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

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Australian Institute for Progress

Submission to State Cost of Living and Economics Committee on the *Progressive Coal Royalties Protection (Keep Them in the Bank) Bill 2024*

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June 14, 2024

The Chair,
Cost of Living and Economics Committee
Parliament House
George Street
Brisbane Qld 4000

Dear Chair,

The Australian Institute for Progress is an Australian think tank based in Queensland, with a particular interest in energy. We thank the committee for this opportunity to make a submission on the *Progressive Coal Royalties Protection (Keep Them in the Bank) Bill 2024*.

Should you have any queries you may contact me by email [redacted] or by phone [redacted]

Regards,

[redacted]

GRAHAM YOUNG
EXECUTIVE DIRECTOR

Introduction

If this bill were a serious attempt to bring more parliamentary scrutiny to how mineral royalties are set, rather than allowing them to continue to be set by regulation not subject to parliamentary scrutiny, then it might have some merit. There is a longstanding trend for parliaments to allow ministers and public servants to use regulation to effect change to the law, bypassing the democratic process, which is undesirable.

Instead, it is a crude electioneering ploy to attempt to put the opposition in a difficult position if it wants to optimise coal royalties in Queensland by lowering any royalty rate. It would not even succeed in doing that because in the unicameral Queensland parliament the legislation could be changed by the government of the day almost as easily as a regulation.

The royalty regime introduced by the current government for coalmining-only, and supported by this bill, might be called the "Keep them in the ground" regime as it makes coalmining in Queensland much less attractive than coalmining in any other jurisdiction in the country, as well as most of the world.

While the government obviously thinks this is smart politics, it is dumb economics and over time will lead to erosion of the benefits the Queensland state budget receives from coal royalties. It also undermines the government's proposed energy transition as coal is necessary for that transition, providing the power to manufacture wind turbines and solar panels, as well as being integral to the steel making process.

Ineffectiveness of the bill

The bill proceeds from an absurd premise which is that if the government wants to lower a royalty, it has to amend this bill in parliament, but under the bill if it wants to increase a royalty, it can do that by regulation. It ought to be rejected on these grounds alone.

If it were a serious proposal then it would deal with the whole process of setting royalties on any mining for any mineral, not just coal, and make this subject to parliamentary scrutiny.

The absurdity of this reveals its real purpose, which is to try to "wedge" the Opposition on coal mining royalties. It will fail at this as well, as the opposition has said it accepts the royalty regime, and of course the option will be there for them, should they become the government, to amend the bill in the parliament. In a unicameral system, this is a relatively easy thing for a government to do. From the point of view of opposition from the public to such a change, it is likely to be the same were the changes to be made by regulation, or legislation – voters care about the effect of policies, and generally don't understand the mechanisms by which they are effected.

Not much more really needs to be said about this bill, and we could stop here, however, we think it is worth rehearsing for the committee some of the reasons why Queensland's coal royalty regime is a bad one and needs reform.

Reasons for concern about the coal royalty regime

The reasons we believe the government's coal royalty regime needs to be urgently reviewed are many and range from its lack of competitiveness with competing regimes in Australia and overseas, the sovereign risk inherent in the way it was introduced, and the injustice that was done to private Australians and their retirement when the state Treasurer made the arbitrary decision to make Queensland's coal royalties some of the highest in the world.

Lack of competitiveness

The table below compares the mineral royalty regimes for the various states, with the exception of Victoria, which taxes coal on its energy content, unlike the other states who tax on value.

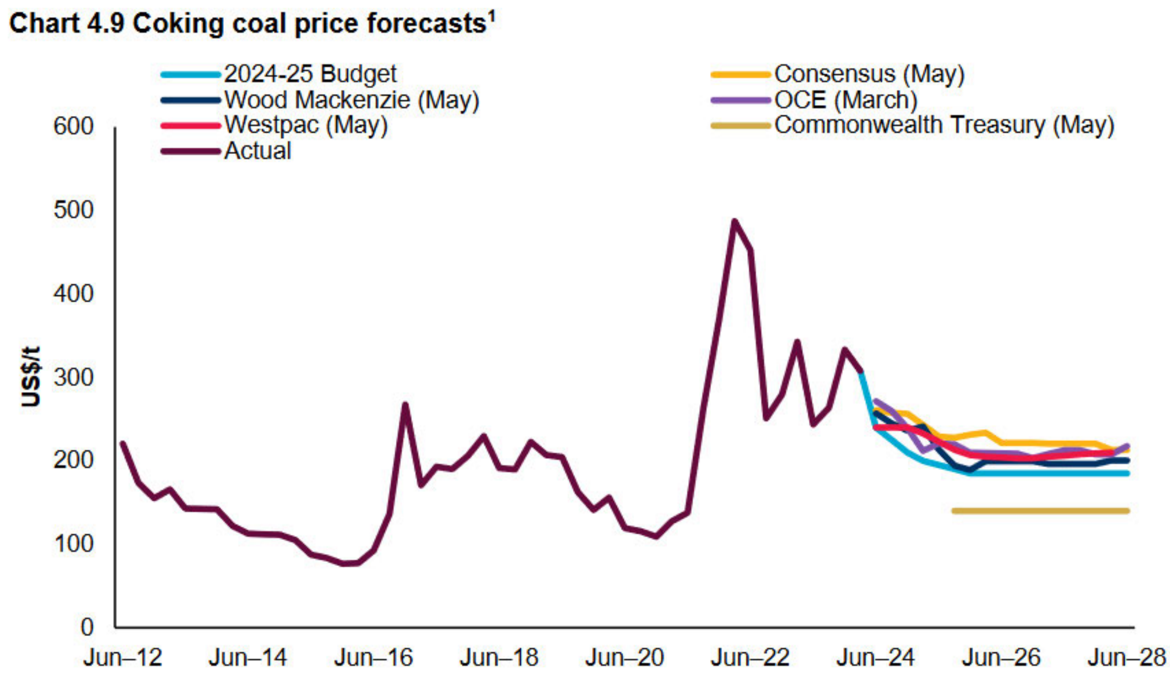
State	Mining Type	Royalty Rate
Queensland	Progressive (all types)	7-40% based on coal price tiers
New South Wales	Open cut	10.8% (from 1 July 2024)
	Underground	9.8% (from 1 July 2024)
	Deep underground	8.8% (from 1 July 2024)
Western Australia	All types	7.50%
South Australia	All types	5%
Tasmania	All types	5%

