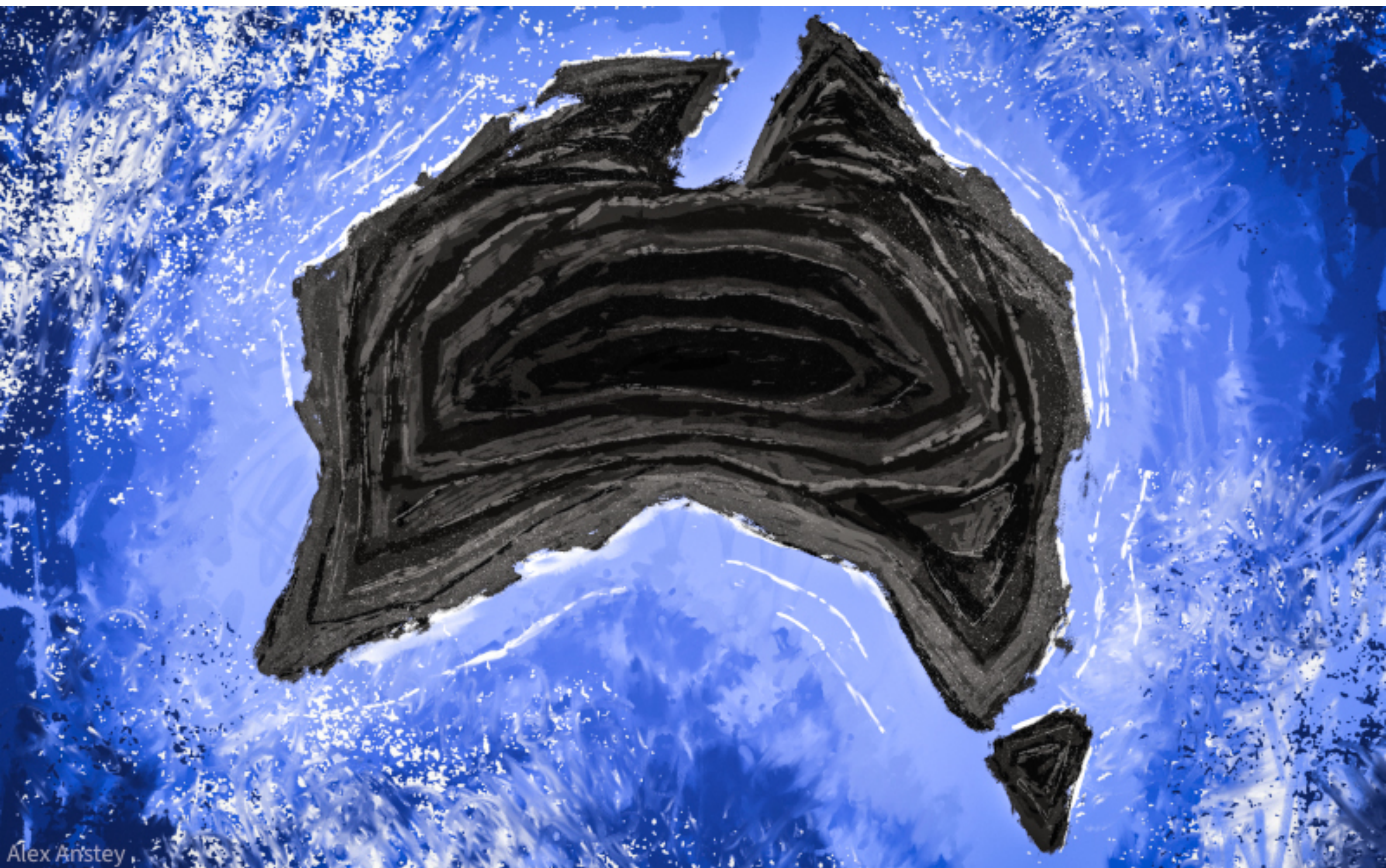
A Fair Share?

Royalties in Australia



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Commissioned by the Neroli Colvin Foundation

MichaelWest Media
Independent Journalists

About this report

This report has been prepared for the Neroli Colvin Foundation, which is concerned about the impact of fossil fuels on the world's climate. Mining is Australia's largest export earner. The majority of the shareholders in major mining companies however are foreign. We have sought to establish whether the industry's claims that it pays more than its fair share in taxes and royalties to government are correct. Journalist Callum Foote investigated dozens of public sources during the research and endeavoured to engage with industry experts to review their methodologies.

Michael West

Summary

The primary lobbying body for Australia's mining industry, the Mineral Council of Australia, consistently claims the industry is the most important to Australia's economy.

The perception of the mining industries centrality to Australia's economic wellbeing helps the industry head off demands for it to pay a more appropriate amount in royalty payments and helps it avoid further regulation.

However, our investigation has shown that only a tiny percentage of the value gained from exporting Australia's non-renewable resources remains in Australia

Key takeaways

- The Mineral Council of Australia has exaggerated by 27%, or $41 billion, the amount of tax and royalties paid by the mining industry over the past 10 years.
- Australian Government are paying more in subsidies to fossil fuel companies than they are getting back in royalties.

- Over the past decade, an average of only 5.6% of total commodity export value has been paid in royalties to Australian states, territories, and the federal government.
- By far the worst scheme for capturing a fair share of profits is the Petroleum Resource Rent Tax (PRRT), which oversees offshore petroleum extraction. Less PRRT is paid now than in 1999 despite an almost ten-fold increase in petroleum export revenue.
- Australian governments have received just $28.2 billion in royalties from the extraction of fossil fuels (petroleum products and thermal coal) over the past 10 years. This is equal to the manufacturing costs of 4 of the 12 navy submarines commissioned by the Morrison government from French weapons manufacturer Naval.
- Queensland has the strongest royalty schemes in Australia. Proportionally, Western Australia earns half as much as Queensland does for its commodities.
- Metallurgical coal is twice as important for Australian governments in terms of royalty payments then thermal coal.
- Royalty payments on iron ore, Australia's largest single commodity export, are an average of 7% of its export value. If this were set at the 9% we see for metallurgical coal then at least $14 billion more would have been collected over the past decade.

Introduction

The mining sector repeatedly claims that its contribution to the Australian economy and government revenue are enormous. For example, pointing to the total value of its exports – which were more than $290 billion in 2020 and the sector's 15% share of Australia's GDP.

In making such claims, the mining lobby aims to avoid further regulation while at the same time continuing to extract subsidies and concessions from the Australian government.

However, these statistics conceal how little of the wealth made by these companies from selling Australian resources overseas remains in the country.

Any attempt by a government to raise royalty rates is fiercely resisted by the industry and in the media.

Individual companies have also lobbied for exemptions from or a delay in paying royalties from states. For instance, Adani negotiated a $900 million 7-year deferral deal with the Queensland government for its Carmichael thermal coal mine.

With Australia's commodity export value reaching record levels in 2019, the question emerges: how much wealth do the largely foreign owned, multinational mining firms that operate here actually provide to Australia, its economy, and its people?

Roughly 5.7% of the wealth made by these companies is paid to Australian State, Territory and Commonwealth governments in the form of royalties.

Australia has failed to capture the generational wealth which other resource rich countries such as Norway or Qatar have developed during their own mining booms.

Iron ore miners, Australia's largest single resource export pays proportionally fewer royalties than do coal miners at 7 and 8 percent of export value respectively.

Moreover, royalties received from fossil fuels totalled $6 billion in 2019-20 which may be less then subsidies to the fossil fuel industry as calculated by The Australia Institute at $10.7 billion in 2020-21.

The claims made by the Mineral Council of Australia (MCA) are taken as representing the Australian mining industry at large.

This is primarily because of the membership base of the MCA. The Council has 53 full member companies and 32 associate member companies. Among the members are BHP Billiton and Rio Tinto, which together have a larger market capitalisation than the next 98 largest mining firms operating in Australia.

What is a royalty?

In Australia, all below ground commodities are owned by the Australian people. It is up to State and Federal governments to sell these commodities to mining companies who wish to extract and process them for selling.

Just as a baker buys raw flour to bake into saleable bread, royalties are the payment made by miners to the Australian people for the raw commodities that they will then sell internationally.

To conflate royalty payments with taxes artificially inflates the contribution made by the mining industry to Australian governments.

Royalties are known in accounting language as “the cost of the goods sold” by the mining industry.

The WA Department of Mines, Industry Regulation and Safety describes it this way: “Mineral resources are owned by the community and a royalty is a purchase price for the resource. The community expects a fair return for the loss of its non-renewable mineral resources.”

Generally, all royalties are collected by state governments, which have developed their own rates and systems. There are a few exceptions, notably the Petroleum Resource Rent Tax (PRRT), which is discussed in its own section below.

There are three methods of calculated royalties, the application of these methods changes from state to state and commodity to commodity.

The first is ‘specific’ or ‘unit based’ royalties which are levied on a fee per unit of volume (per cubic metre) or weight (per tonne) and are generally applied to minerals that are homogenous (for example, sand or gravel), or sold in bulk. Unit based royalties are the oldest form of royalty assessment. They are simple to administer as assessments of price, value and cost do not need to be made and they are payable regardless of the profitability of a mine. All states and territories have unit-based royalty schemes for various smaller commodities.

The second is 'value-based' or 'ad valorem' royalties which are payable regardless of a mine's profitability but, as they are based on the value of the commodity being mined, will fluctuate with international commodity prices. The method of calculating value is complicated and varies from jurisdiction to jurisdiction. WA’s iron ore royalty scheme, the largest in Australia is an example of an ad valorem royalty scheme along with NSW and Queensland coal royalties.

Profit-based royalties are based on the profitability of an operation. Unlike specific and ad-valorem regimes however, during the early years of a mining operation when establishment costs far exceed any income, minimal or no royalties will be collected. This has resulted in some public criticism on the basis that the minerals are being extracted yet no compensation is being paid. An example of a profit-based royalty is the Petroleum Resource Rent Tax (PRRT).

Royalty schemes in Australia

Australia’s royalty schemes are designed to ensure that even in difficult times, mining companies still make a profit. However, according to Lindy Edwards, an academic at the University of NSW, this means during good times, when profits skyrocket, our royalty schemes do not capture a ‘fair share’ of the Australian-owned resource.

This was what drove the Rudd government to try to introduce a super profits tax (the Minerals Resource Rent Tax) in 2008. The graph below, taken from the

Australia's Future Tax System Review Final Report, 2010 shows that the amount paid by the mining industry in taxes and royalties was in sharp decline as a percentage of profits made from mining. In 2001-02, for example, the operating profit of mineral companies was just under $5 billion, and the taxes and royalties paid was close to half that. By 2008-09, however, the companies were making close to $50 billion in operating profit, yet the taxes and royalties paid were just $7 billion. From comprising about 40% of the operating profit in 2001-02, taxes and royalties comprised just 14%.

