflect the different capacities of states and territories to raise coal royalty revenue".

While the use of a broad price band structure is viewed as a more appropriate and less distortionary method than other options considered by the Commission (such as by coal type or narrower, more disaggregated price bands), this approach will still result in an assessment which can produce outcomes that are inconsistent with key principles of HFE.

In particular, the proposed change will result in coal revenue being assessed through vastly different approaches, on either a differential or APC basis, at different times within a price cycle, depending on the price of coal in any given year.

During periods when coal prices are particularly high or low for all qualities of coal, there is the possibility that a substantial portion of both Queensland and New South Wales might be categorised in the same price band - i.e. above or below $200 per tonne. In both these situations the assessment approach would, in practice, largely reflect the outcomes of the current methodology. As such, the price band approach would create additional complexity within the assessment without potentially materially changing the redistribution outcomes in these years.

However, during periods where there is a material difference between the global price for high quality coal (such as the metallurgical coal largely produced in Queensland) and lower quality coal, this will result in each state being largely assessed in terms of its own individual price band and the royalty rates that the individual state applies in that price band. Policy settings, rather than just price, will be the dominant factor in such cases.

This will mean that the assessment of revenue capacity in each band is driven largely by the policy settings in a single state, resulting in an outcome that will see the assessed revenue in each state closely reflecting actual revenues, i.e. in practice defaulting to an APC assessment.

This outcome is clearly not policy neutral and demonstrates the extreme impact that state policy settings will have on the coal mining revenue assessment under the proposed methods. In effect the Commission will be assessing differences in state policy settings rather than assessing any differences in state fiscal capacity.

Furthermore, this proposed change will also result in far less stability in this assessment than is already the case, due to the substantial 'swings' in assessed revenue between the two different assessment methods. This conflicts with the Commission's noted efforts in other assessments, such as wages, where attempts have been made to reduce volatility in the assessment.

Overall, disaggregating coal revenue by price bands will produce a policy-contaminated and not fit-for-purpose assessment, with an inability to adequately assess fiscal capacity which will diminish the overall effectiveness of HFE. Given this, it is considered far more preferrable to maintain an aggregated approach to assessing coal mining revenue capacity, as is already being achieved through existing assessment methods.

Given these significant concerns and limitations, the option to apply price bands above and below $200 per tonne is seen to reflect a least worst outcome, if the Commission decides to disaggregate the coal mining assessment.

Any further disaggregation, such as the use of three or more price bands, would be much more likely to introduce material confidentiality issues to this assessment in many years, as well as increasing the likelihood of states being included in separate price bands and thus being assessed on an APC basis. **In short, a bad situation will be made even worse.**

Queensland also strongly opposes the previously considered option to disaggregate coal revenues by coal type. As previously outlined in Queensland's response to the 2025 Review supplementary mining paper,

as well as the 2024 Update supplementary new issues paper, this is 'not what states do' as the majority of states do not levy royalties by coal type, and thus data is not collected or available on this basis.

Any such breakdown is also restricted and would be severely compromised by a lack of clear distinction between the classification of metallurgical and thermal coal, as outlined in detail in Queensland's previous submissions.

Summary of other previous arguments against splitting the coal assessment by price bands

1. Contradicts the principle of policy neutrality

As has already been noted, assessments should strive to the greatest extent possible to be policy-neutral.

One of the Commission's supporting principles states that "*policy choices [should] have minimal effect on assessments and, in turn, the assessments have minimal impact on state policy choices.*"

This proposed change shows that a lack of regard has been given to this principle. It could result in periods where the policy settings of a single state largely drive the mining assessment, effectively creating an APC assessment despite having two states, New South Wales and Queensland, which are major coal producers.

In periods where New South Wales and Queensland are assessed as having coal that is priced primarily in separate price bands, their respective policy decisions related to the design of their royalty frameworks will significantly influence their assessed coal royalty revenues.

Given the clear lack of policy neutrality in this outcome, this suggests that the proposed change reflects a judgement-based outcome on the part of the Commission, as the change would see a greater redistribution towards New South Wales based on its policy decision to maintain a flat royalty rate structure as opposed to Queensland's more economically sound progressive rate structure.

