




Australian Government  
Commonwealth Grants Commission

# 2025 Methodology Review

## Mining revenue Supplementary consultation paper

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Submissions sought by	<p>3 May 2024</p> <p>Submissions should be placed in your private state channel in CGC Engagement Teams, with a post notifying Katrina Baldock.</p> <p>Submissions should be in Word format and posted in the relevant state channel of the CGC Engagement Teams. Submissions more than 10 pages in length should include a summary section.</p>
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## Introduction

- 1 In the 2024 Update, New South Wales asked the Commission to undertake separate assessments of metallurgical and non-metallurgical coal, saying it would better reflect the different capacities of states and territories (states) to raise coal royalty revenue.
- 2 After consulting with states, the Commission did not make the change in the 2024 Update. It considered that to do so would be a method change, as the 2015 Review report, which was the basis for the assessment method, said all coal would be assessed together. In addition, the data issues involved in reliably disaggregating the coal assessment could not be resolved for the 2024 Update.
- 3 New South Wales has also raised the issue in its 2025 Review Tranche 2 submission. In the 2025 Review, the Commission can change its assessment method should it consider it appropriate to do so.
- 4 The key questions are:
  - whether there are material differences in state capacities to raise coal royalty revenue that are not captured by the current aggregate coal assessment
  - if so, whether those differences can be reliably assessed.
- 5 The Commission is seeking state views on this issue so they can be considered prior to the 2025 Review draft report. It will treat previously provided submissions on this issue as 2025 Review submissions unless a state advises otherwise.

## Are there material differences in state capacities to raise coal revenue that are not being captured?

- 6 Under the mineral by mineral approach adopted in the 2015 Review and applied in the 2020 Review, all coal is assessed together. New South Wales is primarily a thermal coal producer,<sup>1</sup> whereas Queensland is predominantly a coking coal producer.<sup>2</sup> Thermal coal generally attracts a lower commodity price. The high commodity prices in recent years suggests the revenue raising capacities of the 2 major coal producing states may have materially diverged in a way that is not being captured by the 2020 Review method.
- 7 The conceptual case for a change to the coal assessment is that:
  - different types of coal attract different prices
  - the average policy (reflecting Queensland's tiered royalty rate system based on coal prices) is to impose price based royalties

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<sup>1</sup> In its submission, New South Wales estimated 88% of the coal produced in the state is thermal coal.

<sup>2</sup> Data from Queensland Department of Resources open data portal on coal sales and exports show thermal coal was a smaller proportion of its production, 36% over the 3 financial years 2020–21 to 2022–23.

- the mining assessment should capture differences in state revenue raising capacity caused by the uneven endowments of differently priced coal across states
  - state revenue raising capacities have diverged since the 2020 Review.
- 8 The Commission is seeking state views on whether the 2020 Review method adequately captures differences in state capacities to raise coal revenue and, if not, whether a method change can identify the additional capacity arising from the application of higher average royalty rates to higher priced coal.

## Consultation questions

Q1. Does the 2020 Review method adequately capture all material differences in state capacities to raise coal revenue?

## Can state differences be reliably measured?

### A differential coal assessment based on price

- 9 The Commission is exploring a differential assessment based on the price producers receive, that is, an assessment by price band. This is similar to the approach it uses for the land tax and stamp duty assessments.<sup>3</sup>
- 10 The number and choice of price bands is a key element of this approach. A larger number of narrow bands could raise confidentiality issues with some bands containing data from only one state or a small number of producers. Too few price bands may not sufficiently differentiate between states' capacities to raise coal revenue.
- 11 With reference to Queensland's tiered royalty regime, the Commission is considering 3 price bands:
- \$0 to \$100 per tonne (Queensland's lowest tier)
  - \$100 to \$300 per tonne and
  - \$300 plus per tonne (Queensland's highest price band).
- 12 The Commission seeks state views on the suitability of an assessment based on price bands and the number and choice of price bands.
- 13 If a price band approach is not feasible, an alternative assessment may be to disaggregate the coal assessment by type of coal.<sup>4</sup> This option is a proxy for an assessment by price band.

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<sup>3</sup> These assessments reflect the total value of taxable land and the value the property transferred in a state and the proportion of those values in higher value ranges. They capture the additional revenue capacity attributable to states' progressive rates of tax.

<sup>4</sup> The assessment would separate metallurgical coal from thermal and brown coal.

## Data to support a price based assessment

- 14 If the Commission is to change the method to include a coal assessment by price band, it would require reliable data from the coal producing states. An assessment may not be feasible if states are unable to provide data or if the data provided are not sufficiently reliable to support the assessment.
- 15 If states cannot provide reliable data to support an assessment by price band, it may be possible for the Commission to use publicly available data to estimate a disaggregation of coal by type of coal. Under this approach, the Commission would estimate each state's proportion of value of production by type of coal. This estimation could use data from states or the Department of Industry, Science and Resources. The Commission would apply these proportions to disaggregate a state's annual value of production and royalty revenue data.

### Consultation questions

- Q2. Do states support a differential coal assessment based on price bands?
- Q3. Are the proposed 3 price bands sufficient to appropriately capture differences in state capacities to raise coal revenue?
- Q4. If a price band approach is not feasible, do states support an assessment based on the type of coal?

## Consultation

- 16 The Commission welcomes state views on the consultation questions identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

### Consultation questions

- Q1. Does the 2020 Review method adequately capture all material differences in state capacities to raise coal revenue?
- Q2. Do states support a differential coal assessment based on price bands?
- Q3. Are the proposed 3 price bands sufficient to appropriately capture differences in state capacities to raise coal revenue?
- Q4. If a price band approach is not feasible, do states support an assessment based on the type of coal?