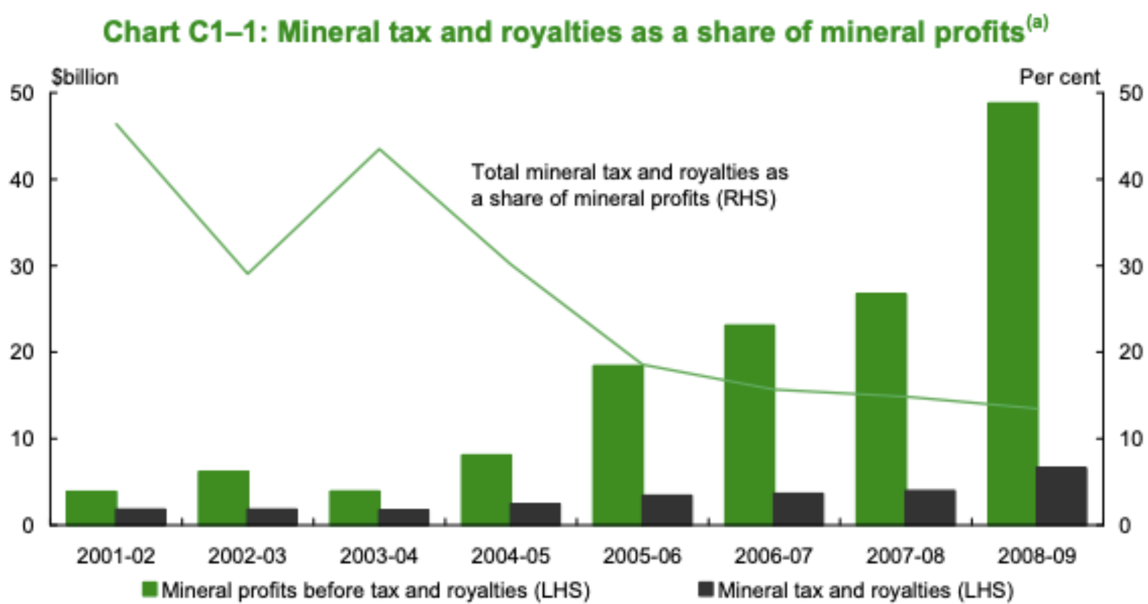

Figure 1: Taxes and royalties as a percentage of resource profits (Australia's Future Tax System, 2010)

Australia's royalty system is incredibly complex. At the time of the *Future Tax System Review* Australia had more than 60 royalty schemes. Each state and territory administer its own royalty schemes but also has a scheme for each commodity. Furthermore, different royalty rates may apply to the same commodity depending on whether it is exported or sold domestically.

When making claims regarding the mining industries contribution to the Australian economy and government revenue, the mining lobby commonly combines royalties with the amount of company tax it pays. This vastly inflates the contribution of the mining sector to the Australian economy. It is also extremely misleading.

Industry claims

A common strategy of the mining industry is to combine royalties and company tax when proclaiming their industry's contribution to Australian state and federal governments.

The Mineral Council of Australia commissions estimates of the total company tax and royalties paid by Australia's mining industry from Deloitte Access Economics.

Deloitte Access Economics estimate that between 2010 and 2019 the mining industry paid a total of $238.8 billion dollars in company tax and royalties to Australian States, Territories, and the Commonwealth.

Deloitte do not include federal government commodity taxes such as the PRRT in their estimates.

Actual Figures

The Australian Tax Office has provided industry taxation data for the years 2008-9 till 2017-18. This data includes all taxes paid, including taxes paid by individuals, fringe benefits tax, GST as well as minerals excises, PRRT, luxury car tax and wine equalisation tax.

The Australian Bureau of Statistics provides data on royalty income for the States and Territories as well as the Commonwealth government. For unknown reasons, the royalty figures provided by State and Federal treasuries are higher than is reported in state budget papers. For instance, the ACT do not record any royalty revenue in their state budget papers yet have informed the ABS of $270 million in royalty revenue since 2010.

Deloitte's estimations only consider state budget papers and therefore may even underreport royalties paid over the period. Though, their estimation of taxes paid is inflated compared with ATO statistics.

Deloitte Access Economics considers net company tax, which they calculate after allowing for tax offsets such as the research and development tax incentive, the foreign income tax offset, and the franking offset.
However, the company tax data provided by the ATO, which Deloitte Access Economics claims they draw from, does not agree with the gross or net company tax numbers given by Deloitte.

A Deloitte spokesperson refused to explain this anomaly, claiming that "we absolutely stand by our analysis and its estimates of royalty payments and gross company tax. Otherwise, we don't comment on client matters."

Weeks before Deloitte Access Economics released their 2021 report, *Michael West Media* questioned why their estimates of royalties and taxes paid were 33% inflated between the years 2010 and 2017, or a total inflation of $41 billion for the period.

Following this, Deloitte Access Economics revised their methodology, lowering their previous estimates.

Deloitte Access Economics revised their estimates historical royalties and taxes paid by the industry. This is despite claiming that the historical data provided was 'actual' data taken from state budget papers and the ATO.

Deloitte Access Economics have declined to answer why their historical data changed between the 2020 and 2021 report.

Figure 2 shows the difference between the actual amount of taxation and royalties paid by the industry compared to Deloitte Access Economics 2020 and 2021 report. As you can see, the estimates provided in Deloitte's 2020 report are approximately 10% higher than those of the 2021 report, yet the most recent figures are still between 10% and 40% higher than the 'actuals', for an average inflation of 19% for the period shown.

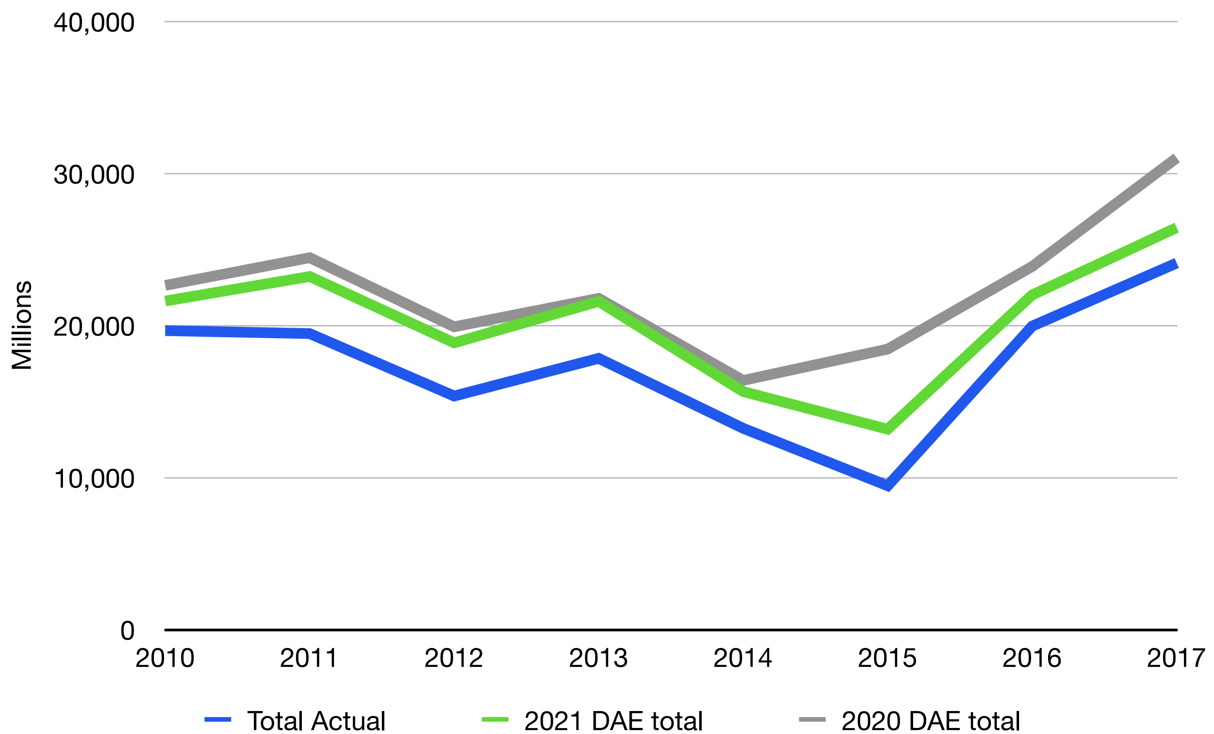

Figure 2 ATO Industry Taxation, ABS Government Finance Statistics

In responding to questions posed by *Michael West Media*, which included questioning why Deloitte Access Economics refused to update previous years estimates with the actual data or why Deloitte Access Economics updated their methodology, MCA CEO Tania Constable said:

"Deloitte is recognised for its skill in making estimates. There will be difference from time to time in estimates and final results, but the sum of mining's contribution over time and the trend of an ever-greater contribution stands."

Given the lack of industry taxation data made available from the ATO for the last two years exact mining industry taxation payments figures remain unavailable.

However, if Deloitte's 19% inflation of the figures between 2010 and 2017 are consistent then the industry has paid an estimated $193 billion in royalties and taxes over the past 10 years.

This massive figure is put in context when considered as a proportion of the total revenue of the industry over the period.

The total export value of Australian commodities over the period, which is indicative of the revenue these companies have made from selling Australian resources overseas, is $2.1 trillion dollars. Therefore only 9.1% of the export revenue made by these companies has been captured by state and federal governments.

Actual mining taxation and royalty breakdown

Taxes paid by the mining industry between 2008 and 2017 averaged just 4% of total export value.

The mining industries capacity to reduce their taxable income, and tax paid, is demonstrated in their representation of Australia's top tax dodgers.

Figure 3, below, compares the total export value for the industry in the same period to the actual combined total of royalty and taxes paid by the industry. Keep in mind that the below does not consider PRRT, in line with Deloitte Access Economics' methodology.

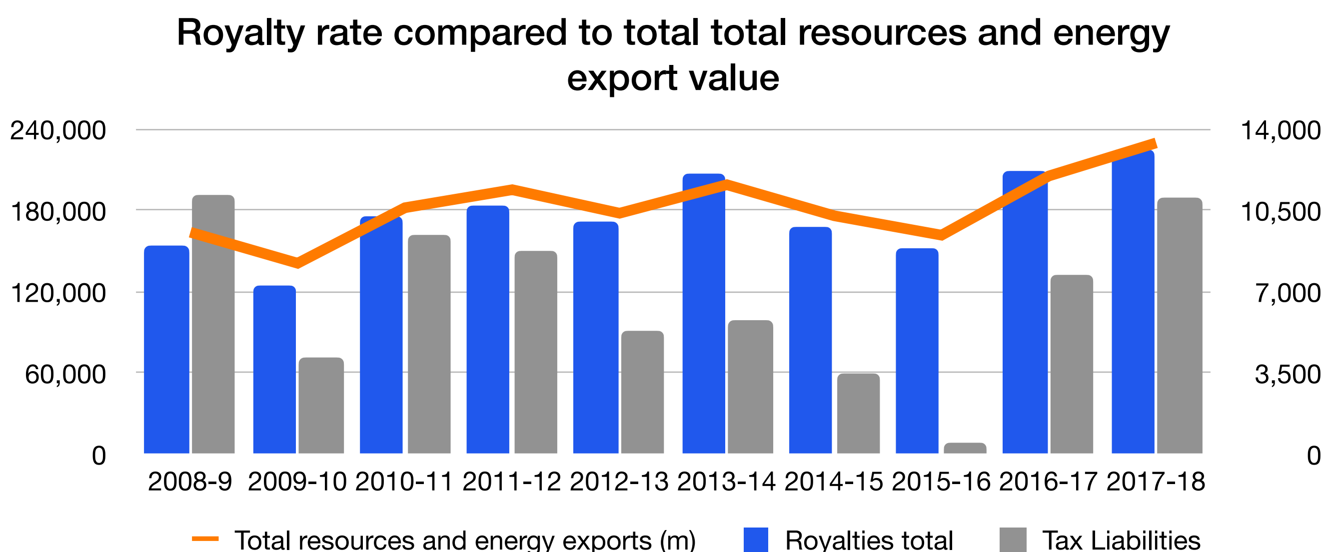

Figure 8: Source ABS Government Finance Statistics, State Budget Papers, REQ Historical Data

The rate of combined mining industry payments has remained proportionate with export value. However, when compared on the same axis the amount paid to the government remains modest in relation to the revenue earned by the mining industry.