While Queensland's lowest rate is competitive with the other states, this low rate is for coal with a price of $100 AUD a tonne or less. At this price level the miner would be operating at a loss. The table below is based on an example from earlier this year where coal is selling for $380 AUD a tonne.

Level	Rate	Maximum amount	Total Royalty Paid
At $100 or less	7.00%	100	$7.00
Between $100 and $150	12.50%	150	$13.25
Between $150 and $175	15.00%	175	$17.00
Between $175 and $225	20.00%	225	$27.00
Between $225 and $300	30.00%	300	$49.50
Above $300	40.00%	380	$81.50

If that mine were in New South Wales, the next most expensive jurisdiction, and assuming the open cut rate, it would pay a royalty of $41.04. In this year's budget Treasury forecasts coking coal prices over the forward estimates of USD $185 (see graph below) which equates to a price of approximately $285 with the Australian dollar at USD $0.65. At that price the Queensland royalty would be $44.70, while New South Wales would be $30.67.

When miners have the option of which state to expand their mines, New South Wales is likely to get much more of the capital.



Sovereign risk

The changes were made without any warning, and drastically hiked Queensland's previous regime. Mines typically take more than 10 years to establish and cost millions, if not billions, of dollars. Sudden changes in government policy, without consultation with the industry, multiplies the risk in what is an inherently risky industry. Australia has prospered as a mining destination, able to pay very high wages to its employees, because the country is regarded as politically very stable. The changes to the royalty regime are a direct attack on that reputation, and an indirect attack on the pay packets of those who work in the industry, or who work for it as suppliers and providers of services.

Inequity

Commodities are a volatile business and investment is only viable with a medium-term horizon. Times of high prices are necessary to allow the industry to recover from periods of loss and to recapitalise. They are also necessary to attract and retain capital at cyclical lows.

A number of existing shareholders would have held their shares through the lows in 2015 and 2021 in anticipation of subsequent highs. They would probably have been surprised at the 2022 highs, driven by the war in Ukraine, but they would probably have anticipated prices at current levels.

Others would have sold for some reason, and new investors, again with an eye on the future, would have bought in. Both types of investors have been robbed by an opportunistic treasurer who saw the opportunity to hit-up an industry while it was making record profits.

To add insult to injury, while dividends for investors were non-existent during periods of loss, the treasurer was still collecting his royalty stream, which is as it should be. Shareholders bear the major risk in the investment and should benefit from the upside. The government doesn't bear any significant risk, so is entitled to a return on the minerals, even when the shareholders are making losses, but is not entitled to then benefit disproportionately from the upside when it had nothing at risk in the first place.

Inefficiency

Generally speaking progressive taxes are not a good idea. A flat rate is easiest to calculate and introduces the least distortions into the system. This is reflected in the regimes in the other states which apply flat royalty rates that only differ between the commodity and the method of extraction.

It also distorts the economic signals which high prices give. The reason commodity markets are volatile is that higher prices encourage more production which when it comes on reduces prices. The recent boom in coal prices was probably a once-in-a-lifetime opportunity for existing coal companies to expand their operations and provide sustainably higher royalties to the Queensland government spread over a larger number of mines.

Some of the money would also have found its way into higher wages and dividends, increasing economic activity in the state, and in the case of dividends, probably increasing the capital stock as investors ploughed some of their earnings back into fresh investments.

By creaming-off a large proportion of the additional earnings, the state redirected money from the private sphere into the government sphere, which of itself increases inefficiency, and allocated money to projects it preferred over those the shareholders might have preferred. In doing so it signalled to other industries that they could be subject to the same treatment if they went through a period of increased returns, and the state government felt a need for some extra revenue.

If the additional revenue had been used to pay down debt, the efficiency loss would have been less, but in fact the money has been spent on facilities with a low economic return, and on “cost of living” payments on electricity, which appear to be designed to win the next election, or mitigate electoral losses, for the government.

Ownership structure of the industry

In a number of public statements the treasurer has made claims to the effect that money from coal is going overseas and the progressive royalty gives Queenslanders “their fair share”.

In fact, a significant number of participants in the coal industry, like BHP, Rio Tinto, Whitehaven, New Hope, Stanmore, Bowen Basin Coking Coal, QCoal and so on are domestic, so most of their profits do stay in Australia. All companies also pay company tax here, as well as payroll and GST, stamp duty, etc. And if the state remains a viable investment destination they will plough much of their increased earnings into fresh ventures.

When business earns money it doesn’t suddenly become inaccessible to the community. In fact most of it is normally ploughed back in.