2. Contributes to greater policy contamination across assessments

If this change is introduced, in addition to the current treatment of gas royalties, this means that across the mining assessments there is now a clear situation where the impacts of state policies primarily drive the assessed fiscal capacity.

A comparison of the coal and gas assessments also clearly illustrates that, in addition to the disregard for policy neutrality in both cases, there are conflicting and inconsistent policy rationales underpinning the approaches being proposed by the Commission (and supported by some other states) in the two assessments.

It was identified by both the Commission and Queensland in its Tranche 1 and 2 submissions that specific policy decisions to restrict or ban gas development and production in other states, particularly New South Wales and Victoria, prohibit or limit the development of a gas industry and the raising of royalty revenues in those jurisdictions. The current assessment methods, which the Commission intends to keep in place, support these policy choices by assessing these states as having little to no productive capacity - despite strong and clear evidence that these states having substantial undeveloped resources.

By contrast, under the coal mining assessment, the Commission is proposing changes to the current methodology that are specifically being made to capture the impact of policy decisions related to Queensland's royalty regime. This is clear in the mining consultation supplementary paper, with the Commission's conceptual case referencing Queensland's royalty rate system and the intention to introduce price bands in the context of Queensland's royalty tiers.

With the Commission's clear intent to split the coal mining assessment and to leave the gas assessment unchanged, there will now be two large mining revenue assessments where the treatment of revenue is not policy-neutral, both of which effectively and materially penalise Queensland (in the case of coal for

its own policy decisions, and in the case of gas for the policy decisions made by other states). The Commission has not been able to reconcile this contrasting and inconsistent approach.

More broadly, this latest proposed change highlights an increasing trend towards having insufficient regard to policy neutrality in key assessments. This was highlighted by Queensland in its draft report submission and Queensland continues to have substantial concerns about the ongoing shift away from alignment with the important HFE supporting principles in the approach being taken to key assessments.

Inconsistent application of principles encourages perceptions of arbitrariness and unfortunately ultimately undermines the rationale for HFE.

3. Disincentivises meaningful policy reform

Royalties are critical to ensure that Australians receive a reasonable and appropriate return on valuable and limited natural resources.

Queensland's progressive coal royalty reforms, which were designed to raise material revenue when global coal prices reach exceptionally high levels, have improved not just Queensland's but other states' fiscal capacities, and have been demonstratively beneficial for the national interest.

The current system of HFE already ensures that a significant proportion of additional royalties raised in any given state during periods of high prices are redistributed over time to other states and territories through the GST system. Therefore, to introduce a change which further punishes Queensland for implementing a sensible and economically rationale policy that delivers benefits for *all* Australians, is grossly unfair.

This, combined with the retrospective application of this change, would have substantially negative consequences in terms of disincentivising future government policies that are in the national interest by setting a damaging precedent for any other states considering future policy reforms.

It sends a clear message to other states that the Commission *can* and *will* make future judgements to penalise states for their policy decisions.

To the extent that this deters consideration of future policies, this will ultimately leave all states in a poorer position by reinforcing the dependence on Commonwealth revenues and less efficient state revenue streams in order to deliver essential services and public infrastructure.

4. Confidentiality concerns and data limitations

Queensland Treasury is bound by strict legislative confidentiality requirements that prohibit the disclosure of any personal confidential information related to taxpayers.

Disaggregating the coal mining assessment by price bands may raise confidentiality concerns in some years given the potential for a small number of producers in certain bands. Queensland is pleased to note that the Commission has recognised this as a practical consideration in the Addendum.

Were confidentiality issues to arise, it would be necessary in affected years to combine data across multiple price bands in order to preserve confidentiality. Ultimately, this would prevent the Commission from being able to undertake a reliable and effective assessment of state revenue capacities and any redistributions based on this data would be inaccurate as a result.

Given the potential for this, Queensland suggests that if the Commission remains committed to the use of price bands, sufficiently wide bands such as those proposed (*above and below $200 per tonne*) should be used, as the application of more and narrower bands substantially increases the likelihood of this risk occurring over alternative options.