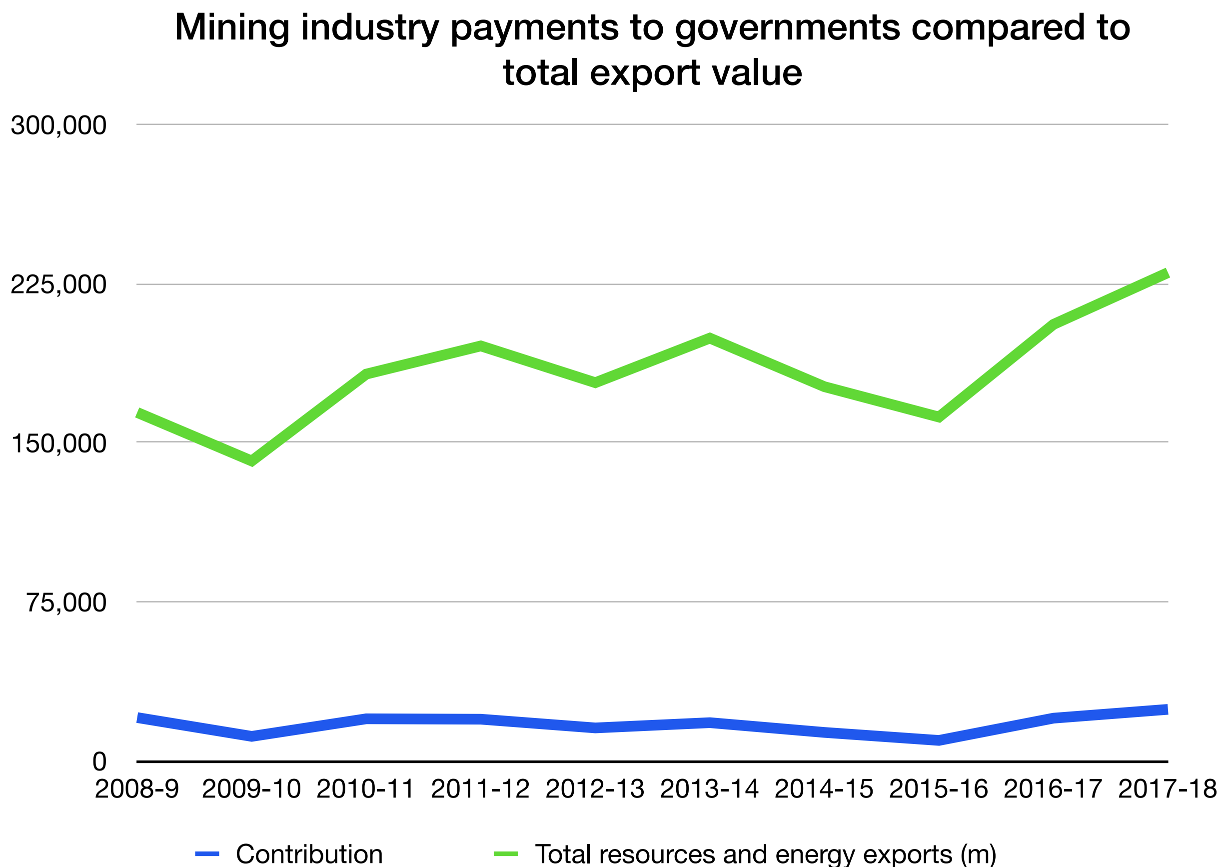

Figure 4: ATO industry taxation data, ABS royalty revenue, state budget papers, REQ historical data

Key Takeaways

- The Mineral Council of Australia and Deloitte Access Economics have over-inflated the amount of royalties and taxes the Australian mining industry have paid over the past decade by 27%, or a difference of $41 billion.
- Together taxes and royalties paid by the mining industry averaged just 9% of the total export value of Australian commodities over the past 10 years.

Royalty breakdown

Of Australia's three big mining states, royalties only make up a considerable portion of Western Australia's budget, sitting at 28.8% in 2020-21. A 42% increase due to rising iron ore price according to the 2021 WA State Budget.

For Queensland, royalties and land rents made up 4.7% of 2020 state government revenue, and in NSW royalties accounted for only 1.7% of 2020 state government revenue.

As you can see in Figure 5 below, 2018-19 and 2019-20 were bumper years for royalty payments.

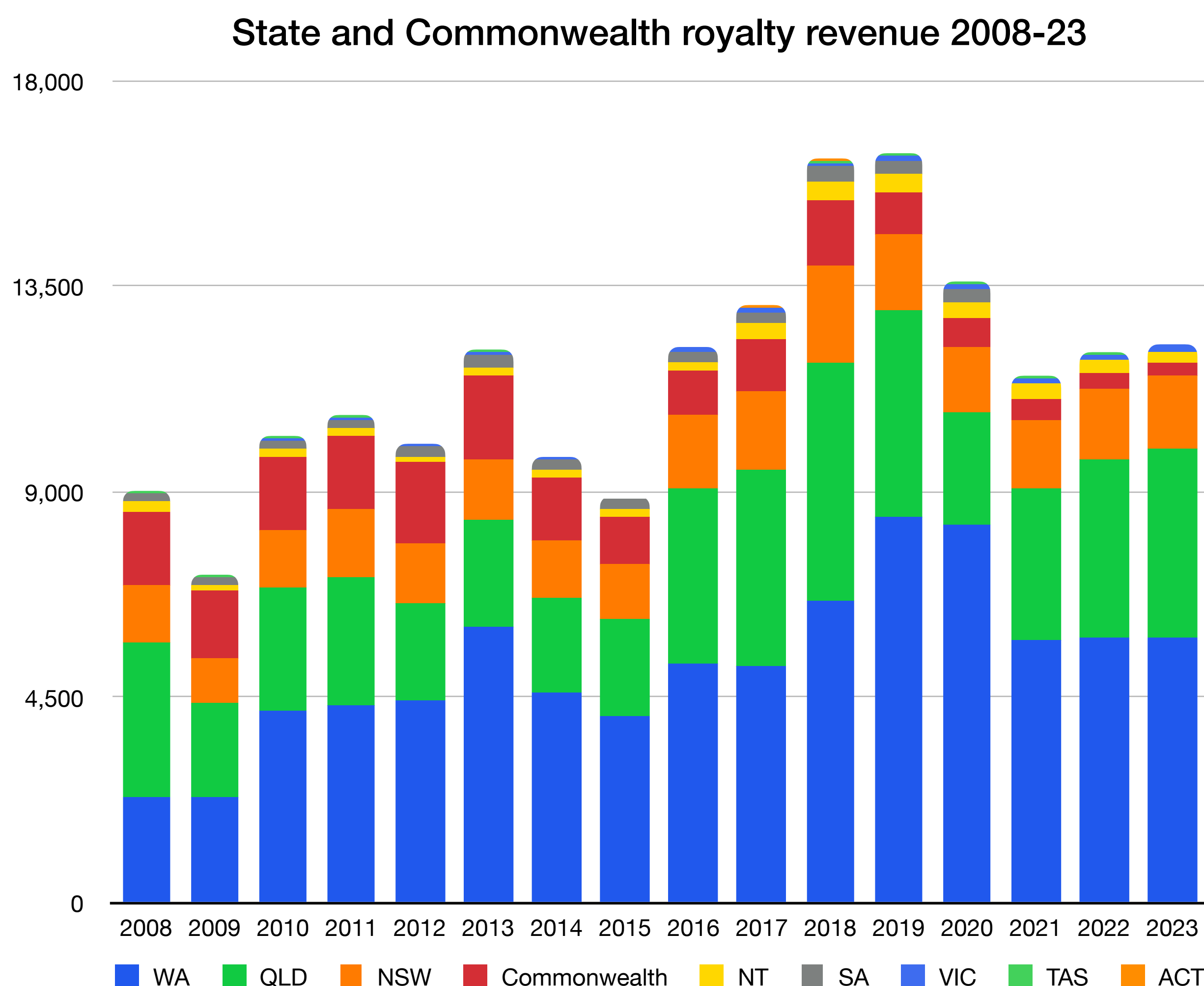

Figure 5: The ACT does not provide data beyond 2018-19, SA does not provide forward estimates beyond 2020-21 (ABS Government Finance Statistics, State Budget Papers)

WA is by far consistently Australia's biggest earner from royalty payments, with Queensland coming second and NSW third. Following NSW are federal royalties received.

The Northern Territory, Victoria and South Australia all receive minimal royalty payments.

As a portion of the total payments for the period, the WA government has earded 46% of all royalties, or $158 billion. Queensland has earded 27% or $94 billion. NSW has earded 12% or $42 billion. The commonwealth has earded 9% or $32 billion, with the other states and territories having earded 5% or $16 billion.

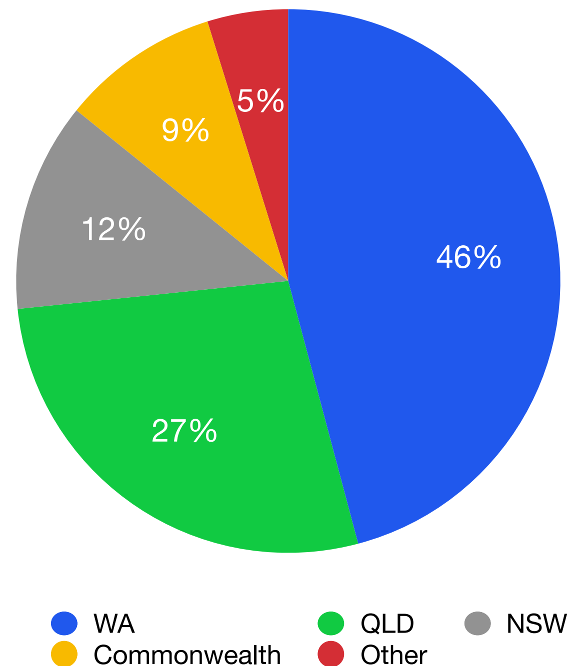

Figure 6: The ACT does not provide data beyond 2018-19, SA does not provide forward estimates beyond 2020-21 (ABS Government Finance Statistics, State Budget Papers)

Which state captures the most value for their resources?

The effectiveness of each State and Territory's royalty scheme can be determined by comparing the amount earded in royalties to the total export value of commodities originating from each jurisdiction.

As an average over the past 10 years, Queensland's royalty scheme has collected the greatest amount of export revenue at 10% of the total commodity export value.

Queensland is followed by the Northern Territory at 8%, New South Wales at 7% and South Australia at 6%.

Western Australia, despite being Australia's largest commodity exporting state and leading the tally in absolute royalty revenue, captures only 5% of its commodity export value as royalties. This is the third lowest royalty capture in the country.

Only non-resource intensive states Victoria and Tasmania are below Western Australia on this metric, sitting at 3% and 2% respectively.

This analysis suggests that Queenslanders are receiving the highest price for their commodities due to their government's relatively strong royalty scheme. On the other hand, Western Australians, who rely heavily on royalty revenue, are still missing out on a significant portion of wealth which their government could reasonably capture on their behalf.

