Free coal contest

Royalty subsidies to Queensland coal mines

As Queensland's Government and Opposition compete to sweeten deals for the coal industry, open-cut coal mines in Queensland already get up to 17% of their coal for free compared with similar mines in NSW. At average export prices over the past decade, the benefit to Adani's mine would have been $223 million and $1.3bn to the Galilee Basin. Polling in both Queensland and NSW shows support for ending this subsidy.

Tom Swann
Rod Campbell
July 2019

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Summary

Queensland's Government is currently brokering a deal with Adani on coal royalties, slated for completion by the end of September. Little is known about this deal other than it is almost certainly likely to reduce and defer Adani's royalty payments, effectively lending Adani money on subsidised terms that no other Queenslander or Queensland business can access. This breaks an election promise not to subsidise the controversial project.

Separately, Queensland's major political parties have both declared a 'freeze' on coal royalties. The Government's freeze would be four years, the Opposition's 10 years. Instead the Government is asking for voluntary payments. The requested payments are so small they would make up only 5% of the last state budget's disaster costs.

The last increase to coal royalties took place under the Newman Government, but affected almost exclusively high-value coking coal mines. Following the Newman Government changes, Queensland's royalty rate is 'progressive'; the first $100 per tonne attracts a 7% royalty rate, from $100 to $150 per tonne it attracts a 12.5% royalty, and beyond $150 per tonne it attracts a 15% royalty.

The Queensland royalty rate on lower value coal has not been updated for more than two decades. It is 17% lower than the rate in NSW for coal mined from open cut mines This equates to a 17% discount per tonne in Queensland for coal valued at under $100 per tonne and some discount on any coal valued up to $128 per tonne.

The average thermal coal price has fluctuated between $70 and $130 per tonne in the last two years, meaning a royalty discount for almost every tonne exported from Queensland. For 2/3rds of this period it has been under $100 per tonne, giving the maximum discount.

Low quality coal mines selling to related parties, such as Adani, would likely receive this full 17% subsidy, even before the forthcoming royalty deal, meaning:

- At 10 mtpa receiving $100 a tonne, Adani would receive a royalty benefit of $12 million per year, compared to mines in NSW.
- At 25 mtpa receiving $100 per tonne Adani would receive a royalty benefit of $30 million per year, compared to mines in NSW.

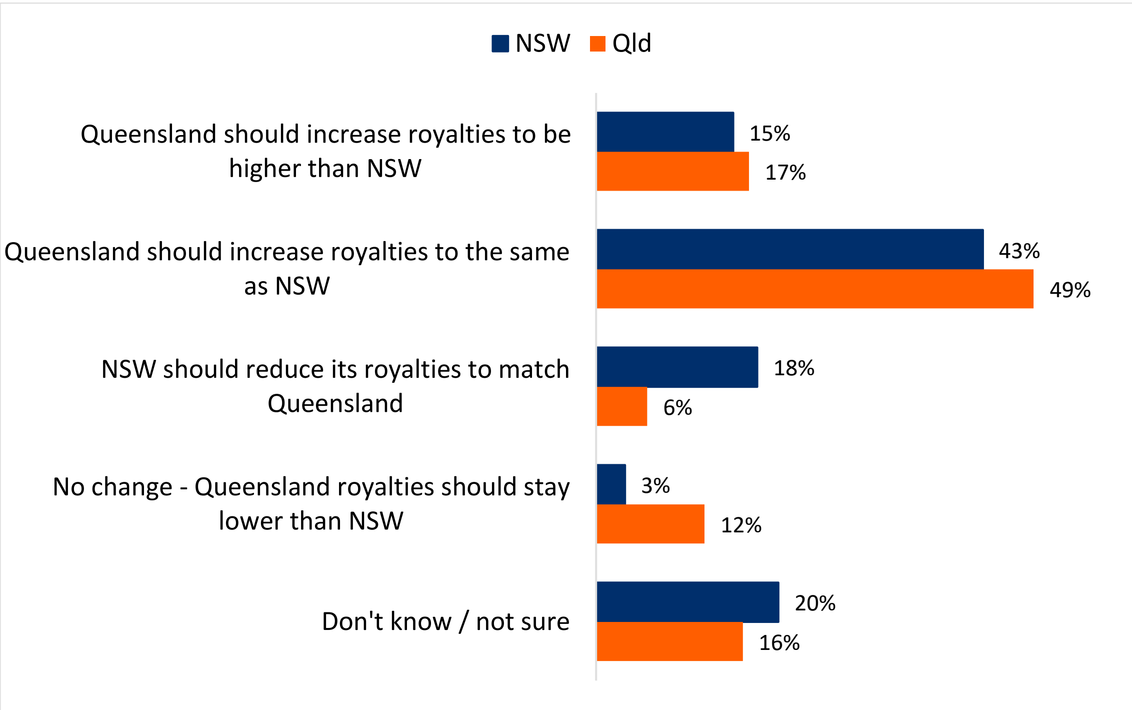
Over the last decade, coal from open cut mines in Queensland sold at the average Australian thermal export coal price would have received a royalty benefit of 13% compared with the same coal mined in NSW.