Summary

The significant issues outlined above provide overwhelmingly strong grounds for the Commission leaving the coal assessment unchanged.

The Commission however seems determined to implement this change, in spite of the compelling evidence against it. Given this, it would therefore be sensible for the Commission to undertake the change in a manner which limits the negative impacts on this assessment.

This would involve the use of broad-based fixed price bands as suggested (i.e*. above and below $200 per tonne*). In addition to limiting the significant policy neutrality impacts already noted, this would also better support the conceptual case for this change, which was to address a divergence in state revenue capacities. This is because the two proposed price bands are more closely aligned with the differences between effective royalty rates in Queensland and New South Wales.

Queensland is also pleased to note the Commission's conclusion that the design of the two broad price bands helps avoid or reduce issues of a 'dominant state' occurring (unlike a three band approach), although Queensland would recommend that this continues to be tested as new data is provided and once a definition of dominant state is agreed upon.

The Commission has analysed and appropriately rejected a proposal by New South Wales to consider price bands above and below an average coal price. As noted, this goes against the practicality principle as this would require multiple data requests, increasing the burden on data collection agencies and lengthening the time taken to provide finalised data. This change would also embed a permanent split between high and low value coal in the assessment even when price differences between states were minimal, effectively resulting in greater complexity when there was limited need. The Commission has confirmed that this approach would also give rise to 'dominant state' issues in some years.

Queensland maintains its view that any change to a price band approach should only apply from 2025-26 assessment year onwards. To allow a change made by the Commission in the current review to substantially undermine a previous policy decision made in 2022-23, and with that decision made on the basis of the previous coal assessment methods, is highly unfair and will result in states questioning any future policy changes.

To not enact this change retrospectively would also be in line with the Commission's principle of contemporaneity, which is based on the key principle that the distribution of GST should reflect state circumstances in that year.

Commission position

- *The Commission proposes to assess brown coal royalties using revenue raised (on an APC basis).*

While Queensland accepts the argument that there are issues with assessing Victoria's coal given the absence of a specific market price, Queensland maintains its view that further disaggregation of the coal assessment or assessing Victoria's coal on an APC basis are not appropriate.

For this reason, Queensland does not support this change.

The increasing preference of the Commission to use APC approaches in key assessments, such as in the proposed change to the assessment of Victorian coal and elsewhere, including the assessment of COVID-19 health and business expenditure, is a source of growing concern to Queensland.

APC assessments are normally reserved for use where '*the policies of all States are the same and any differences in expenses or revenue per capita are due to differences in State circumstances.*' It is for this reason that very few assessments should, and do historically, attract an APC assessment.

Under the current methods, only the following assessments are on an APC basis:

- Commonwealth payments to States made by the Australian Government.
- Native title and land rights disability.

- Natural disaster relief expenses.

In all three of these assessments the needs are clearly outside the control of state policy decisions and an APC assessment is warranted.

However, the case for applying an APC treatment to Victoria's coal royalties is weak considering that the design and application of royalties is a policy decision, not a reflection of state circumstances. Similarly, this is also the case for COVID-19 expenditure which heavily reflected state policy choices around quarantine and lockdown procedures. **An APC treatment of either assessment is therefore inappropriate given the clear policy influences at play.**

Queensland therefore recommends greater consideration should be given to the circumstances and use of APC assessments in the 2030 Review. In the interim, until this issue can be further explored, including its appropriateness in the context of the mining revenue assessment, Queensland considers that brown coal revenues should continue to be assessed with other coal revenues through the existing approach, using current methods to estimate value of production for brown coal.

Commission position

- *The Commission proposes to assess onshore oil and gas royalties on a volume of production basis.*

As per its stated position in the draft report, Queensland does not oppose a change to a volume of production measure. This is on the basis that the majority of national production was in Queensland and thus this change would reflect 'what states do'.

Provided all states are able to supply data on the same basis, Queensland continues to hold this position.

However, because of the substantial policy differences with regard to the development and treatment of gas across states, with some states intentionally severely restricting their royalty revenue raising capacity through intentional policy decisions, Queensland still strongly maintains the view that onshore gas should be assessed on an equal per capita basis.

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