Figure 7 shows the rates of state commodity export value captured as royalties in order from most to least.

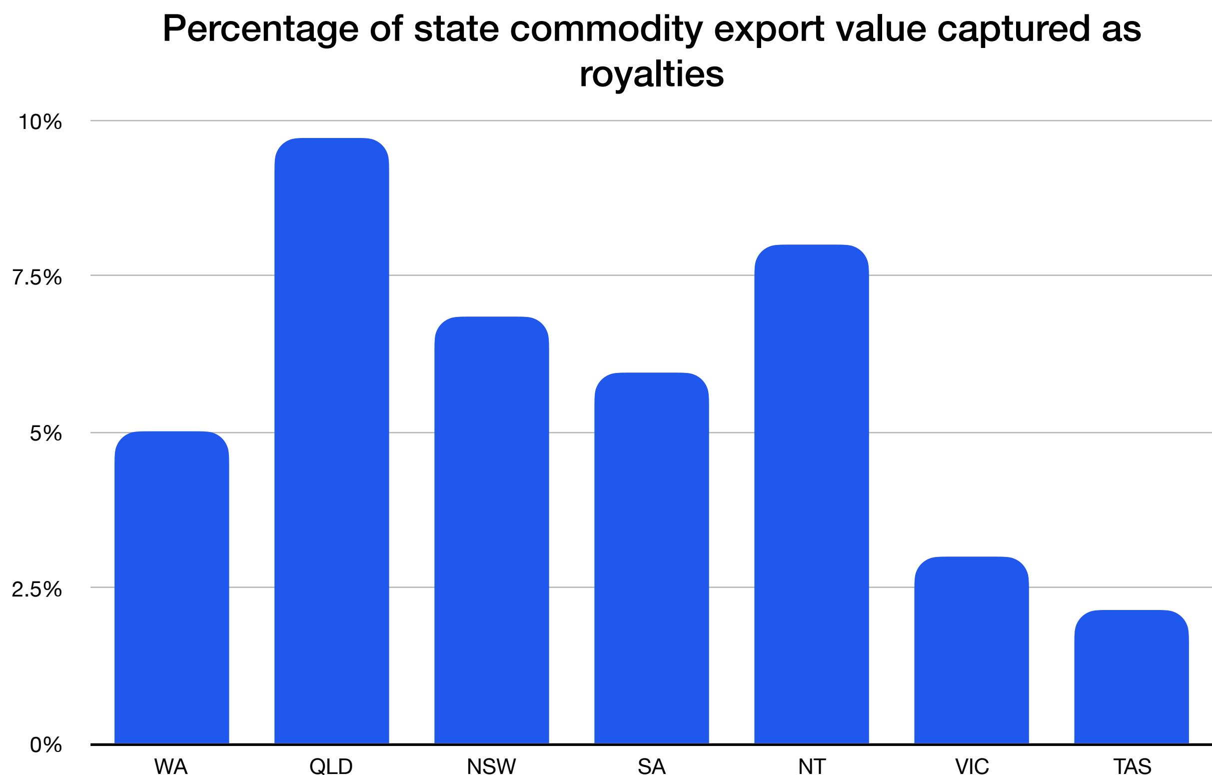

Figure 7: ABS stats.data

Mining royalties as a portion of government revenue

Despite accounting for between 10-15% of Australia's GDP mining industry royalty payments have routinely comprised only 2-3% of the total revenue of Commonwealth, State and Local governments.

Figure 5 below shows royalties as a percentage of total government revenue for the decade between 2008 and 2018.

The portion to which royalty payments have aided government budgets has not increased meaningfully over the past decade.

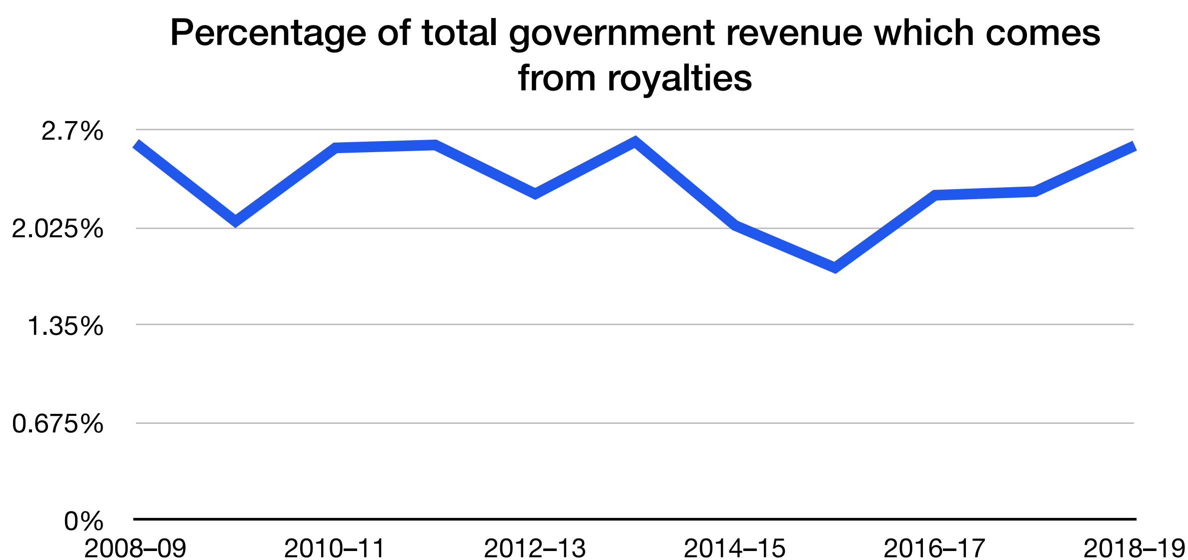

Figure 11:ABS Royalty Data

Total royalties compared to export value

As interest lies in uncovering in the amount of wealth retained in Australia from the extraction of commodities, it is important to contextualise royalty payments as a portion of the revenue made by mining companies. This can be done by comparing royalty payments with total resource and energy commodity export value provided by the Office of the Chief Economist.

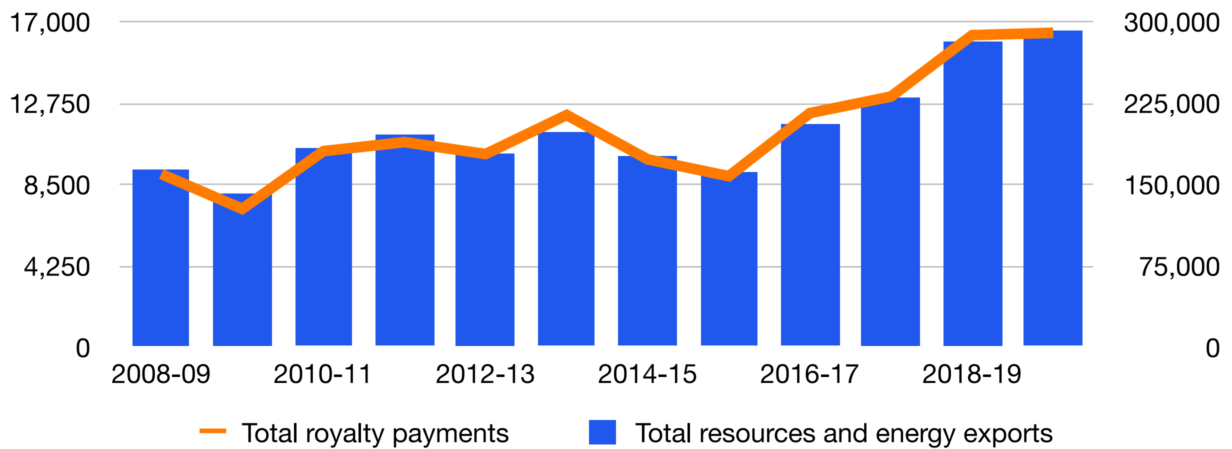

Figure 8: Source ABS Government Finance Statistics, State Budget Papers, REQ Historical Data

Figure 8 shows that the amount of royalties paid by the industry has increased in proportion with the increase in the value of commodity exports since 2008.

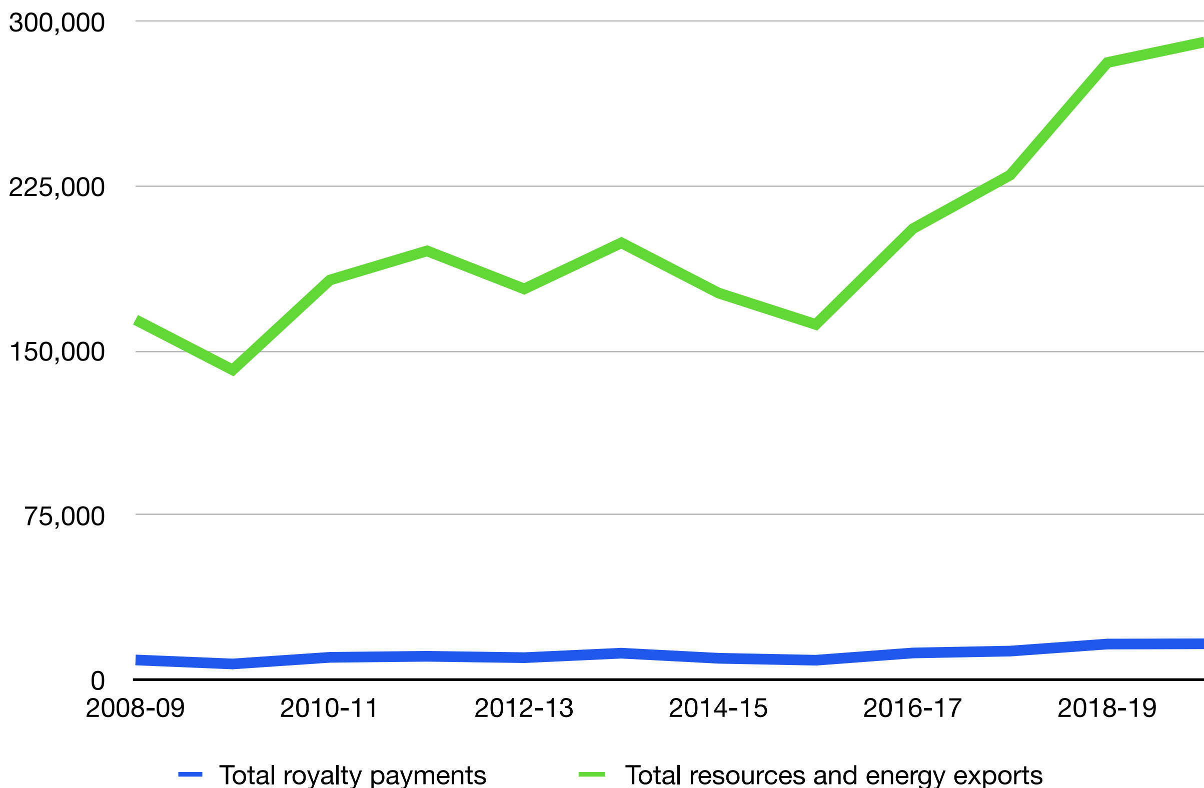

Figure 9: Source: REQ Historical Data, ABS royalty data

However, Figure 9 compares the value of royalties received by all Australian governments with the total export value of the commodity along the same axis.

As you can see, the total value of commodities exported from Australia has soared over the past decade, yet the return to the public (via royalties) has remained modest. The royalty rate has remained consistent over the past 10 years, averaging 5.7% of the total commodity export value.

