

Mining revenue

Review outcomes

- The following changes were made to the assessment.
 - Black coal will be assessed using a fixed-price band model with 2 price bands (above and below \$200 per tonne). The use of price bands captures the additional revenue capacity available to states producing high-value coal when states impose progressive royalty rates.
 - Brown coal will be assessed using revenue received.
 - Onshore oil and gas will be assessed using volume of production. This is consistent with average policy.
- The Commission considered but did not change the following.
 - The mineral-by-mineral approach will be retained as the preferred method of assessing states' mining revenue capacity.
 - A dominant state adjustment will not be introduced in the 2025 Review. In preparation for the next review, the Commission's forward work program will continue to examine the issue and consult with states on how best to address the disincentive to increase royalty rates faced by dominant states.
 - An adjustment for the effect of state mining restrictions will not be introduced. Given the uncertainties of estimating the impact of mining restrictions on state production, the Commission will continue to use actual production as its measure of mining revenue capacity.

Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission's [consultation paper](#) and [submissions](#) on the [supplementary consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
 - an overview of the issues considered throughout the review
 - the Commission's response and decision on each issue
 - GST impacts of the method changes.
- 5 A description of the assessment method, incorporating changes made in the 2025 Review, can be found in the mining revenue chapter of the *Commission's Assessment Methodology*.

Issues considered

Retaining the mineral-by-mineral approach

- 6 Under the 2020 Review approach mining revenue capacity was assessed using a mineral-by-mineral approach. Under this approach, a mineral is separately assessed if doing so materially affects any state's GST outcome. Royalties for the remaining minerals were combined and assessed together in the other minerals component. Revenue from revenue sharing agreements with the Commonwealth were assessed using the revenue received, the same approach used to assess other Commonwealth payments.
- 7 A key challenge in developing the mining assessment is measuring state revenue capacity, consistent with the objective of fiscal equalisation, while finding an appropriate balance between fiscal equalisation and policy neutrality. The existence of dominant states in the production of certain minerals, including iron ore, means there can be tension between the objective of fiscal equalisation and the supporting principle of policy neutrality.
- 8 While the Commission continues to seek to reconcile this tension, it considered the mineral-by-mineral approach provided the best measure of state mining revenue capacities.

State views

- 9 Most states supported the mineral-by-mineral approach. Victoria and South Australia said it best captured state mining revenue capacities.
- 10 The major mining states (New South Wales, Queensland and Western Australia) disagreed. They sought an assessment that gave more weight to policy neutrality. They said the mineral-by-mineral assessment gave rise to policy neutrality issues and they proposed different assessment methods to address those issues.
- 11 New South Wales and Queensland favoured assessing all minerals together. Queensland said this provided a superior equalisation outcome and struck a better balance between what states do and policy neutrality.
- 12 Western Australia had 2 concerns. First, it considered the use of the observed level of taxable activity as the revenue base was policy influenced. Second, it said assessing minerals individually could create large GST effects if a state with a dominant share of production changed its royalty rate. It favoured a single revenue assessment, assessing mining revenue and state taxes together.

Commission response

- 13 The Commission did not favour either an aggregate mining assessment or a single revenue assessment. Both assessments would give too much weight to the

supporting principle of policy neutrality and insufficient weight to measuring state mining revenue capacities consistent with the objective of fiscal equalisation.

