Progressive Coal Royalties Protection (Keep Them in the Bank) Bill 2024

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Cost of Living and Economics Committee
Parliament House
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Submitted via email to: colec@parliament.qld.gov.au

To whom it may concern,

Bowen Coking Coal Ltd ("Bowen", or "the Company") welcomes the opportunity to provide a submission to the Cost of Living and Economics Committee ('the Committee') regarding the Queensland Government's *Progressive Coal Royalties Protection (Keep Them in the Bank) Bill* ('the Bill'), introduced on 23 May 2024 by the Deputy Premier, Treasurer and Minister for Trade, and Investment, the Hon Cameron Dick.

Bowen is a small, ASX listed Queensland coal exploration, development, and production company. The last four years have seen the company undertake several acquisitions of mothballed mines, with the intent of restarting operations, completing unfinished rehabilitation, employing Queenslanders while also supporting the local communities they live in, as well as exporting coal, predominantly high-quality metallurgical coal used in the production of steel.

Bowen has opened three such mines in that period, Bluff near the town of Blackwater, Ellensfield South and Broadmeadow East (both part of the Burton Complex situated near Moranbah). Of these three pits only one remains open today, Ellensfield South.

The substantial increase in Queensland Government coal royalties created very significant and unforeseen financial challenges just as we had invested heavily in our first mines. In fact, the increased royalties played a major role in the closure of our Buff Mine in 2023. Bluff is a high cost but high quality (and thus high value) PCI coal mine which supplied the largest steel mills in Asia. The untimely introduction of vastly higher royalty rates, just as we shipped the first coal from the Bluff mine, had a direct negative impact on the ability of the operations to generate a profit. Closing the operation in 2023 led to the loss of some 300 Queensland jobs.

Our shareholders and financiers have invested A$430m into the development of the mines noted above. Two years after the commencement of the first mine, our company is yet to turn a profit. In fact, our loss last financial year was $163 million and our interim loss in financial year 2024 was $65 million. By the end of this year, it is forecast that we will have paid A$100m] in royalties to the State Government before our shareholders have received any return on the capital invested. Approximately over half of our forecast operating cash flow over the next three years will go to pay State Government royalties. After that we need to service and repay debt, pay federal taxes, spend required capex to stay in business, and seek a return for the shareholders who have invested the significant risk capital to restart the mines.

With mining costs having risen by an estimated 75% over the past three years we find ourselves in a situation where many Bowen Basin mines have a break-even point which sits above the new first of the new ‘super’ royalty tax rate of 20% of revenue, which kicks in at A$175 per tonne. This is demonstrated in recent public financial disclosures of listed coal companies. For an instrument that was designed to reap ‘super profits” to kick in whilst many mines are making a loss clearly demonstrates the ill-conceived nature of the new royalty rates.

This is an untenable investment environment, and it is much more challenging for new mine developments to be committed to in Queensland under this current punitive regime. Locking in these very high royalty rates eliminates the ability to adjust rates in a future downturn.

Secondary sales of existing mines create no new jobs and as older mines increase in cost they will close more rapidly under this very high royalty tax regime.

We **strongly opposed** the introduction in Queensland of the highest royalty rates in the world after they were imposed without notice two years ago. We **strongly oppose** the proposed legislative locking in of the world’s highest royalty regime, on a range of grounds detailed below.

Coal’s Contribution to Queensland

The coal industry has underpinned Queensland’s fiscal capacity and budgetary position for decades through its economic contribution, the jobs and communities it sustains, as well as royalty revenue.

Historically, an internationally competitive royalty setting has supported this revenue stream for the Queensland Government and ensured that private investment can help fund essential public goods, infrastructure, jobs and services across the state.