- At 10mtpa receiving average export thermal prices over the past decade, Adani would have received a total royalty benefit of $89 million.
- At 25mtpa receiving average export thermal prices, Adani would have received a royalty benefit of $223 million over the decade.

If the whole Galilee Basin had been producing at 150 mtpa over the last decade, and received the average export prices, the Galilee Basin mines would benefit by $1.3 billion.

There is strong public support for increasing Queensland coal royalty rates to the same rate as NSW. Polling conducted by the Australia Institute shows that two in three (66%) Queenslanders said Queensland should increase royalties to the same as NSW (49%) or to be higher than NSW (17%). A small number said there should be no change (12%):

NSW and Qld attitudes to thermal coal royalties – polling results



Source: The Australia Institute national poll

Introduction

In May 2019 Queensland Premier Annastacia Palaszczuk declared she was "sick of" the Adani Carmichael coal project's assessment process and set a time line for its completion.[1] This process includes the finalisation of a deal on coal royalties for the project, which is now scheduled to be completed on 30 September 2019.[2]

The Queensland Government's special deal with Adani and policy to reduce or defer royalties for greenfield mines in the state was announced more than two years ago.[3] Despite the government claiming it was offered under a "transparent policy framework", which was just a few dot points at the end of a press release, the government has declined to provide details about the deal or its delay. It is however known the deal is a subsidised loan. It is the same kind of subsidy as the $1 billion loan that the Queensland government vetoed during the Queensland election, and could be worth hundreds of millions of dollars.[4]

In addition to the Adani deal, the Queensland Government has committed to a royalty "freeze" – no changes to mining royalties until October 2024.[5] Instead, the Queensland government has asked coal companies to make voluntary payments to the government totalling up to $70 million.[6] Even if the companies choose to make these payments, it would cover only around 5% of the natural disaster costs experienced by the Queensland government in the last year alone.[7]

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[1] Palaszczuk (2019) *Coordinator-General to set Adani timeline*, http://statements.qld.gov.au/Statement/2019/5/22/coordinatorgeneral-to-set-adani-timeline

[2] Queensland Coordinator General (2019), *Adani Outstanding Approvals 28 June 2019,* accessed 17 July 2019, http://statedevelopment.qld.gov.au/resources/guideline/cg/adani-outstanding-approvals-milestones-reached-28June2019.pdf

[3] Palaszczuk et al (2017) *Queensland jobs, investment and royalties boost from new resource policy*, http://statements.qld.gov.au/Statement/2017/5/27/queensland-jobs-investment-and-royalties-boost-from-new-resource-policy

[4] Swann (2019) *Not Adani Deal* http://www.tai.org.au/sites/default/files/P567%20Not%20Adani%20Deal%20%5BWEB%5D_0.pdf

[5] Zhou (2019) *Queensland freezes royalties in favour of coal miner fund*, https://www.australianmining.com.au/news/queensland-to-pass-no-royalty-hike-in-exchange-for-voluntary-fund/

[6] Bavas (2019) *Coal companies urged to fund Queensland regional development in return for royalty freeze* https://www.abc.net.au/news/2019-05-29/voluntary-coal-levy-sought-by-qld-government/11160526