In 2008-09 the value of commodities exported was $164 billion, and the royalty payments comprised $9 billion. In percentage terms, royalties comprised just 5.5% of total export value. In 2019-20, the value of commodities exported was $290 billion, and the royalty payments were $16.4 billion. Again, royalty payments comprised 5.6% of export value.

As Lindy Edwards noted, Australian governments have not moved to capitalise on the increased value and demand for Australia's natural resources.

This is especially important as export value continues to grow, reaching its highest levels ever in 2019 at $290 billion as figure 10 shows below.

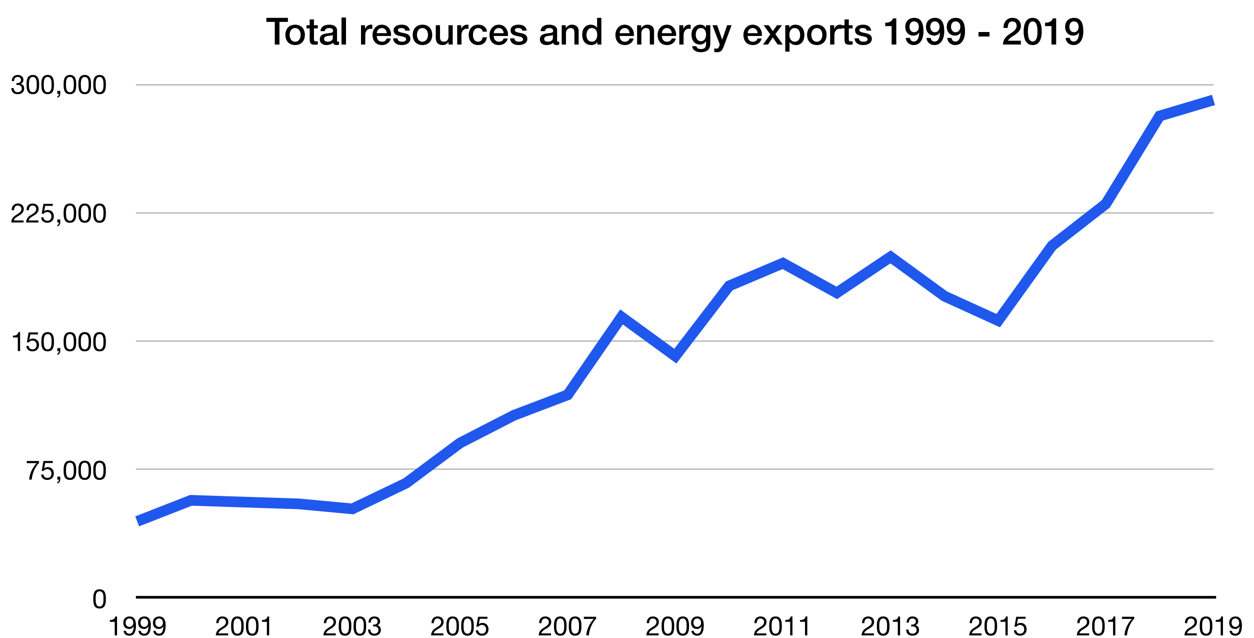

Figure 10: REQ Historical Data

Annual Export value by commodity

The make-up of commodities exported from Australia has changed significantly over the past decade. Figure 9 shows the rise of iron ore and LNG as the two largest single Australian commodity exports.

Overall, Australia's commodity export value has grown by 106% over the past 10

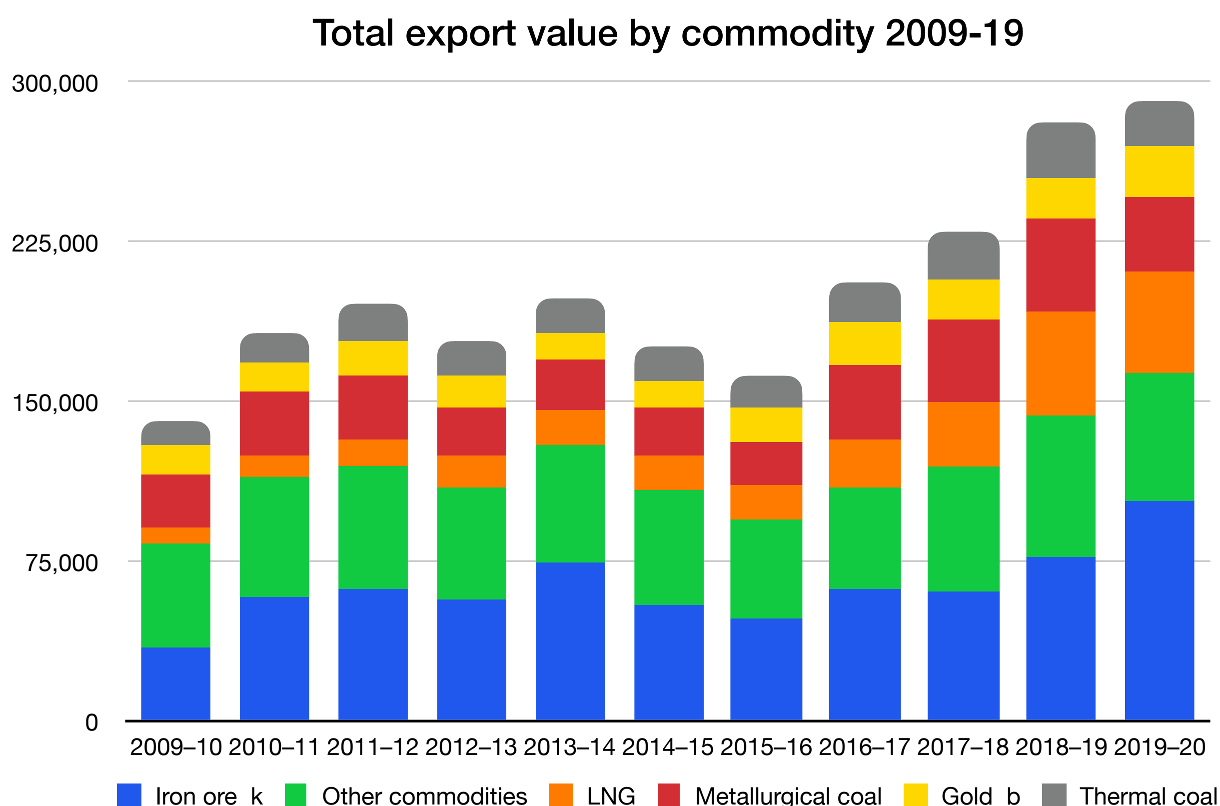

Figure 12: REQ Historial Data, 'Other commodities' represent 22 other commodities of smaller value.

years with only iron ore and LNG have outpaced this trend.

Iron ore exports have increased rapidly, at 11.3% per annum with a total growth for the period of 193%. LNG exports, however, have seen the largest increase in percentage terms, growing 510% in total, or 27% per year on average.

Of the total growth experienced between 2008 and 2018, $149.422 billion, 45% is accountable to Iron Ore and 27% to LNG.

Key Takeaways

- Over the past 10 years, WA has earded 46% or all royalties, at $158 billion. Queensland has earded 27% or $94 billion. NSW has earded 12% at $42 billion. The commonwealth has earded 9% or $32 billion. Combined the other states and territories having earded 5% or $16 billion.
- Queensland collects the highest rate of royalties at 10% of the total commodity export value.
- Northern Territory collects 8%, New South Wales 7% and South Australia at 6%.
- Western Australia, despite being Australia's largest commodity exporting state captures only 5%
- Non-resource intensive states Victoria and Tasmania are below Western Australia on this metric, sitting at 3% and 2% respectively.
- In total, royalties only make up 2-3% of Australian government revenue

Royalties by commodity

By using state and commonwealth budget papers, PRRT data and expert estimates the amount to which each commodity contributes to total royalty revenue can be estimated.

Figure 13 shows the breakdown of total royalties, including the PRRT, from 2009 to 2019. This graph shows the rise in iron ore and metallurgical coal's important to royalty revenue, while thermal coal has declined.

Unfortunately, NSW does not break down royalty payments by commodity. However, the Bruce Robertson, an Energy Finance Analyst – Gas/LNG from the Institute for Energy Economics and Financial Analysis estimates that 80% of NSW coal is thermal coal, while NSW state budget papers have consistently claimed that around 95% of royalty revenue is derived from coal. As a result, NSW's metallurgical and thermal coal royalties can be estimated despite a lack of available data.

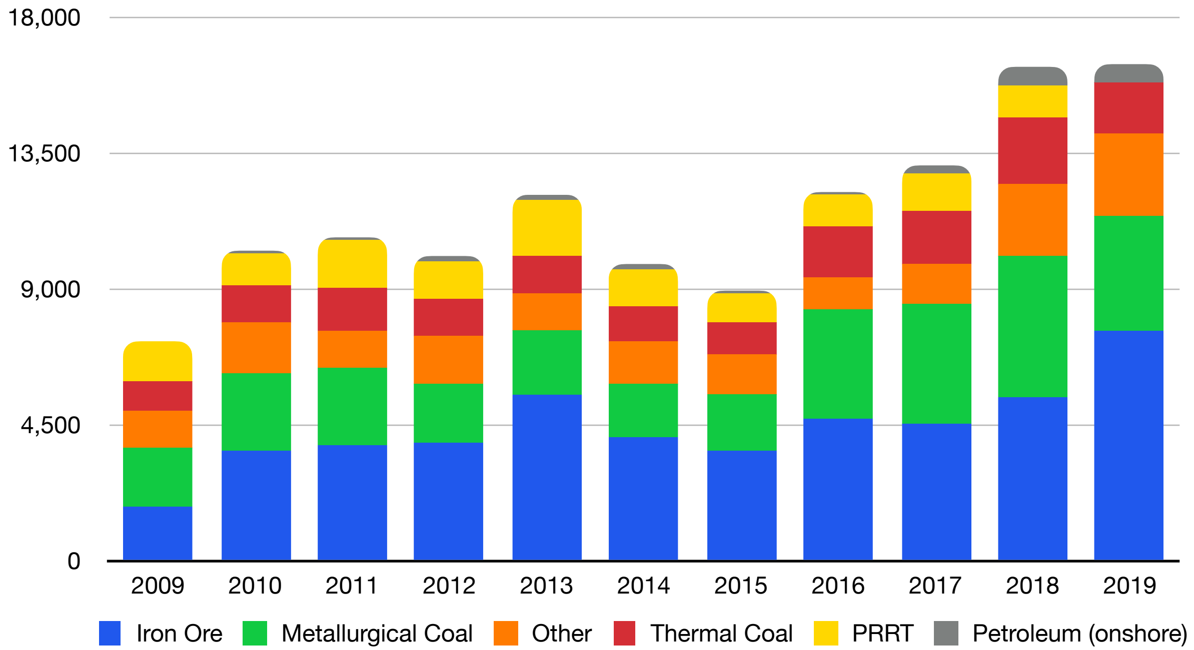

Figure 13: ABS Government Finance Statistics, REQ Historical Data, State Budget Papers

The amount of PPRT paid in 2019-20 is not yet available, and as a result is missing from Figure 13.

Overall, iron ore has contributed the most, at $40 billion dollars over the period or 36% of the total. Iron ore is followed by metallurgical coal, which has contributed $26 billion or 24% of the total then thermal coal which has provided $14 or 12% of the total.