- 14 Assessing all minerals together calculated mining revenue capacity by applying the average (all-mineral) royalty rate to each state's total mining production. Compared to the mineral-by-mineral approach, it increased the assessed revenue capacity of states with low-value minerals and vice versa. The Commission did not consider this to be a superior fiscal equalisation outcome because it implied states with low-value minerals could apply above-average royalty rates to raise the average revenue.
- 15 A single revenue assessment used the same capacity measure for each tax and mineral and the chosen measure may be unrelated to the activities the states tax. The 2020 Review revenue assessment methods use different capacity measures for different taxes and minerals. These capacity measures tend to relate to the activities the states tax. This is consistent with the 'what states do' supporting principle and the Commission concluded it produced a better equalisation outcome than a single revenue assessment.
- 16 States commented on 2 other approaches to measuring mining revenue capacity outlined but not proposed by the Commission – a profitability approach and an external standard approach. There was no support for either approach. 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. New South Wales and Victoria said implementing an external standard would be impractical because of the difficulty of choosing an appropriate and comparable international royalty rate.
- 17 Given the uneven distribution of minerals, the different royalty rates applying to different minerals and the volatility of commodity prices, the Commission concluded the mineral-by-mineral approach provided the best measure of state mining revenue capacities, consistent with the objective of fiscal equalisation. However, as noted further below, it acknowledged the concerns associated with policy neutrality in certain circumstances.

Commission decision

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

Improving the policy neutrality of the mineral-by-mineral assessment

- 19 The mineral-by-mineral approach can give rise to policy neutrality concerns in particular circumstances. The Commission explored 2 changes to improve the assessment's policy neutrality. It considered introducing an adjustment when:
 - a dominant state increased its royalty rate or
 - a state imposed a mining restriction that had a material effect on production.

A dominant state adjustment

- 20 In most cases, a state has a limited influence on average policy. However, exceptions can arise and these are potentially significant in the case of mining revenue. When a revenue base is concentrated in 1 or 2 states, the policies of those states have a dominant role in determining average policy, particularly when minerals were assessed separately.
- 21 If a dominant producer of a mineral changed its royalty rate, the change in revenue it experienced would be largely offset by the change in its GST distribution. This could act as a disincentive for it to increase royalty rates, which creates a conflict with the policy neutrality supporting principle.¹ To mitigate the disincentive, the Commission considered introducing an adjustment that would assess equal per capita 50% of the increased revenue from the rate change.

State views

- 22 Western Australia and Queensland supported introducing a dominant state adjustment. Western Australia suggested the Commission exempt all of the increase in revenue from a dominant state's royalty rate increase, at least for the first 5 years. Queensland said a dominant state adjustment was required if the coal assessment was split.
- 23 The majority of states did not support the Commission's proposal to assess equal per capita 50% of the increased revenue from a dominant state's royalty rate increase. They were concerned about the practicalities of designing and introducing the Commission's proposed dominant state adjustment and said it was arbitrary, lacked clarity and would reduce the extent to which fiscal equalisation was achieved.
- 24 New South Wales and Tasmania were concerned the adjustment exempted state revenue from equalisation. South Australia queried the arbitrariness of the amount of revenue that would be exempt. States also noted practical issues that required resolution before introducing an adjustment. They included the choice of benchmark royalty rates, whether an adjustment would be calculated in perpetuity or reset, how it would deal with multiple royalty rate changes by a dominant state, the criteria to define a dominant state and how states that fell just short of the criteria would be treated.
- 25 Some states said an adjustment was not required because the GST distribution legislation effectively insulated a dominant state from the GST effect of increasing its royalty rates if its assessed relativity was below the relativity floor.²

¹ It could also act as an incentive for the dominant state to reduce its royalty rates because the reduction in its royalty revenue would be largely offset by an increase in its GST distribution.

² *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) ACT 2018* (Cth).

Commission response

- 26 The Commission acknowledged that a dominant state could face a disincentive to increase royalty rates. Some states said this would not be in Australia's national interest, particularly if it meant Australia was not receiving an appropriate return on the export of its mineral resources. The tension between the objective of fiscal equalisation and policy neutrality needs to be resolved to ensure equalisation does not act as a disincentive to states increasing revenue by increasing royalty rates. The Commission recognises the importance of incorporating a dominant state adjustment to reduce any disincentive. Some states did not consider the Commission's proposed dominant state adjustment as appropriate. In addition, they said there were implementation issues that needed to be resolved before any adjustment would be practical.
- 27 Given the importance of the dominant state issue, the Commission will continue to seek to identify a practical dominant state adjustment in consultation with the states in preparation for the next review.