[7] Caldwell (2019) *There will be challenges but Queensland budget 2019 is not 'bad news'* https://www.brisbanetimes.com.au/politics/queensland/there-will-be-challenges-but-queensland-budget-2019-is-not-bad-news-20190607-p51vlr.html

The Queensland opposition has a policy extending the royalty freeze for ten years.[8] This echoes the Newman Government's commitment to leave royalties unchanged for ten years following its increases in coal royalties in 2012.[9] The Newman Government increased royalty rates for coal valued over $100 per tonne and over $150 per tonne.[10] The royalty rate on coal mined and sold for less than $100 a tonne has not been updated for more than two decades.[11]

The Newman Government's royalty changes affected almost exclusively high-value metallurgical coal mines.

What has been overlooked is the fact that Queensland offers generally lower royalties for thermal coal than New South Wales (NSW).

There are important economic differences between the coal industry in each state, which derive not only from the different kinds of coal produced in each state, but also the different royalty rates. This paper assesses the effective royalty subsidy offered to open cut thermal coal mines in Queensland relative to mines in NSW.

[8] QRC (2019) *QRC welcomes LNP 10 year royalty freeze, calls on Palaszczuk Government to match it*, https://www.qrc.org.au/media-releases/qrc-welcomes-lnp-10-year-royalty-freeze-calls-on-palaszczuk-government-to-match-it/

[9] Seeney (2012) *Coal mining royalties frozen for 10 years*, http://statements.qld.gov.au/Statement/2012/9/11/coal-mining-royalties-frozen-for-10-years

[10] Moore (2012) *Hike a royal mess: miners*, https://www.brisbanetimes.com.au/national/queensland/hike-a-royal-mess-miners-20120911-25qpa.html

[11] Cf changes in 1997, in Office of Queensland Parliamentary Counsel (2019) *Mineral Resources Regulation 1990 - Point-in-time versions* https://www.legislation.qld.gov.au/view/html/1993-09-24/sl-1990-mrr

Coal Royalties - Queensland vs NSW

In Australia, mineral and fossil fuel resources are owned by state governments. Companies are given rights to extract, sell and profit from these resources in return for a 'royalty' or payments to the state government. Royalties are not a tax. They are the payment to the state for the resource the state owns.

Queensland and NSW have different coal royalty rates. This means the two states receive different royalty revenue even from the same kinds of coal mined in the same way.

NSW charges different rates for coal mined in different ways. Coal at open cut mines attracts royalties at 8.2% of sale value, while coal from underground mines attracts royalties at 7.2%, and 'deep underground', from deeper than 400 meters, attracts a rate of 6.2%.[12] A small and declining share comes from underground and deep underground mines.

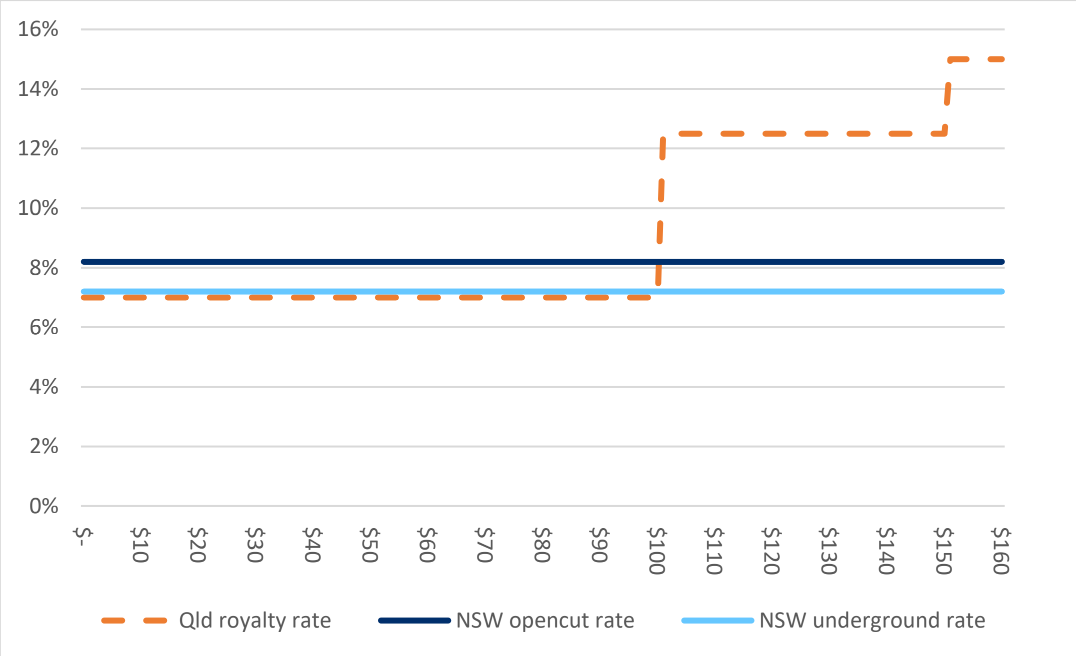
Queensland has only one royalty schedule for all forms of coal. However, the rate is 'progressive'. The first $100 per tonne attracts a 7% royalty rate, from $100 to $150 per tonne it attracts a 12.5% royalty, and beyond $150 per tonne it attracts a 15% royalty.[13]