PRRT, which is the specific taxation scheme for offshore petroleum, has accounted or $12.4 billion or 11% and onshore petroleum has accounted for only $1.8 billion or 2% of the total, while all other commodities have accounted for $17 billion at 15% of the total as seen in Figure 14.

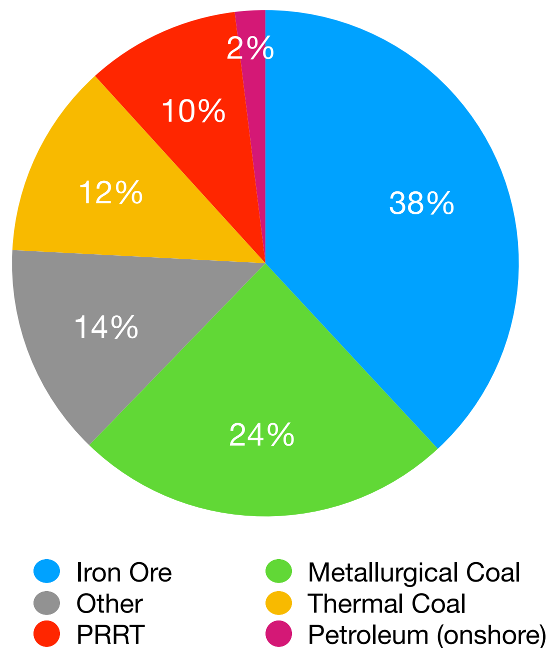

Figure 14: ABS Government Finance Statistics, REQ Historical Data, State Budget Papers

Not all royalties are created equal

All Australian commodities have different royalty rates and methods of calculating those royalties depending on the State or Territory where they are produced.

By comparing the total export value of an individual commodity by the amount of royalties produced by those commodities, the average national rate of royalty paid for individual commodities as a percentage of their export value can be estimated.

Over the period, iron ore comprised 29% of all export value, yet contributed 36% of all royalty revenue at a royalty rate of 7% of its export value for the period.

Petroleum products, the second biggest single export over the period, which include LNG, LPG, and crude oil, accounted for 18% of export value while only accounting for 13% of royalty payments.

Both types of coal also account for a higher portion of royalty payments then they do export value.

Metallurgical coal, primarily produced in Queensland, has the stronger royalty scheme of the two. Metallurgical coal was Australia's third largest single export accounting for 14% of export value while being the second largest contributor to royalty payments, accounting for 24%, with a real royalty value of 9% of its export value.

Thermal coal accounted for 9% of export value and 12% of royalty payments with a real royalty value of 8% of its export value.

Petroleum products as a group have a strikingly low royalty rate, sitting at a mere 4% of their export value.

In 2019-20 LNG accounted for over $41 billion in export value. At a 4% royalty this equals only $1.6 billion in royalty payments. If metallurgical coals' 9% royalty rate were applied Australians would have seen an extra $2 billion.

When we consider petroleum products more broadly, then the average royalty rate as a percentage of export value drops to a meagre 2.4%

Key Takeaways

- Of Australia's significant commodities metallurgical coal had the highest real royalty rate, calculated as a percentage of export value over the past decade, of 9%.
- Thermal coal has a real royalty rate of 8% of its export value.
- Iron ore has a real royalty rate of 5% of its export value.
- Petroleum, combined onshore and offshore, has a real royalty rate of only 2.4% of its export value.

Fossil Fuel Royalties

If the emissions resulting from fossil fuels produced and exported from Australia are considered, Australia accounted roughly 4.4% of the world's total emissions in 2016. This percentage has presumably only growth in proportion with the growth in LNG and coal exports since then.

This section provides an overview of the royalties produced from Australian fossil fuel extraction.

Total Fossil Fuel Royalty Revenue

Australian States and Territories only brought in a total of $8.4 billion in fossil fuel royalties in 2018-19 which dropped to $6 billion in 2019-20. This includes royalties from both thermal and metallurgical coal, onshore petroleum and PRRT. Over the past decade, fossil fuels have provided $55.1 billion in royalties.

According to The Australia Institute's recent report Fossil fuel subsidies in Australia, subsidies given by Australian Federal and State governments to the fossil fuel industry in 2020-21 reached $10.3 billion. There is a strong likelihood that Australian governments are in the red because of fossil fuel mining.

Petroleum Royalties

The Petroleum Resource Rent Tax (PRRT)

In Australia there are different royalty arrangements for onshore and offshore petroleum.
Offshore royalties are the jurisdiction of the Commonwealth and without the legislative framework to institute a royalty, the Hawke government set up the PRRT to serve the same function as a royalty and collect a fair share of the profit for the Australian people.

The PRRT collection mechanism is based on the value of petroleum at the wellhead.

Diane Kraal, Senior Lecturer, Business Law and Taxation Dept, Monash Business School, Monash University highlights the initial problem with the PRRT which is that "the 'profit' depends on the choice of the price at which the gas is 'sold' from one part of the entity that mines it to another before it is processed and turned into liquid for export."

In essence, an offshore petroleum producer can sell the gas it extracts to itself at lower then market prices to reduce PRRT taxable income.

Furthermore, there are significant tax credits which can be accrued during the offshore petroleum exploration phase of production.

While the PRRT is levied at 40 percent of a petroleum producers PRRT taxable profit, a producer can make deductions on that profit from the money they spent exploring and building facilities.

These tax deductions grow in value every year and are not capped, so a petroleum producer will not pay PRRT until all the capital deductions are finished.

The reason these tax deductions ‘grow’ each year is they exist under a very generous uplift.

The uplift is the long-term bond rate plus 15 per cent, or an increase of 17.6 per cent in 2016, which is applied to every dollar spent on getting petroleum extraction facilities up and running.

Originally intended to compensate petroleum producers for the risk involved in petroleum exploration and for not getting a refund if they made a loss, the uplift has seen massive offshore LNG projects pay no tax on billions of dollars of LNG.

For example, the oil and gas industry’s lobby group indicate that the largest project, Chevron’s $70 billion Gorgon, will not pay anything for the gas it extracts and the Northern Territories Ichthys project will export $195bn of LNG, LPG, and condensate from Darwin over the next three decades and pay zero PRRT.

The Australian Future Tax System Review said the uplift rates overcompensated investors and a 2013 ACIL-Tasman report for the Federal Resources Department described the selection of some of the uplift rates as arbitrary.1

According to Rod Campbell, the Australia Institute “a lot of these problems with the PRRT came in under former resource minister Martin Ferguson, who went on to become an executive with the Australian Pipeline Industry Association, who changed uplift rate of PRRT and made it transferrable between projects.”

This results in a situation whereby companies have been able to transfer their PRRT credits from one project to another so that's meant that projects that otherwise would be paying PRRT aren't.

Which to Campbell is "Serving to A) give away Australia's gas and B) get projects off the ground that from a purely financial perspective shouldn't be going ahead… It's basically a subsidy, and subsiding fossil fuels is bad."

PRRT: a failed tax

According to Bruce Robertson "the concept to give projects certainty is strange considering they haven't lived up to their promise. There is certainty for investors, but I'd also like a little certainty for taxpayers."

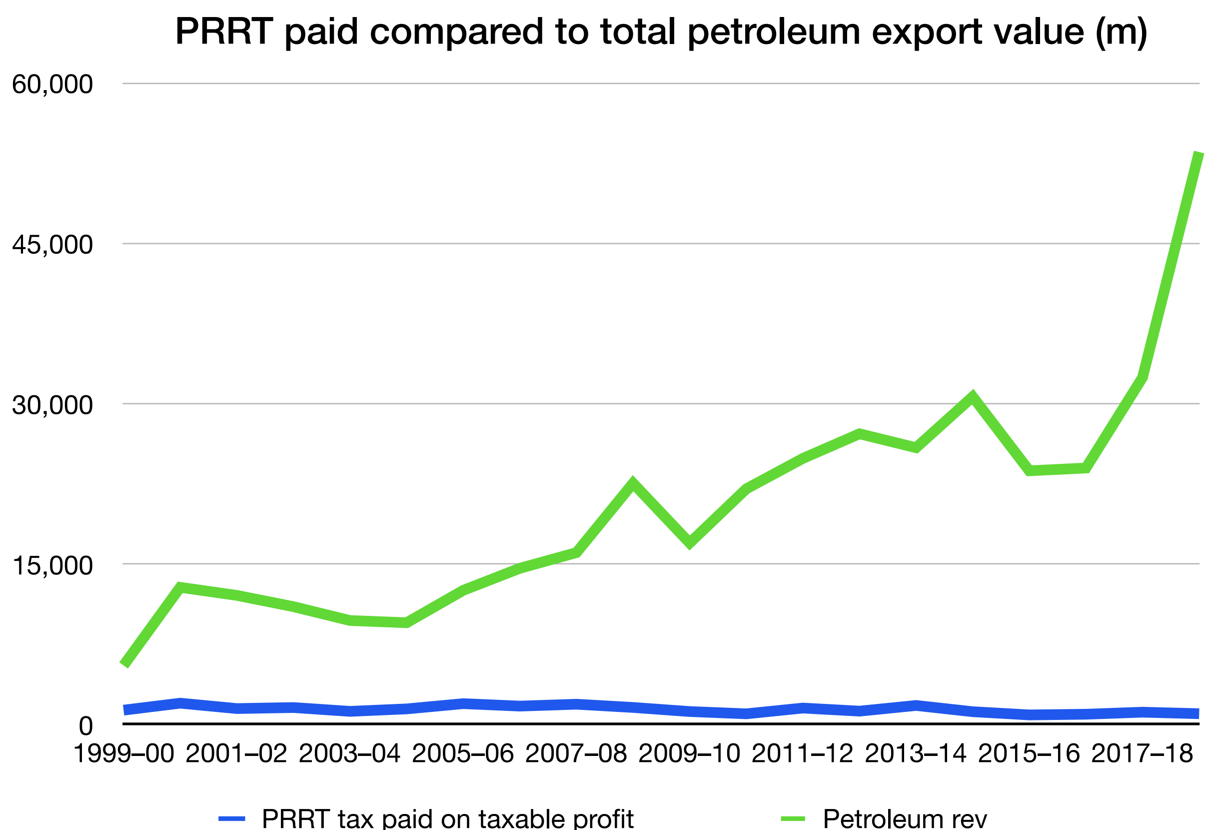

Figure 15: ATO Taxation statistics 2017–18, Table 5: GST and other taxes - Petroleum resource rent tax, Resources and Energy Quarterly Historical Data

Robertson labels the PRRT "a broken tax" claiming that "most countries with resources such as Australia build the wealth of their nation through royalties. These are non-renewable resources. There should be long term sovereign wealth funds for future generations because they're going to be left with huge clean up bills from the projects."

The PRRT has failed to build this sort of wealth. PRRT revenue has decreased since 1999, despite a 990% increase in petroleum export revenue. Figure 7 compares total PRRT paid from the years 1999 to 2018.

As you can see, approximately $300 million less PRRT was paid in 2018-19 compared to 1999. This is despite annual petroleum export revenues growing by almost $50 billion dollars.

Comparing Australia's petroleum royalty scheme with the next biggest LNG exporter, Qatar, demonstrates the degree to which Australia is losing out on one of our biggest exports.

Tax Justice Network Australia's submission to the Senate inquiry into corporate tax avoidance on 30 March 2017 claims that "no other industry is able to obtain its basic inputs for free", revealing that each year the Government of Qatar collects $26.6 billion in LNG royalties alone, not including taxes and proceeds from state owned companies. In 2020, Australia's LNG exports exceeded those of Qatar. Yet the Petroleum Resource Rent Tax (PRRT) will not generate any revenues from LNG for decades for many LNG projects. the Tax Justice Network submission reads.