Commission decision

- 28 The Commission will not introduce a dominant state adjustment in this review. In preparation for the next review, the Commission's forward work program will continue to examine the issue and consult with states on how best to address the disincentive to increase royalty rates faced by a dominant state.

An adjustment for state mining restrictions

- 29 When the observed level of activity is used as the capacity measure, policy neutrality concerns can arise when some states tax activity others do not. In these circumstances, the Commission may make an adjustment to estimate the missing activity in states that do not tax the activity. In the case of mining, this could entail estimating a state's level of production were it to lift its mining restrictions. If the mining restriction was widespread and had a material effect on national production, it could entail assessing equal per capita the revenue of states taxing the activity where a policy neutral measure of capacity could not be developed.
- 30 In this review, the Commission investigated whether an adjustment was warranted in relation to coal seam gas production, because of state hydraulic fracturing (fracking) bans, and in relation to uranium production, because of state uranium mining bans. It initially proposed assessing revenue from the affected activities equal per capita.

State views

- 31 States disagreed on how the Commission should address mining restrictions. Some states said policy neutrality was contravened if states that imposed mining restrictions were assessed to have no revenue capacity in respect of that activity. Other states said the key issue was whether equalisation was better served by continuing to assess a revenue capacity for states taxing the activity.

- 32 Queensland, Western Australia and the Northern Territory supported introducing an adjustment to estimate the missing activity in states that do not tax the activity. The remaining states either did not support the adjustment or offered qualified support.
- 33 Queensland said the onshore gas revenue base was policy contaminated. It contrasted the rapid development of its gas industry with the lack of development in other states, which Queensland claimed held substantial proven and probable gas resources and reserves.
- 34 Western Australia was also concerned about policy neutrality. It supported an adjustment because it did not consider observed revenue bases were a reliable measure of revenue capacity. It said environmental restrictions in some states were functionally similar to New South Wales' exclusion zones where mining was banned.
- 35 Other states said the key issues were the extent to which production was affected by a mining restriction and whether the effect of the restriction could be separated from other influences that constrained a state's production.
- 36 South Australia and Tasmania agreed there were inherent difficulties in determining state capacity in relation to minerals subject to state restrictions. They considered an equal per capita assessment might be appropriate if the 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. New South Wales said an equal per capita assessment was not appropriate if states' value of production closely aligned with their distribution of endowments. Tasmania said the Commission should continue to make an assessment if the states taxing the activity were the biggest producers. It suggested examining the effect of state restrictions on a case-by-case basis.

Commission response

- 37 For the Commission to introduce an adjustment for a mining restriction, it would require evidence that the restriction had a material effect on national production and its effect was capable of being reliably measured. There were limited data that would allow the Commission to estimate the level of a state's activity were it to remove a mining restriction. The paucity of data made it uncertain how material state mining restrictions were.
- 38 In the case of coal seam gas, Geoscience Australia data indicated almost all resources and known reserves were located in Queensland, with the remaining endowments in New South Wales. Fracking was required in less than 10% of Queensland's coal seam gas mines, which suggested fracking had limited effect in that state.
- 39 The Commission accepted states weighed the benefits of competing industries and it noted New South Wales said its exclusion zones were designed to protect residential growth areas and its equine and viticulture industries. The Commission did not

consider a state's choice between competing industries a reason for introducing an adjustment.

- 40 The Commission concluded an equal per capita assessment was not appropriate in coal seam gas because it did not reflect the extent of Queensland's endowments. It would also set New South Wales' revenue capacity equal to its population share. Based on Geoscience Australia data, this would overstate both its share of national production and the effect of any fracking ban.
- 41 In the case of uranium, all production was in South Australia. The known endowments in other states were small relative to those in South Australia. If the missing activity in those states aligned with their relative endowments, it would imply uranium bans did not have a material effect on national production.
- 42 For both coal seam gas and uranium, the Commission was unable to estimate the level of production if a state were to lift its mining restrictions. Given the uncertainties of estimating the impact of mining restrictions on state production, the Commission concluded the observed level of activity remained the best measure of state revenue capacity.