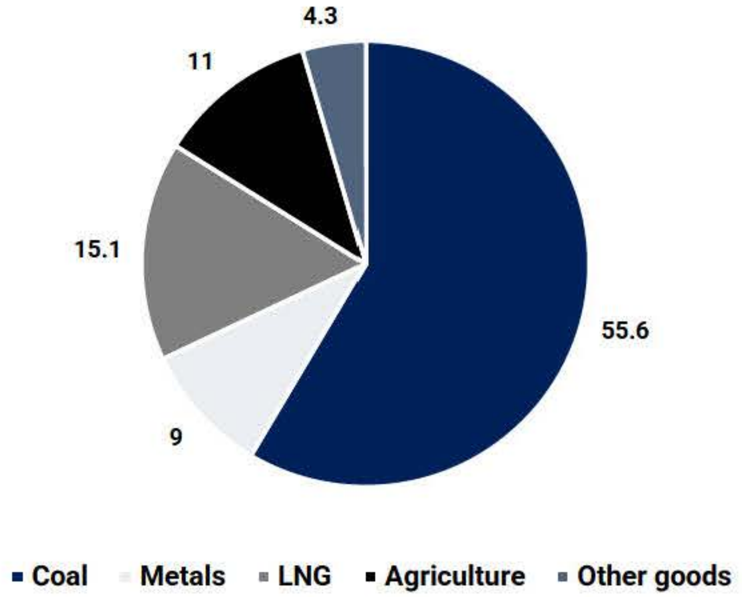
The coal industry is proud of its contribution to Queensland society.

Queensland has 54 operating mines in the state, producing both thermal coal and metallurgical coal. It also supports approximately 37,970 jobs.

Thermal coal is one the largest sources of electricity generation in Queensland and across Australia, reflecting both its reliability as a base-load energy source and its relatively low cost compared to other energy sources. The industry is also a reliable partner for many international customers, who rely on high quality Queensland coal to power their economies and build better lives for their own communities.

Queensland is the largest seaborne exporter of metallurgical coal or coking coal, producing 90 per cent of the country's coking coal in 2021-22. The State's top six destinations for hard coking coal in 2021-22 were India, Japan, Korea, the Netherlands, Taiwan and Vietnam, which combined accounted for 80 per cent of the total volume of the State's hard coking coal exports.

Figure 1: Queensland's Goods Exports, 2021-22

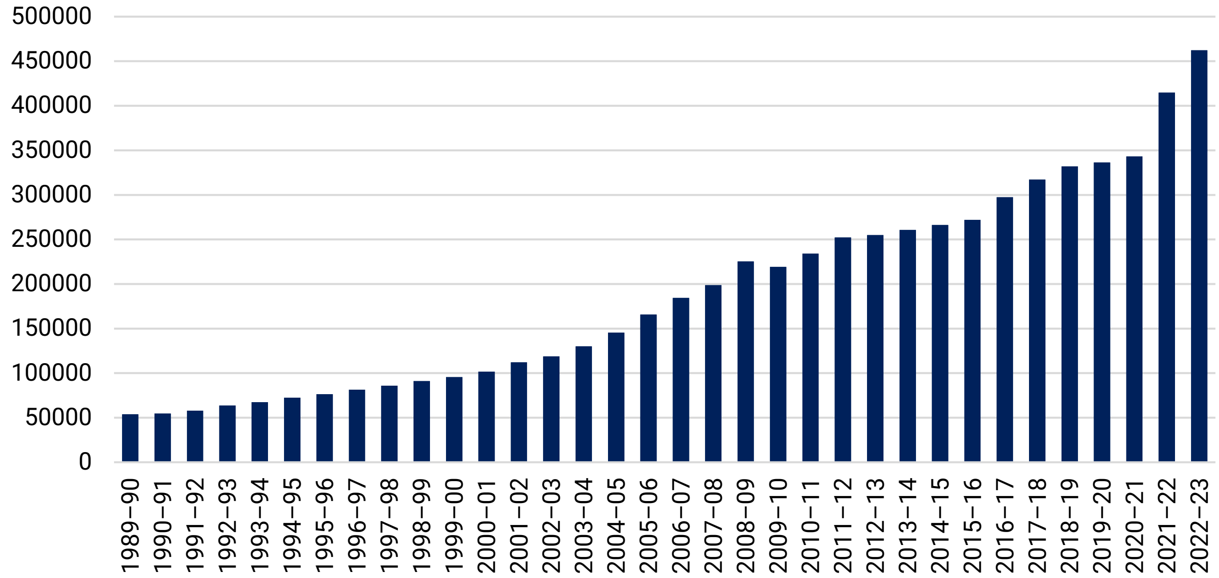


Source: Queensland Treasury Corporation, 'Queensland's Economy and Trade' (Web Page, 2024) https://www.qtc.com.au/queensland/queenslands-economy-and-trade/

Given Queensland's dominance in coal production internationally, as well as high demand that is set to increase globally over the coming decade, the State's coal industry remains one of the most significant contributors to Queensland's economic growth today.