The net result is that compared with NSW, Queensland charges lower rates for lower value coal, and higher rates for higher value coal. Figure 1 below shows *marginal* coal royalty rates – that is, charged on each additional dollar of coal value:

[12] NSW Planning and Environment (2018) *Paying mining royalties*, https://www.resourcesandgeoscience.nsw.gov.au/miners-and-explorers/enforcement/royalties

[13] Business Queensland (2019) *Mineral royalty rates*, https://www.business.qld.gov.au/industries/mining-energy-water/resources/minerals-coal/authorities-permits/payments/royalties/calculating/rates

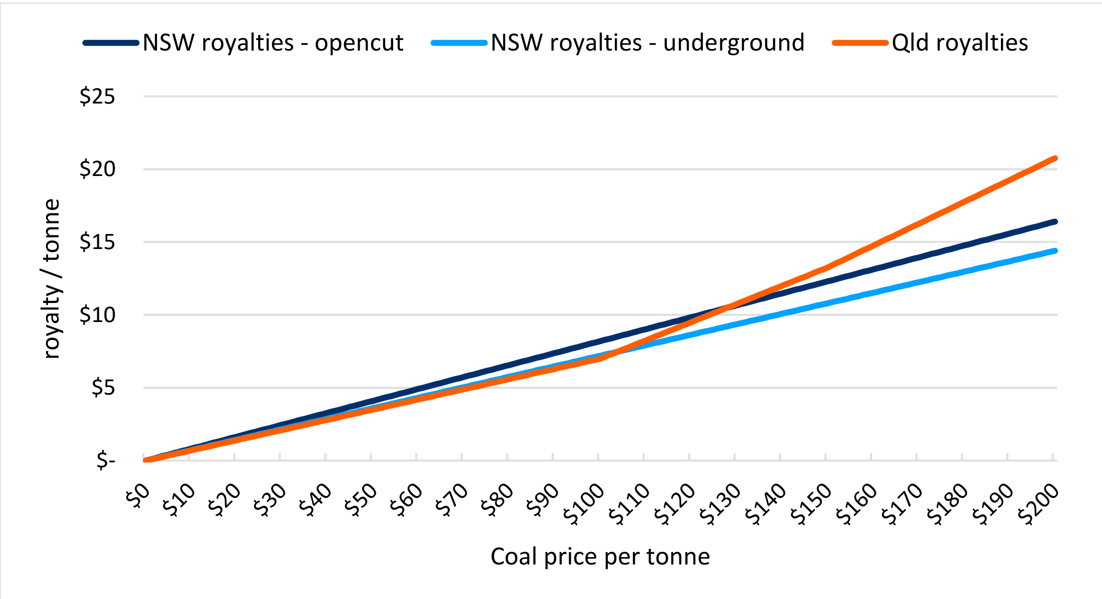
Figure 1: Marginal coal royalty rates - NSW vs Queensland



Source: NSW and Queensland government royalty determinations

Figure 2 below shows the same data, but expressed as dollars of royalty paid per tonne at different coal prices.