Commission decision

- 43 The Commission will not introduce an adjustment for state restrictions on uranium and coal seam gas production.

Assessing Victoria's coal capacity

- 44 Victoria said its brown coal did not have a price as it was largely an internal transfer within mining/generation entities. In the absence of a price, there was no reliable way to derive a measure of the value of its coal production. Victoria also said the Commission's 2020 Review estimation method overstated its value of production.
- 45 In the absence of a reliable measure of Victoria's value of coal production, the Commission proposed assessing its coal capacity using the revenue received.

State views

- 46 Victoria and the ACT supported the change. Victoria said it provided a better measure of its capacity because assessing its coal with black coal inflated its coal capacity as it applied the much higher black coal royalty rate to its coal production.
- 47 Western Australia and South Australia disagreed with the change. Western Australia said its coal was also used for electricity generation. It suggested Victoria's coal revenue capacity was likely closer to that of the low-quality coal in Western Australia and Tasmania than the high-quality coal in New South Wales and Queensland. It proposed assessing all low-quality coal together and said a value of production for Victorian coal could be estimated by applying the average of its and Tasmania's value and volume of production. It also said that if a separate

assessment of low-value coal was not material, the royalties should be assessed with the other minerals component.

- 48 South Australia said assessing Victoria's coal capacity using the revenue raised was inconsistent with policy neutrality. It said it was effectively an actual per capita assessment, which directly reflected Victoria's policy settings.

Commission response

- 49 Western Australia's estimation method would use a price for Victorian coal that was the average of its and Tasmania's black coal. Evidence Victoria provided suggested the price of its coal was much lower than the black coal price in Tasmania and Western Australia. Given the divergence in prices, Western Australia's estimation method would overstate Victoria's coal capacity.
- 50 Since no other state produces brown coal, any capacity measure would deliver the same outcome – it would assess all revenue capacity to reside in Victoria. The Commission considers the use of the revenue Victoria raises to be the simplest way of deriving that capacity. The Commission does not consider this to be a separate coal assessment. It is a way to estimate coal capacity for a state producing coal that has no price. Victoria's estimated capacity would be included with the capacities of other states in the coal assessment. As such, its estimated coal capacity would not be subject to a separate materiality test.

Commission decision

- 51 The Commission will assess Victoria's coal capacity using the revenue raised.

Assessing coal

- 52 New South Wales said an aggregate coal assessment did not capture all material differences in state capacities to raise coal royalties. It captured the higher price of coal sold, but not the effect of progressive coal royalty rates.
- 53 The Commission accepted states with high-value coal had an increased revenue capacity when states imposed progressive rates. It considered measuring the additional capacity by splitting the coal assessment by price band or type of coal.

State views

- 54 Most states supported splitting coal to capture the effects of progressive royalty rates. New South Wales said the coal assessment should reflect Queensland's additional revenue capacity from producing high-value coal. It said an aggregate coal assessment did not do this, and obscured differences in state revenue capacities.
- 55 Queensland, South Australia and the Northern Territory did not support splitting coal. Queensland was concerned the mineral-by-mineral assessment was already too disaggregated. In its view, the more granular the mining assessment the greater the departure from policy neutrality. Splitting coal meant coal was assessed

differently to other minerals and it produced outcomes inconsistent with equalisation. Queensland said splitting coal was a retrospective change to the coal assessment, which would penalise it for an enacted policy decision. It said if the Commission changed the coal assessment, the change should commence from the 2025–26 assessment year.

- 56 South Australia said it doubted the revenue and value of production data required to support a split assessment would be available on a consistent basis.
- 57 The Northern Territory said favouring greater equalisation over policy neutrality was difficult to justify in the coal context. It favoured an aggregate coal assessment for this reason.
- 58 New South Wales initially favoured splitting coal by type of coal. Other states did not agree. They questioned whether data were available to enable a reliable assessment by type of coal. Queensland said coal existed along a spectrum with no clear delineation between metallurgical and thermal coal.