This growth is evident in Queensland's outperformance of the national average economic growth over the past decade. Queensland's quarterly growth of 1.4% is more the double the national average (0.6%), and annual growth of 3.9% exceeds the national average at 3.4%. [1]

Figure 2: Total Gross State Product at factor cost, Queensland, 1989/90-2022/23



Source: Queensland Government Statistician's Office, 'Economic activity (Queensland state accounts)' (Web page, 2024) https://www.qgso.qld.gov.au/statistics/theme/economy/economic-activity/queensland-state-accounts.

However, it is our belief that maintaining the current royalty arrangements will significantly reduce this overall contribution to the state of Queensland, as investors look to find alternative markets that are more investible, and coal producers are gradually put out of business by the onerous impact of rigid and inflexible royalty rates.

Queensland's strong coal industry and subsequent state income have been critical to maintaining high levels of employment, skills, and training. With the largest national concentration of coal mining located in Queensland, the state has been the main beneficiary of the benefits from the industry.

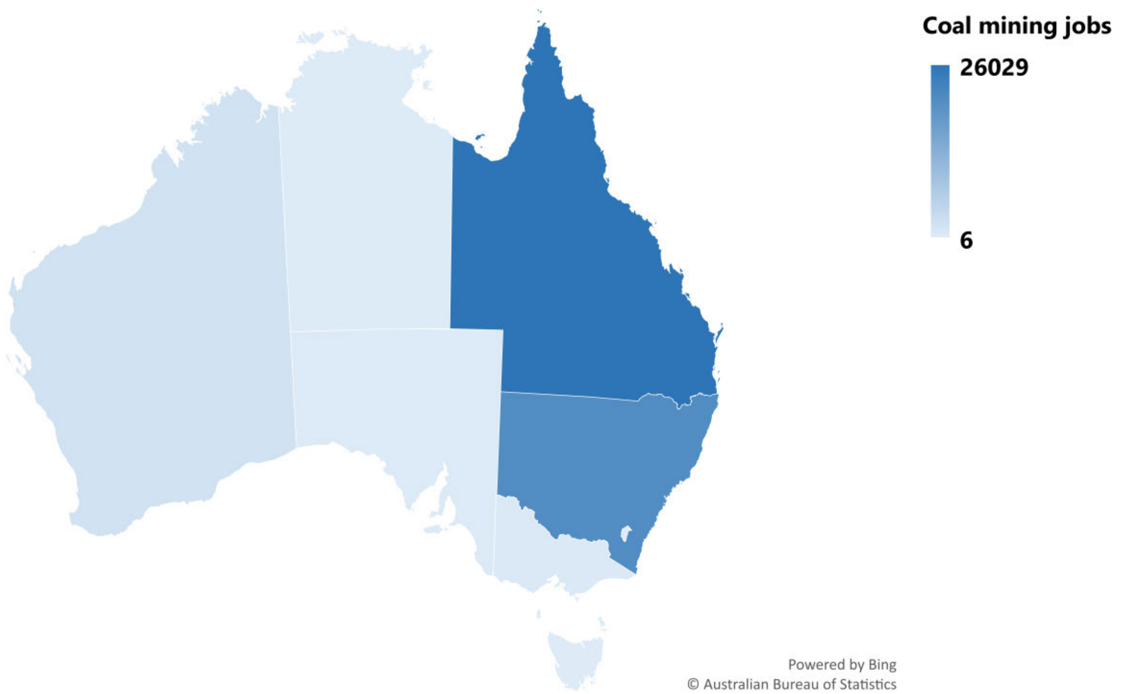
While the industry currently provides 37,970 direct jobs in Queensland, a 22.7% increase over the 5 years to June 2022,[2] we do not expect the same rate of growth if the current royalty arrangements persist. Queensland has the highest royalty rates in

[1] Queensland Government, *Media Statements* (Web Page, 8 March 2024) <https://statements.qld.gov.au/statements/98625>.

[2] Queensland Government, *Quarterly Mines and Quarries Safety Statistics Data* (Data Set, 2024) <https://www.data.qld.gov.au/dataset/quarterly-mines-and-quarries-safety-statistics-data>.

the world, and investors will not open new mines in Queensland if they can deliver better returns elsewhere, or if they cannot deliver a return at all.