Onshore petroleum royalties

Onshore petroleum royalties are overseen by the States and Territories like other royalties.

According to Bruce Robertson, onshore petroleum royalties "are complicated and based on the value of the gas at the well head, hence easily gamed by the companies at the government's expense."

The rate of royalty and method of measuring is hotly contested with the petroleum producers suing the government over the royalty collection. For example, the Australia Pacific LNG Consortium, including Origin Energy, won a landmark legal challenge against the Queensland government over the amount of royalties it pays from its $25 billion LNG export facility in Gladstone. The decision was made by the Supreme Court in Brisbane in May 2019 when Justice John Bond declared the royalty formula used for the APLNG project since 2015 was invalid.

Onshore petroleum royalties are often far less then state and territory governments predict.

In the 2014 Queensland budget petroleum royalties were expected to rise from $68m in 2013-14 to $660m by 2016-17 on the back of the boom in Coal Seam Gas (CSG). The result was a fraction of the expectation at just $98m in 2016-17 Royalty take by the Queensland government has been so disappointing that the rate was increased from 10% to 12.5% starting in 2019-20. The 2020-21 budget petroleum (including oil and gas) royalties were initially forecast to bring in $600m. The budget now only expects to make $308m

Taxes from petroleum producers have also been disappointing for the federal government. Far from the $1 billion in tax that British Gas's Katherine Tanna said her company would pay, in 2017-18 BG group paid no tax. BG has been taken over by Shell and it too paid no tax in 2017-18.

Gas producers, such as Exxon, Santos and Origin consistently pay little to zero tax despite the hundreds of billions of dollars of Australian gas which they have sold internationally.

Petroleum royalties, state by state

2020-21 state budget papers reveal that the states with significant onshore petroleum royalty revenues are Queensland, South Australia, and to a far lesser degree Western Australia the Northern Territory. Little petroleum is produced

onshore in NSW, and the NSW treasury does not provide information on what petroleum royalties have been received.

The Northern Territory treasury also do not publish historical data regarding their petroleum royalty revenue, so while we know there is some royalty revenue it is ultimately insignificant compared to that of Queensland and South Australia.

A total of $599.6 million in petroleum revenue was collected by state governments in 2019-20. Driven primarily by Queensland at 78% of the total, and South Australia at 20% of the total. Petroleum royalties had increased last year but lower than forecasted.

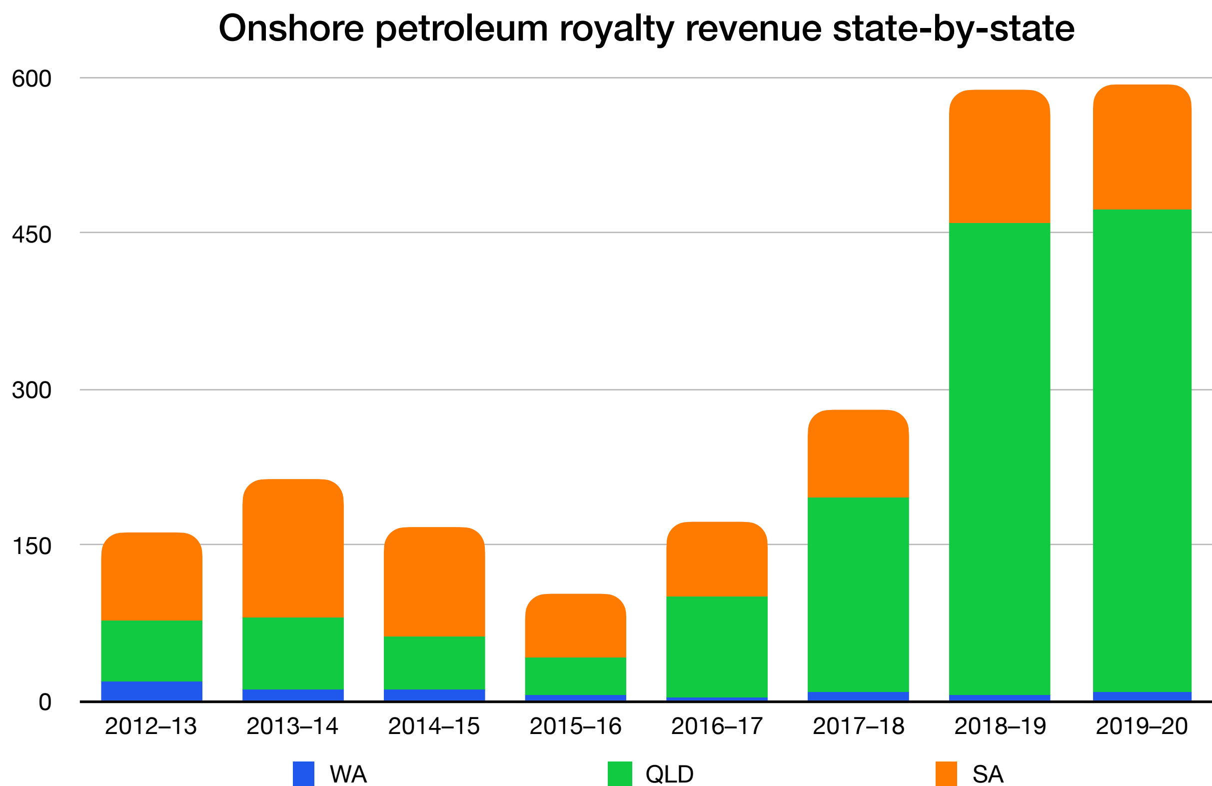

Figure 16: State budget papers

In 2019-20 revenue from petroleum and gas royalties in Queensland totalled $466 million, 2.7% higher than 2018-19 but 15.1% lower than forecast at the 2019-20 MYFER.

While LNG export volumes are expected to be largely unaffected by the COVID-19, the pandemic has reduced global oil prices. This will materially impact LNG export values in 2020-21 and Queensland petroleum and gas royalties are expected to decline by 34.0% in that year according to the Queensland treasury.

In South Australia, combined mineral, and petroleum royalties for the 2019-20 financial year totalled $312.0 million. This comprised $120.3 million of petroleum royalties.

In 2020-21, Northern Territory petroleum royalty revenues are estimated to be $6.6 million, a marginal increase from the 2019-20 outcome of $6.3 million. Petroleum royalties are levied at 10 per cent of the wellhead value of petroleum produced in the Territory. The Australian Institute's analysis of fossil fuel subsidies show that NT spent $100 million on onshore petroleum subsidies that same year.

Petroleum products have made $617 billion in exports since 2010. Of this, only $14.9 billion has been collected in royalties. This is an average royalty rate of 2% of export value.

If collected at metallurgical coals 9%, then petroleum royalties could have equalled $55.5 billion for the decade, a difference of $40.5 billion

Key Takeaways:

- The PRRT has failed to capture offshore petroleum revenue decreased by $300 million a year despite a 990% increase in petroleum export value over the previous two decades.
- Onshore petroleum royalties have grown substantially, yet still only capture a small amount of petroleum export revenue.
- As a group, petroleum products' royalty rate is as low as 2.4% of export value, the lowest of all significant Australian commodities.

Coal Royalties

The importance of coal's importance to Australian politics is undeniable. Mined in Queensland and NSW primarily, coal mining and the jobs it provides has proved to be an incredibly impactful wedge issue for the state political parties. The continued Adani coal mine debate in Queensland, to the 2021 Upper-Hunter by-election in NSW are examples of the political power coal miners have.

So, how much do these states benefit from their own coal mining activities?

The Resources and Energy Quarterly, produced by the Office of the Chief Economist provides historical data on saleable black coal production state-by-state.

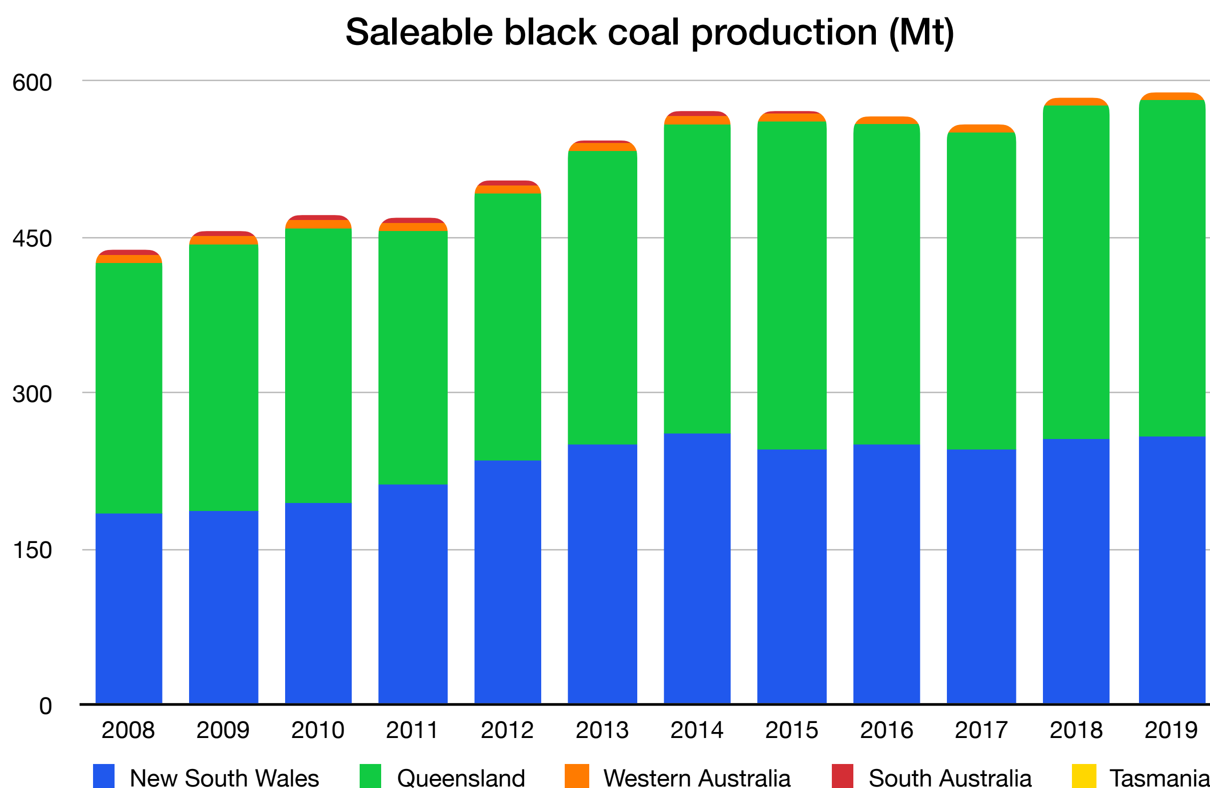

Figure 17: REQ Historical Data

NSW and Queensland make up the lions share of black coal production, with QLD producing 55% and NSW 44% of the total amount.

The type of coal produced differs between Queensland and NSW. In Queensland, thermal coal accounted for 13% of coal royalties in 2018, whereas metallurgical coal accounted for the remaining 87%.

NSW does not publish statistics for the breakdown of coal production by thermal or metallurgical coal, however Bruce Robertson from IEEFA estimates that NSW's coal production is the inverse of Queensland with 80% coming from thermal coal.