Figure 2: Coal royalty rate - NSW vs Queensland



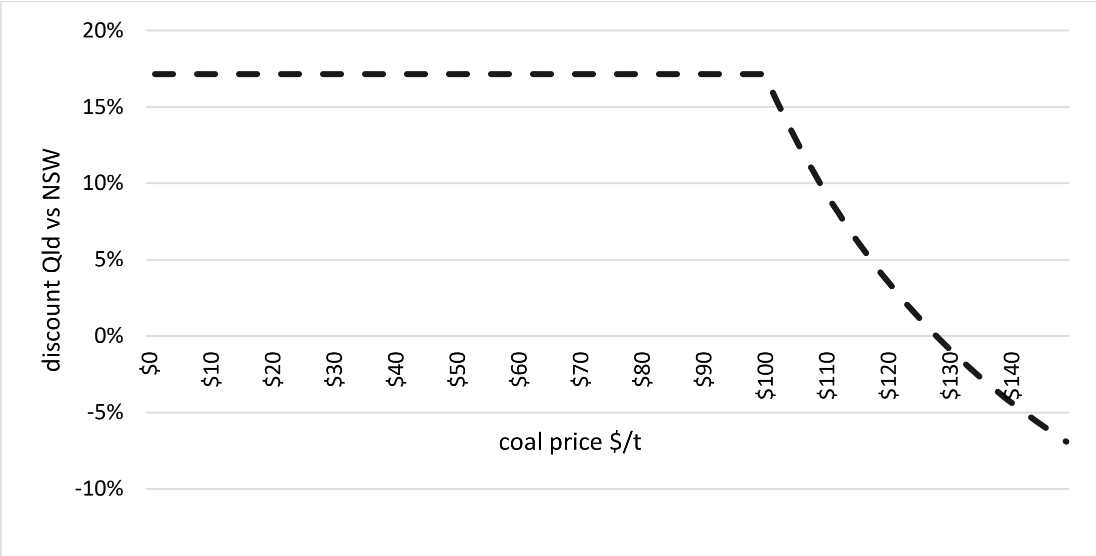
Source: NSW and Queensland government royalty determinations

The difference between the states is greatest for open cut mines. At less than $100 per tonne of coal, Queensland charges a royalty – in effect, sells its coal – at a discount of

17% compared to NSW, undercutting coal mines in NSW selling the same coal. Put differently Queensland gives away 17% of coal sold at less than $100 per tonne.

Above $100 per tonne, the discount decreases and above $128 per tonne Queensland starts to charge a premium relative to NSW, as shown in Figure 3 below:

Figure 3: Coal royalty discount – Queensland vs NSW



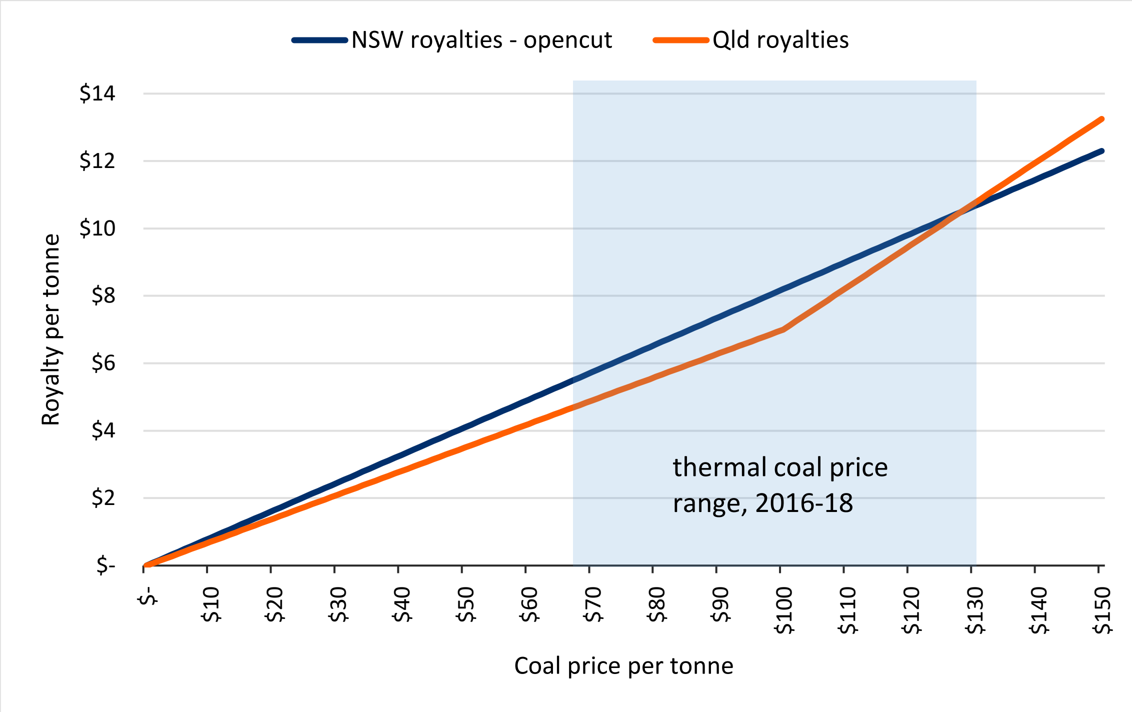
Source: NSW and Queensland government royalty determinations