Figure 3: Employment in the Coal industry by state / territory, 2021



Source: Australian Parliamentary Library, 'Employment Trends in Coal Mining and Renewable Energy' (Research Paper, 2022–23)

We believe that Queenslanders are better off when the state is supported by a strong coal industry that can leverage the abundant natural resources available. The Queensland Government's COVID-19 Fiscal and Economic Review underscores this relationship, noting *"the long-term prosperity of Queensland depends fundamentally on the state's ability to be a competitive exporter of goods and services to the world."* [3]

Given that coal accounts for 70 per cent of the total value of Queensland's resource exports, it is clear that the Queensland's future economic success is inextricably linked to the success of the coal industry and the communities who support it.

It is our view that that economic opportunity and stability for all is more readily achieved to the benefit of the coal industry, supporting communities, and the state of Queensland, when incentives are aligned. Keeping coal mines investible, high-quality jobs in regional communities and driving economic growth requires the right balance. The current royalty rates are uncompetitive and risk a decline in the ability of the coal industry to drive further investment, and economic growth in Queensland.

[3] Queensland Treasury, *Queensland's Coal Industry and Long-Term Global Coal Demand* (Report, November 2022) https://s3.treasury.qld.gov.au/files/Queensland's-Coal-Industry-and-Long-Term-Global-Coal-Demand_November-2022.pdf.

Unreasonable Economics

Bowen contends that the Bill's intent to embed the coal royalty tiers introduced in the 2022-23 State Budget, without periodic review or adjustment mechanisms, disregards the dynamic nature of the global coal market and the inherent cyclical volatility that characterises the industry.

The 2022 royalty reforms have severely and unfairly penalised the industry with one of the highest royalty regimes in the world, despite Queensland being one of the largest coal exporters globally. Importantly, these changes were made during an isolated period of geopolitical tension and international disruption, which led to a temporary spike in coal prices. The Queensland Budget 2023-24 recognises the transient nature of these elevated prices, *"the recent strength in prices, particularly in relation to coal prices, is primarily driven by a range of short-term supply side factors and disruptions. As such, prices are expected to return to more sustainable levels in 2024."* [4]

Consistent with this expectation, the Budget projects a substantial decline in coal royalty revenues, from $15.36 billion in 2022-23 to $9.19 billion in 2023-24, and further to $4.34 billion in 2024-25.[5] Beyond this period, coal royalties are forecast to stabilise at around $4.2 billion annually, reinforcing the expectation that the disruptions will subside, and prices will return to previous levels.

Given Queensland's royalties are levied irrespective of the costs of production, the Bill is likely to increase sovereign risk, particularly alongside the current inflationary pressures faced by businesses. Sovereign risk distorts investment, as capital seeks more stable and favourable jurisdictions. Such disincentives for investment will increase the State's reliance on Commonwealth grants and worsen any existing vertical fiscal imbalance, thereby diminishing the benefits available to all Queenslanders.

Bowen considers the Bill highly unreasonable given the industry's critical role in funding essential service delivery and infrastructure. Given this role, we believe Government should foster a more competitive market where coal companies can remain viable in Queensland, keeping Queenslanders in jobs and supporting the communities that they live in

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[4] Queensland Government, *Budget Strategy and Outlook 2023-24* (Budget Paper, 2023) https://budget.qld.gov.au/files/Budget_2023-24_Strategy_Outlook.pdf.
[5] Queensland Government, *Budget Strategy and Outlook 2023-24* (Budget Paper, 2023) https://budget.qld.gov.au/files/Budget_2023-24_Strategy_Outlook.pdf.

Summary

The *Progressive Coal Royalties Protection (Keep Them in the Bank) Bill* 2024 fails to acknowledge Queensland's strong international reputation as a reliable supplier of coal to global customers, as well as its reliance on the coal industry to improve life for Queenslanders. The Bill, therefore, jeopardises the sector's long-term sustainability and its capacity to fund and provide essential services.

In light of the Bill's aim for transparency, Bowen urges the Committee to reconsider its implications and avoid a repeat of June 2022, when the Government amended legislation without consulting the industry. Such actions will only undermine industry confidence but also risk economic stability across Queensland's regions who are dependent on the coal industry.

We suggest that the Queensland Government consults with industry to better align incentives, so Queensland remains an attractive destination for investment. This will enable the Government to sustain the long-term economic benefits derived from the coal sector.

Yours sincerely,

[redacted]

Nick Jorss
EXECUTIVE CHAIRMAN