Coal accounts for 92% of all exports in NSW, and multiple state budget papers have revealed that 95% of NSW's royalties come from coal royalties.

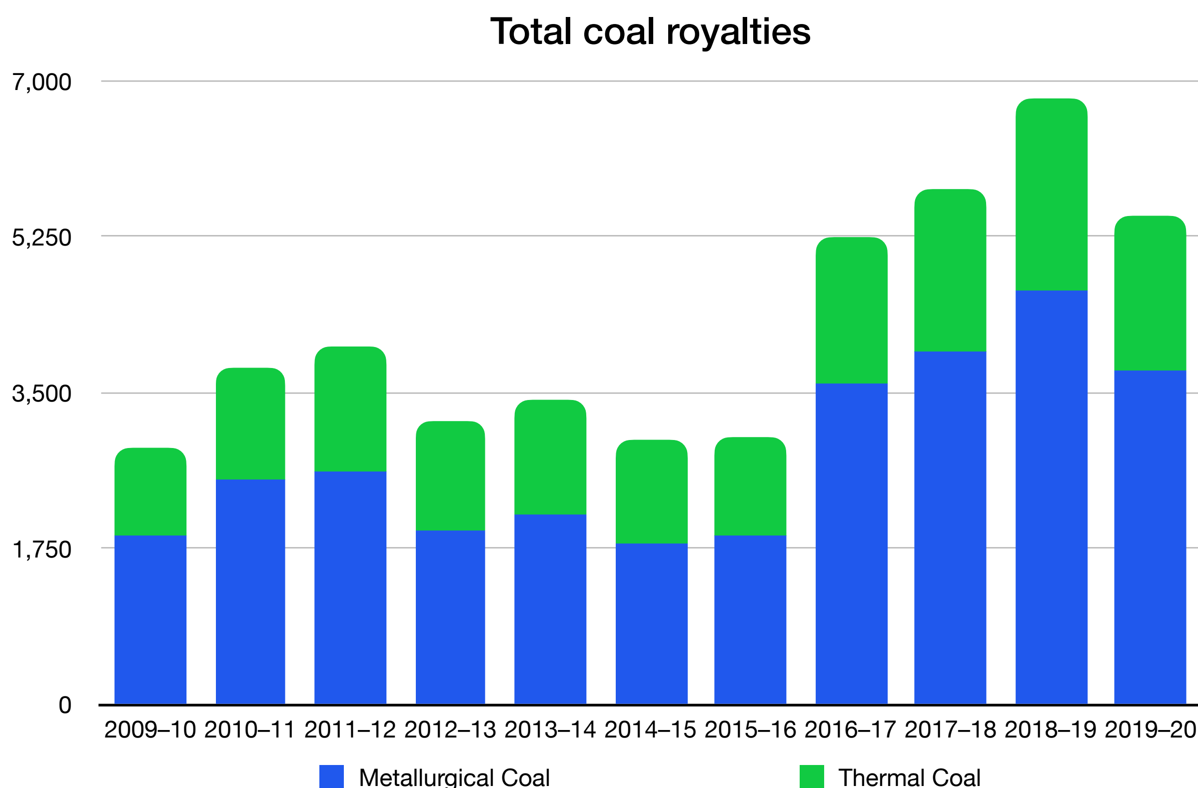

Figure 18: State Budget Papers, IEEFA estimates

Thermal coal is used in energy production and is facing significant competition from the increasing use of renewables, while metallurgical coal is used in steel production and remains essential to construction and manufacturing.

The NSW government acknowledge the issues with the state's reliance on thermal coal royalties in the 2020-21 state budget paper acknowledges that "Demand for coal is shifting as the global economy transitions away from fossil fuels… sustained weakness in the global coal market has reduced expected mining royalty revenue by $1.4 billion over the four years to 2023-24."

Figure 18 shows the combined annual coal royalties received by NSW and QLD broken down by coal type. As you can see metallurgical coal has consistently provided a far greater proportion of coal royalties over the past decade.

Of the $46.4 billion in coal royalties over the past decade, metallurgical coal has accounted for 66%, or $30.6 billion, while thermal coal has provided 34% or $15.7 billion in royalty revenue.

In 2020, royalty payments fell for the two big coal producing states, NSW, and QLD. In NSW, total royalties, which are significantly reliant on thermal coal production, fell 24.3% to 1.6 billion. In QLD, coal royalties fell 15% to $4.5 billion.

Key Takeaways

- Coal royalties, particularly thermal coal, are falling due to decreased international demand for coal.
- Metallurgical coal has accounted for two thirds of coal royalties, thermal one third, over the past decade.

Iron Ore

Iron Ore is Australians biggest single commodity export, accounting for a third of total commodity revenue, at $102 billion in 2019 and a similar percentage of total royalty revenue at $7.6 billion. Roughly 99% of all iron ore produced in Australia is produced in Western Australia.

Over the past decade, iron ore export value and royalties have remained steadily linked, suggesting that there is high compliance with Western Australia's royalty regime, averaging 7% of total export value, as seen in figure 19 below

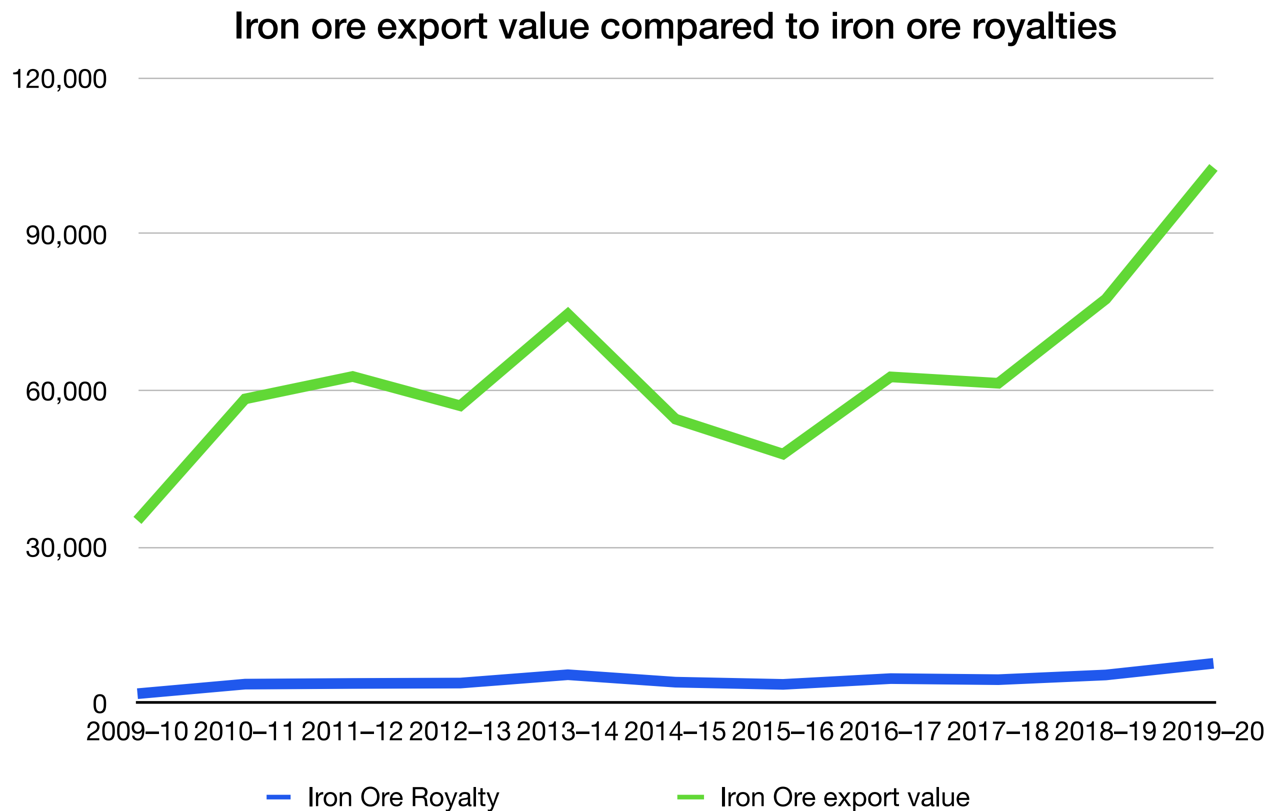

Figure 19: WA State Budget Papers, REQ Historical data

Iron Ore Royalty Scheme

In Western Australia, the iron ore royalty rate is calculated at 7.5% with allowable deductions.

While Western Australia's iron ore royalty scheme is higher than the second largest iron ore producer Brazil, which as of 2017 have a royalty rate of 3.5%, Australian's are still missing out on significant portion of revenue which could reasonably be captured by higher royalty rates such as those seen in Queensland.

Of the almost $700 billion in iron ore exports which have left Australia since 2009, WA has captured $48 billion in royalties, just under 7%.

Interstate Comparison

IRON ORE ROYALTY RATES

	WA	NSW	VIC	QLD	SA	TAS	ACT	NT
Royalty Rate	**Beneficiated:** 5.0% **Direct Shipping:** 7.5%	4.0% of the ex-mine value (value less allowable deductions)	2.75% of net market value	$1.25 per tonne plus 2.5% of value above $100 per tonne[(a)]	5.0% of net market value[(b)]	1.9% on net sales plus profit royalty up to maximum of 5.35% of net sales[(c)]	N/A	Greater of 20.0% of net value (less $10,000) or 1% to 2.5% of gross revenue[(d)]
Royalty System	Ad valorem	Ad valorem	Ad valorem	Hybrid	Ad valorem	Hybrid		Hybrid

(a) A discount of 20% is available if the mineral is processed in Queensland and the metal produced is at least 95% iron ore.

(b) New mines may qualify for a concessional rate of 2.0% for the first five years. This concession will not be available for applications received from 1 July 2020.

(c) A 20% rebate is available for the production of a metal in Tasmania.

(d) Royalty will only apply when a miner's annual gross production revenue exceeds $500,000. The rate applying to gross production revenue is 1% per annum in a mine's first royalty year, 2% in a mine's second royalty year, and 2.5% in subsequent years.

Changes to Royalty Rates and Concessions

From 1 July 2019 until 31 December 2019, rebates of up to 25% (previously 50%) of royalty payments are available to eligible magnetite producers who had qualified for the original rebate scheme that ended in April 2016.

If iron ore royalties were put at the rates of at which metallurgical coal is levied, roughly 9% of export value, then Western Australia would have seen an additional $14 billion over the past decade. This is not to say that largely Queensland's coal royalty rate is a benchmark, but merely that Australian governments are seeing billions flow overseas due to a lack of political will surrounding increasing royalty rates to reasonable levels.

Conclusion

Very little has been written, studied, or investigated regarding Australia's various royalty schemes. As we see in finalising this report, the largely foreign owned mining companies operating in Australia have been able to extract and sell Australia's finite resources at an incredible mark-up while convincing us and our policy makers that their operations are vital to the working of our economy.

If handled correctly, robust, and fair royalty schemes could have provided Australia and Australians with continued generations wealth used to address the inequalities we see in our society.

This vision has been realised in Norway, with its Government Pension Fund, established in 1990 and built of the wealth created by the country's significant petroleum reserves it now consists of over US$1 trillion in assets.

Other resource rich countries such as Saudi Arabia, Singapore, Kuwait, and Qatar have established their own sovereign wealth funds, which have by-and-large captured a significant amount of surplus revenue produced by their mining sectors.

[1] Credit for this analysis goes to Peter Milne from Boiling Cold.