The coal mined and exported from Queensland is generally higher-value metallurgical coal. Only one quarter of Queensland coal exports are lower-value thermal coal, most of it produced in South Queensland. This contrasts with NSW, where most coal exported is thermal coal.

Over the past two years, thermal coal prices fell to around $70 and peaked at $130. In nominal terms these are the high and low points over the past decade to December 2018. In that time, average prices for thermal coal were less than $100 per tonne for two thirds of the time (26 out of 40 reported quarterly averages). For only nine months out of the last ten years did prices reach a level ($128/t) where Queensland's progressive royalty arrangements raised more revenue on thermal coal than NSW.

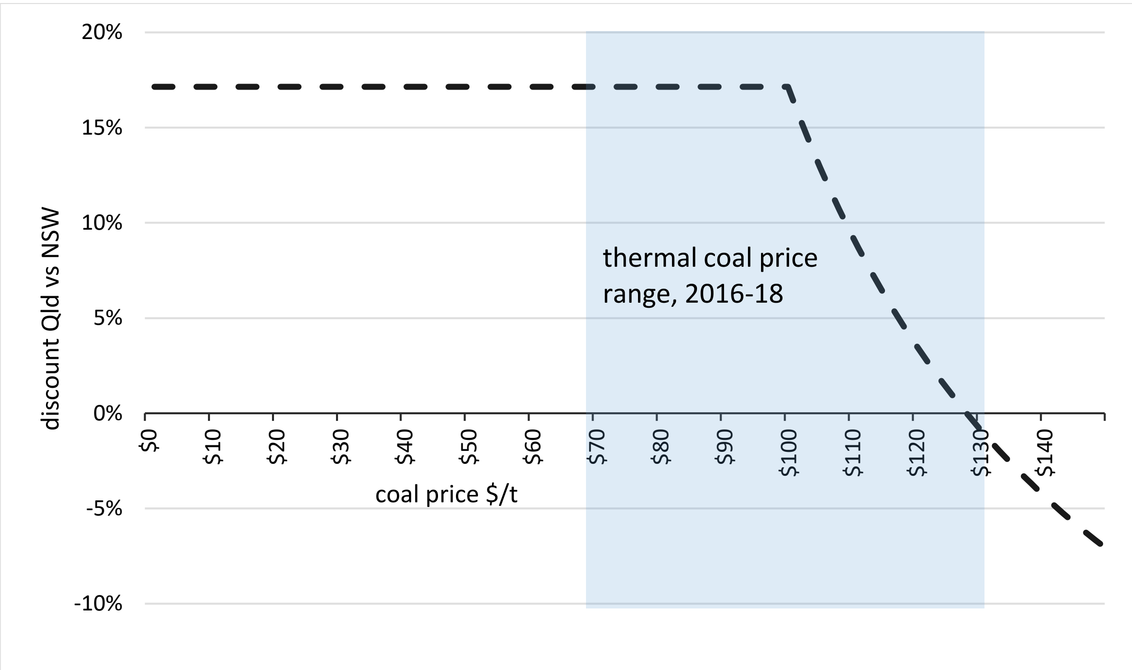
It follows from this that Queensland almost always charges *lower* royalties than NSW for thermal coal from open cut coal mines. This is marked in the Figures below.

