



***2010 REVIEW – MINING REVENUE***

***SUBMISSION BY SOUTH AUSTRALIAN  
DEPARTMENT OF TREASURY AND FINANCE***

***SEPTEMBER 2009***

## **SOUTH AUSTRALIAN SUBMISSION ON MINING REVENUE**

South Australia supports the CGC's proposed approach for the assessment of mining revenue as outlined in the Draft Report with the exception of the treatment of low-grade coal.

The Draft Report acknowledges that there are significant differences in effective royalty rates for different forms of coal on an average basis. However, the CGC's approach assumes that similar royalty rates are applied to all forms of coal irrespective of differences in quality.

Coal mined in South Australia is extremely low grade and only has limited value for its energy content for heating purposes. South Australian coals have no export value and can only be commercially used in local power stations specifically designed to burn them. As a result, South Australia applies an average royalty rate of approximately 3.5%. The royalty rate is derived as a proportion of gigajoules of energy which is then multiplied against the consumer price index. A similar calculation method based on the energy content is applied by Victoria on their low grade coal.

States with higher grade coal, however, tend to determine their royalty rates on a quality basis. In particular, Queensland has a base rate of 7% of value, but applies an extra 3% to its high value export-grade coal. NSW also has a graded royalty structure, with higher rates applied to higher quality coal.

South Australia considers the bundling of all coal into the energy category unfairly penalises those States with low-grade coal and we are not convinced that the separation of low-grade coal would be immaterial. We note that from 1 January 2009, NSW increased its *ad valorem* charges by 1.2% for each of its three tax tiers. Queensland also recently increased its royalty rate for coal selling for more than \$100/tonne. This has led to a further distribution of royalty regimes by quality and would likely cause the standard to increase. This would be to the detriment of States with low quality coal under the CGC's proposed method.

South Australia believes the CGC should alter its proposed assessment methodology and create a separate brown coal category. Importantly, the ABS produces data on a basis to support this category. Whilst this may add some minor extra complexity to the assessment, we do not consider that simplification in this instance should be a substitute for accuracy and ensuring that material factors are taken into account in applying equalisation.

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