Commission response

- 59 The Commission’s task is to estimate mining revenue capacities for the purpose of fiscal equalisation. The supporting principles of what states do and policy neutrality are subsidiary to the equalisation task.
- 60 An aggregate coal assessment calculates coal mining capacity by applying the average (all-coal) royalty rate to each state’s coal production. Compared with a split coal assessment, this increased the assessed revenue capacity of states producing low-value coal and reduced the assessed revenue capacity of states producing high-value coal. This implied states producing low-value coal could apply above-average royalty rates to raise the average revenue. This would be inconsistent with the objective of horizontal fiscal equalisation.
- 61 The Commission agreed with the majority of states that it would be difficult to split coal by type of coal. It considered a simpler option was to split coal by price band.
- 62 Since the 2020 Review, Queensland has added additional tiers to its progressive coal regime and international coal prices have risen rapidly. The combination of both changes has led to a significant divergence in the average royalty rates applied to high-value and low-value coal. As a result, the difference between an aggregate coal assessment and a split coal assessment has increased. In this environment, the Commission considered a split assessment would better capture the divergence in state coal capacities that has occurred since the 2020 Review.
- 63 The Commission also considered the impact that the split assessment would have on policy neutrality given that it could potentially create dominant states for both high-value and low-value coal. While the Commission continues to be concerned about policy neutrality implications of the mining assessment and will continue to seek to identify a practical means to mitigate their impact in preparation for the next

review, it concluded that the objective of achieving horizontal fiscal equalisation was best achieved through a split coal assessment.

- 64 The Commission also considered whether to introduce the price band assessment from 2025–26 or to make the change in all 3 assessment years applicable to the 2025–26 application year. The Commission’s approach since the 2010 Review has been to use the average of the 3 prior assessment years as the best indicator of state circumstances in the application year. In its [position paper on fiscal equalisation, supporting principles and assessment guidelines](#), the Commission concluded the 3-year lagged average assessment period continued to provide an appropriate balance between contemporaneity, predictability and stability. Queensland asked the Commission to change this approach and phase-in the introduction of price bands. Consistent with its long-standing approach, and the approach for implementing all method changes arising from the 2025 Review, the Commission decided to make the change in all assessment years.

Commission decision

- 65 The Commission will split the coal assessment by price band and will make the change to all 3 assessment years.

Choice of price bands

- 66 The Commission investigated different price band models:
- 2 price bands and multiple price bands
 - price bands based on a fixed coal price and bands based on the average coal price in an assessment year.
- 67 The Commission proposed using 2 price bands that were based on fixed coal prices.

State views

- 68 New South Wales said splitting coal by price bands would capture the additional capacity when states applied progressive royalty rates to high-value coal. Victoria agreed. Although New South Wales initially favoured multiple bands, most states supported 2 price bands. Two bands provided an appropriate balance between measuring revenue capacity and minimising dominant state and data confidentiality issues. Queensland suggested fewer, broader bands would better support the Commission’s conceptual case for changing the assessment.
- 69 New South Wales favoured an average-price model where the 2 price bands were based on the average price of coal in an assessment year. It said it more appropriately recognised state coal capacities, was more responsive to changes in coal prices and was less susceptible to data confidentiality issues. It also said that because states could not anticipate the average price in an assessment year, the average-price model did not give rise to genuine policy neutrality issues, even if a dominant state issue did emerge.