Figure 4: Coal royalty rates for thermal open cut coal mines in NSW and Qld.



Source: Quarterly average coal export price from OCE (2019) *Resource and Energy Quarterly – March 2019,* Queensland and NSW coal royalty determinations

Figure 5: Queensland royalty benefit to open cut thermal coal mine discount, vs NSW



Source: Quarterly average coal export price from OCE (2019) *Resource and Energy Quarterly – March 2019,* Queensland and NSW coal royalty determinations

ROYALTY BENEFIT TO ADANI AND THE GALILEE BASIN

The effect of these differences in prices and royalty rates is that new mines in the Galilee Basin like Adani's would be charged royalties below those charged to thermal coal mines in NSW.

Adani's mine is likely also to attract lower than average prices. Despite Adani's claims, the Galilee Basin in Queensland contains relatively low-quality thermal coal by comparison with NSW's Newcastle benchmark, and would attract a lower price.[14]

In addition, if the Galilee Basin does produce large amounts of thermal coal this would put downwards pressure on prices, further increasing the discount that Queensland provides over NSW.

If Adani sells coal from the Carmichael mine at or below $100 per tonne, Adani will receive a 17% benefit on royalties compared with mines operating in NSW.

The first phase of the Adani mine is 10 million tonnes per annum (mtpa) from open cut mines. Adani plans to ramp up Carmichael to at least 25 mpta for the next stage. It has retained the right to ramp up to 60 mtpa (some of which will be underground). Total proposed production in the Galilee Basin is around 150 mtpa.

At 10 mtpa receiving $100 a tonne, Adani would receive a royalty benefit of $12 million per year, compared to mines in NSW.

At 25 mtpa receiving $100 per tonne Adani would receive a royalty benefit of $30 million, compared to mines in NSW.

Over the last decade, coal from an open cut mine in Queensland sold at the average Australian thermal export coal price would have received a royalty benefit of 13% compared with the same coal mined in NSW.

At 10mtpa receiving average export prices over the past decade, Adani would have received a total royalty benefit of $89 million.

At 25mtpa receiving average export prices, Adani would have received a royalty benefit of $223 million over the decade.

[14] For example, consultants GHD describe Adani's Carmichael project as having 'low grade' coal, the lowest of their surveyed mines in a report for Townsville business and local government lobby groups. GHD (2014) *North & Northwest Queensland sustainable resource feasibility studies: The Dalrymple Scheme*, https://www.portal.townsvilleenterprise.com.au/ccms.r?PageID=10003&TenID=TEL

If the whole Galilee Basin had been producing at 150 mtpa over the last decade, and received the average export prices, the Galilee Basin mines would benefit by $1.3 billion.

