



Queensland Government

Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 7

Mining Revenue

September 2009

Contact Officer:

Peter Johnson
Inter-Governmental Relations Branch
Queensland Treasury
(07) 3225 8261
peter.johnson@treasury.qld.gov.au

SUMMARY OF QUEENSLAND'S POSITION

Queensland is supportive of the Commission's Draft Report proposal for assessing mining revenue as a part of the 2010 Review. The assessment uses value of production data to determine the revenue base and has been simplified by aggregating all types of minerals into two components, energy and non-energy.

The most appropriate measure of state revenue raising capacity from mining is value of production data sourced from the ABS and states. These data sources are currently being used in the 2004 Review methodology, with the exception of ABARE data for value based minerals, and should continue to be used for assessing mining revenue for the 2010 Review.

Separating the assessment into energy and non-energy minerals components appears appropriate as the royalty rates are markedly different, and therefore revenue raising capacities are also different. For this reason Queensland believes that it is also appropriate to assess uranium as a non-energy mineral, because on average its royalty rates are closer to those in this component.

Queensland's Position on Key Issues

Queensland supports the finalisation of the Mining Revenue assessment as outlined in the Draft Report, in particular with no change to the following aspect of the methodology:

- Value of production used to assess revenue raising capacity with two components;
 - Non-energy minerals (including uranium); and
 - Energy minerals (including all coal types).

PROPOSED METHODOLOGY

Broad Indicator

The Commission proposes the use of the value of production of minerals as the broad indicator for mining revenue. Value of production data will come from the Australian Bureau of Statistics (ABS) publications.

Category Structure

The Commission's Draft Report proposes splitting minerals into energy and non-energy mineral components. The basis for this proposal is that royalty rates are broadly similar across these two types of mineral. A proportional split of minerals between the two components (energy and non-energy) will be determined using data from states.

The Commission proposes continuing to assess grants in lieu of royalties as a separate component and on an actual per capita (APC) basis.

ASSESSMENT APPROACH

Broad Indicator

ABS Data

Queensland considers that the value of production data from the ABS is the most appropriate data to use in the assessment of mining revenue. The ABS data represents ‘what states do’ for mining royalties, and is sourced from state mine departments.

There has been some concern expressed regarding this data, particularly that there are confidentiality issues that limit the publication of some data, and that the data are not published in time for the final year of the assessment. The Commission currently estimate the data for the final year of the assessment period to overcome the timeliness issue. The actual data are then adjusted in the annual Update report for the following year to reflect the actual data. Queensland believes the estimation process for the final assessment year should be continued as it the most appropriate process available.

ABARE Data

Queensland considers that the Australian Bureau of Agricultural and Resource Economics (ABARE) data are not appropriate for use in the Mining Revenue assessment. ABARE uses a different basis for valuation than that used by States to raise royalties. The ABARE data include some post ‘mine gate’ production costs that should not be a part of the revenue base. Using ABARE data would not represent what state governments do in raising mining royalties and would produce an invalid measure of revenue base.

Category Structure

Energy and Non-energy

Queensland believes that the proposal to assess energy and non-energy minerals separately typifies the changes that are required for the revenue assessments. The assessment has been significantly simplified by combining all of the sub-components from the 2004 methodology into the two components; energy and non-energy.

Royalty rates for minerals within the energy and non-energy components do vary, but they fall into broadly similar ranges. States have different tax rates for a number of their taxes and the Commission addresses these differences by using Australian average tax rates. The use of the average royalty rates results in the assessment reflecting average policy, and this method also accounts for differences in tax rates.

Coal

Queensland considers the Commission proposal to assess total coal royalties in the energy component is appropriate as it reflects average state policy. The argument to assess some coal types separately due to their lower royalty rates could result in a multitude of complex assessments, each addressing individual States’ different rates for different minerals. Queensland believes using Australian averages resolves the issues and is concerned any move from that approach would set a precedent in for other assessments.

Uranium

Although uranium is an energy mineral, the royalty rates charged on uranium align more closely with the non-energy component. Queensland supports the assessment of uranium in the non-energy component of the mining assessment as this will more reliably measure capacity to raise revenue from uranium than if it were assessed in the energy component.