- 70 New South Wales acknowledged a dominant state issue emerged for the 2021-22 assessment year under its preferred average-price approach. However, in choosing a fixed-price model, it said the Commission had incorrectly prioritised the dominant state issue over equalisation. It said an average-price model better captured the differences in revenue capacity arising from price divergences between high-value and low-value coal. It said, had the Commission tested more years, it would have found it more likely for a dominant state issue to emerge under a fixed-price model than an average-price model.
- 71 While it did not support splitting coal, Queensland said if price bands were introduced, a fixed-price model was preferable. It said an average-price model would increase the burden on collection agencies and lengthen the time taken to finalise data. South Australia also said it would increase the data provision burden on states.
- 72 Queensland also noted practical concerns with splitting coal by price band. It said it could lead to a price band containing one state's production, defaulting the price band to an actual per capita assessment. This could lead to coal being assessed on a different bases (a differential assessment versus an actual per capita assessment) at different times within a price cycle. It said this could produce large swings in assessed revenue if the assessment switched between the different bases. Queensland said when all coal prices were very high or very low, all production would fall within the same price band. In these circumstances the assessment would default to an aggregate assessment, producing the same outcomes as the 2020 Review assessment but in a more complex way.
- 73 Queensland also said a fixed-price model embedded a permanent split between high-value and low-value coal, even in years when the price differentials were minimal. It said this increased the complexity of the assessment for limited need.

Commission response

- 74 The Commission agreed that fewer price bands make it less likely data confidentiality or policy neutrality issues would emerge. It was for this reason the Commission proposed splitting coal using 2-fixed price bands.
- 75 The Commission considered the benefits of price bands based on a fixed coal price band of \$200 per tonne and bands based on the average coal price in an assessment year. The Commission's choice of model was not based on whether one or the other approach was more susceptible to a dominant state issue emerging. There is no way for the Commission to predict whether one or other approach would produce dominant state issues in the future. The reason for splitting the coal is to capture the effect of divergences in the royalty rates applied to high-value and low-value coal. Using a fixed coal price band achieves this in a simpler way than an average price band.
- 76 The Commission based the choice of a fixed price band of \$200 per tonne on past trends in the average price for metallurgical and thermal coal. Department of

Industry, Science and Resources data on coal export prices suggest a price band of \$200 provided a reasonable split of low-value and high-value coal over the last 5 years.³

Commission decision

77 The Commission will split the coal assessment using a fixed-price band model with 2 price bands (above and below \$200 per tonne).

Assessment of onshore oil and gas

78 Queensland said it was the dominant producer of onshore oil and gas and levied its royalties on a volume basis. The Commission considered assessing onshore oil and gas on a volume basis because it was consistent with what states do.

State views

79 Most states supported a volume-based assessment.

80 South Australia did not support a volume-based assessment. Both it and the Northern Territory said states other than Queensland levied royalties on a value of production basis and so a volume-based assessment was not consistent with what states do. It also said a volume-based assessment did not capture differences in the quality of the resource.

81 Western Australia noted other minerals (such as salt, sand and gravel) were also levied on a volume basis.

Commission response

82 In its [position paper on fiscal equalisation, supporting principles and assessment guidelines](#), the Commission said the what states do supporting principle was based on the weighted average policy of all states. For revenue assessments, the weight is based on each state's share of the revenue base. Queensland is the biggest producer of onshore oil and gas production, with its share of production exceeding 75%. It imposed volume-based royalties, implying that what states collectively do (and average policy) was a volume-based approach. For that reason, the Commission proposed changing its capacity measure from value of production to volume of production.

Commission decision

83 The Commission will assess onshore oil and gas royalties on a volume basis.

³ Department of Industry, Science and Resources, *Resources and Energy Quarterly September 2024*, Historical Prices.

GST impacts of method changes

84 The impact on the GST distribution from the method changes are show in Table 1.

Table 1 Impact on GST distribution of method changes, mining revenue, 2024-25 to 2025-26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Changes to coal assessment	60	94	-169	14	0	1	0	0	169
Other changes in mining	0	2	17	-7	-16	0	0	4	23
Total	59	96	-152	7	-16	1	0	4	167
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Changes to coal assessment	7	13	-30	5	0	2	0	0	6
Other changes in mining	0	0	3	-2	-8	0	0	14	1
Total	7	13	-26	2	-8	2	0	14	6

- 85 Splitting the coal assessment reduced Queensland's assessed GST needs and increased the assessed GST needs of other states. Assessing Victoria's coal capacity using the revenue received increased its assessed GST needs.
- 86 Assessing onshore oil and gas on a volume basis increased Queensland's assessed GST needs and reduced those of South Australia.