SUPPORT FOR ALLIGNING ROYALTIES

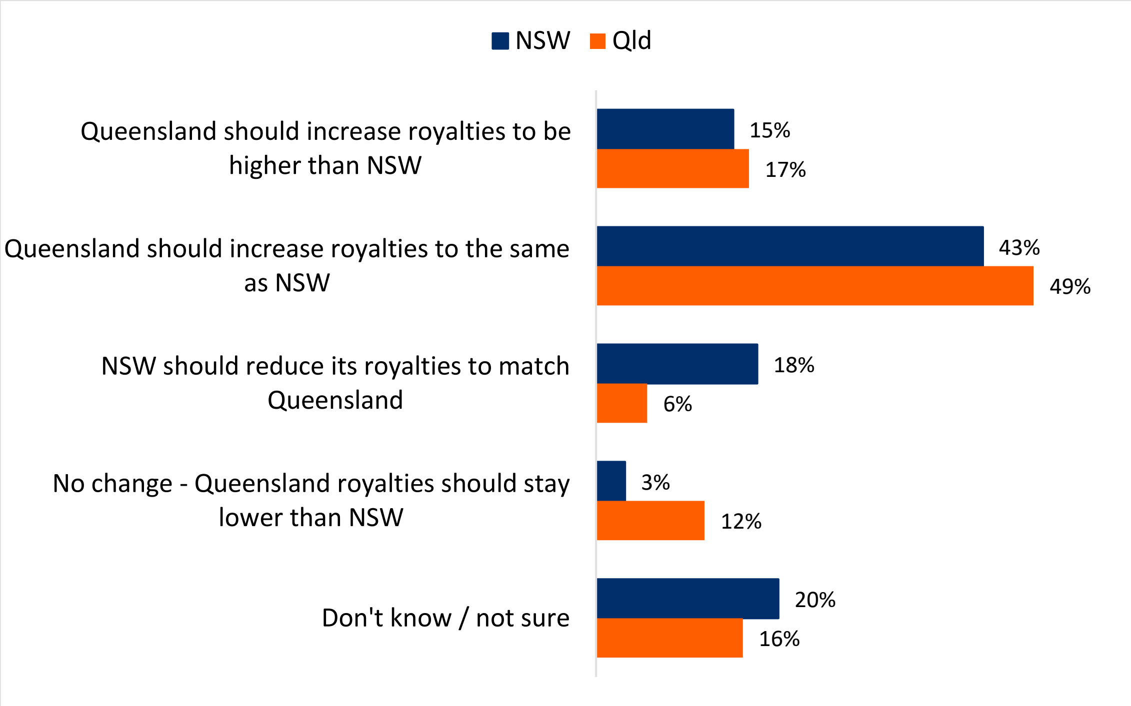
Between 20 February and 4 March 2018, The Australia institute conducted opinion research into attitudes about this discount amongst people living in NSW and Queensland.[15] Respondents from NSW (totalling 499 respondents) and Queensland (totalling 317) were given the following information and question:

> To mine coal in NSW or Queensland, companies have to pay a 'royalty' to state governments. Queensland generally charges lower royalties than NSW for power-plant coal. If the Adani coal mine and others in Queensland's Galilee Basin go ahead, they would generally pay a lower rate of royalties than existing similar mines in NSW.
>
> Thinking about the royalty rates charged for power plant coal, which of the following do you support most?

Results are shown in Figure 6.

[15] The survey was conducted online through Research Now / Dynata, with nationally representative samples by age, gender and location.

Figure 6: NSW and Qld attitudes to thermal coal royalties – polling results



Support for increasing Queensland royalties was highest amongst older age groups (73% among those 65 years and above), with younger age groups being more likely to say they did not know.

Two in three (66%) Queenslanders said Queensland should increase royalties to the same as NSW (49%) or to be higher than NSW (17%). A small number said there should be no change (12%).

Most people from NSW also said Queensland should increase its royalties to match NSW (43%) or to be higher than NSW (15%). NSW respondents were more likely than Queenslanders to say NSW should reduce its royalties.

Conclusion

The debate around coal royalties is, of course, being held as the world acts on climate change and moves away from coal use. Policies that address both the demand and supply of coal are a necessary part of climate action.[16] Coal royalty rates could be an effective policy tool to address both demand and supply.

To be a part of effective climate policy, however, coal royalty rates need to be increased, not decreased or frozen as Queensland's major political parties currently plan to do. Increasing royalty rates is also likely to raise significant revenue in the medium term that can be used to assist workers and communities to transition to other industries. Both Queensland and NSW need to start planning for this transition rather than pushing for further expansion of the coal industry. A royalty increase to align the states would have a minimal effect on the industry, as former Premier Campbell Newman pointed out when he raised royalties affecting mainly metallurgical coal mines:

> if any mines do close, it will have a lot more to do with the performance of the companies themselves and not the royalty increase.[17]

[16] Green and Denniss (2018) *Cutting with both arms of the scissors: the economic and political case for restrictive supply-side climate policies*, https://link.springer.com/article/10.1007/s10584-018-2162-x

[17] Cullen (2012) *Queensland, Commonwealth brawl over mining taxes*, https://www.abc.net.au/news/2012-09-12/feds-and-qld-brawl-over-mining-taxes/4256610