

Royal Pardon

How much an Adani royalty holiday could cost Queenslanders

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INTRODUCTION

Media reports suggest that the Palaszczuk Government intends to give Adani a discount on the royalties the company would pay to extract the state's coal. According to the Courier Mail:

Premier Anastacia Palaszczuk on Saturday spoke with Mr Adani by phone and held a brief one-on-one meeting, discussing the structure of state royalties.

Both parties are said to be comfortable with the royalty arrangements being thrashed out.¹

This negotiation echoes the Newman Government royalty holiday policy in its Galilee Basin development strategy, consisting of:

A ramp-up to full royalty for an initial period, on the normal coal royalty payable and based on a sliding scale.

While opposition leader, Anastacia Palaszczuk criticised Premier Campbell for offering Adani a subsidy:

I'm all for jobs in the Galilee Basin but it must stack up commercially. And what we're seeing at the moment is Campbell Newman throwing a bucket of taxpayers' cash - and we don't know how much that is: is it \$400 million or \$500 million? - at one particular company, when I know there are other companies out there that also have vested interests.

¹ Connors and McCarthy (2017) *Adani Carmichael coal mine to have financing completed by June*, <http://www.dailytelegraph.com.au/news/national/adani-carmichael-coal-mine-to-have-financing-completed-by-june/news-story/f4b2652d4675a679982746d7287731ed>

So the Government is doing the wrong thing here by Queensland taxpayers by picking a winner and picking losers. It needs to stack up financially. It needs to be commercially viable and the market should decide that.²

If the Palaszczuk Government decides to “pick a winner” by offering a royalty holiday to Adani, it will be a subsidy provided by Queensland taxpayers.

An Adani royalty picks losers as well: the other mines in Queensland and New South Wales placed at a competitive disadvantage paying full royalties while Adani receives a discount.

HOW MUCH COULD THE ROYALTY SUBSIDY COST QUEENSLANDERS?

The deal between Adani and the Palaszczuk Government has not been publicly disclosed, and is a breach of the Premier’s election promise of accountable government under the Fitzgerald Principles.³ It is impossible to know with certainty how much this subsidy could cost Queenslanders until these details are released.

This is not the first time a state government has offered fossil fuel projects a royalty holiday or “ramp-up” in an attempt to establish a marginal and controversial industry. NSW attempted to start its coal seam gas industry with a similar policy of:

- Exemption from royalties for the first five years of production
- Four years of ramp up to full royalty, increasing by 1 percent each year.⁴

Applying this approach to Adani’s production schedule and current coal prices, and allowing a discount for Adani’s low coal quality, we can estimate the value of this subsidy:

² Small (2015) *QLD Labor faces questions about mining, environment management*, <http://www.abc.net.au/pm/content/2015/s4166092.htm>

³ Remeikis (2015) *Labor’s deal with Peter Wellington*, <http://www.brisbanetimes.com.au/queensland/labors-deal-with-peter-wellington-20150205-136xj1.html>

⁴ Tobin (2012) *CSG royalty ‘holiday’ under review*, <http://www.abc.net.au/news/2012-01-06/csg-royalty-holiday-under-review-in-nsw/3760808>.

Note that the NSW CSG royalty increased over five years to 10%, whereas in this estimate we ‘ramp up’ to the standard Queensland coal royalty rate of 7%.

Year		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Production volume	Million tonnes	0	0	0	4	14	22	43	50	50	50	50	60
Coal price	AUD/t	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9	\$114.9
Coal quality discount		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Revenue	AUD, millions	0	0	0	322	1126	1769	3458	4021	4021	4021	4021	4825
Standard royalty rate		7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Standard royalty revenue	AUD, millions	0	0	0	23	79	124	242	281	281	281	281	338
Alt royalty rate		0	0	0	0	0	0	0	0	3%	4%	5%	6%
Alt royalty revenue	AUD, millions	0	0	0	0	0	0	0	0	121	161	201	289
Difference		0	0	0	23	79	124	242	281	161	121	80	48

The total of the difference in royalties due to the ramp up is \$1,159 million, in real 2017 dollars.

Notes and sources

- Production volume from GHD (2013) *Carmichael Coal Mine and Rail Project SEIS Report for Economic Assessment*, Table 7 Coal production and operational capital expenditure of the Project
- Coal price is current Australian benchmark thermal coal price from www.indexmundi.com and exchange rate from www.xe.com
- Coal quality discount reflects the lower energy content of Carmichael coal compared to benchmark standards. Referenced by Adani Mining Pty Ltd in the Queensland Land Court in 2014. See also The Australia Institute (2016) *The Coal Wars: Fact Check*⁵
- Royalty rate – Business Queensland (2017) *Mineral royalty rates*⁶
- Alternate royalty rate – derived from now abandoned NSW CSG royalty arrangements reported in Tobin (2012) *CSG royalty 'holiday' under review*⁷

CONCLUSION

If the Queensland government settles on a royalty holiday similar to that used earlier by the NSW government, the cost to Queenslanders will be almost \$1.2 billion in lost revenue. This policy would effectively give Adani free coal for five years and discounted coal for another four.

The final cost of the subsidy to Adani will depend on the final royalty arrangements, coal prices and the size of the project – Adani variously reports a final capacity of the mine as 60, 40 and 25 million tonnes per year. The value of the subsidy could be greater or smaller, depending on these factors. The important thing for Queenslanders to realise is that they are providing a subsidy to a foreign-owned coal mine at a time when the world is moving away from coal.

⁵ http://www.tai.org.au/sites/default/files/P303%20Coal%20hard%20facts_0.pdf

⁶ <https://www.business.qld.gov.au/industries/mining-energy-water/resources/applications-compliance/royalties/calculating/rates>

⁷ <http://www.abc.net.au/news/2012-01-06/csg-royalty-holiday-under-review-in-nsw/3760808>