ANALYSIS OF QUEENSLAND'S NEW COAL ROYALTY REGIME

Summary of a report commissioned by the Queensland Resources Council

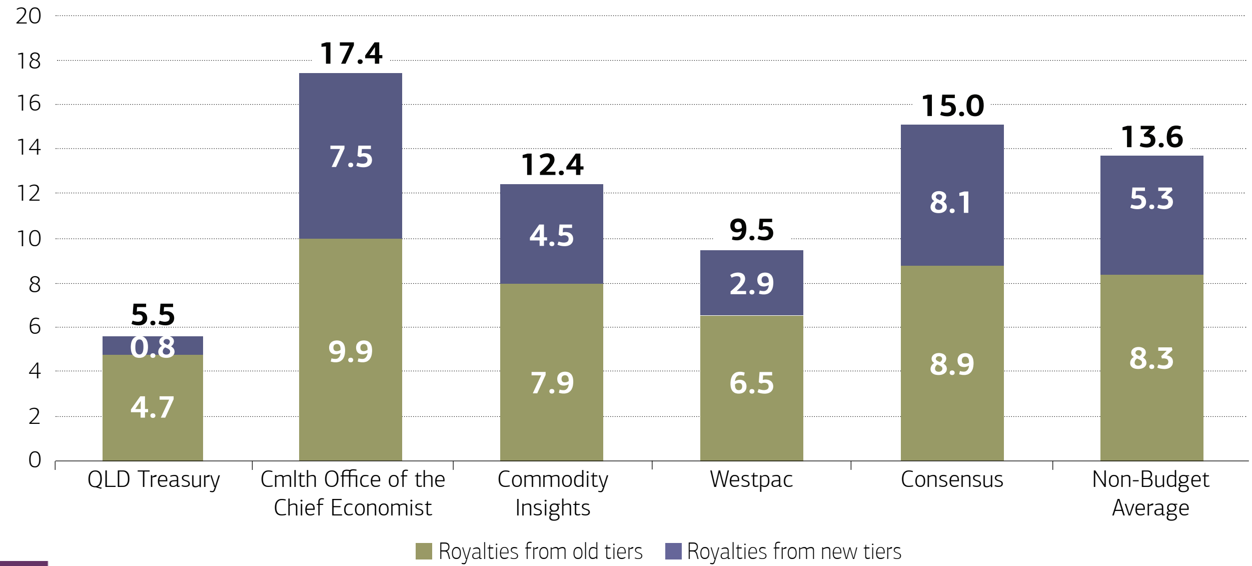
On the 21st June 2022, the Queensland Government announced an amendment to the state's coal export royalty structure, with effect on 1st July 2022. The new royalty structure added three new tiers to the previous system with significantly higher royalty rates for these tiers. Effectively, any export coal with a price of $175 or more would incur a much higher royalty payment under the new structure (Note: all dollar values in this report are in Australian dollars unless otherwise specified).

Queensland is a significant exporter of coal to seaborne markets, exporting a total of 200 million tonnes in 2021, and is also the premier coal-producing region in the world for metallurgical coal. Since 2000, Queensland coal exports have increased from 105 million tonnes to 200 million tonnes in 2021. If Queensland were a country, it would be the third-largest exporter of coal in the world.

With the introduction of a new maximum royalty rate of 40%, Queensland has become the highest royalty jurisdiction in the world, with a maximum royalty rate 43% higher than the nearest (which is 28%). This is nearly four times higher than the global average of maximum rates, making Queensland the rank outlier in terms of coal royalty rates. From a metallurgical coal perspective, the maximum rate in Queensland is now 2.7 times higher than the nearest competitor and almost five times the global average.

At the introduction of the new coal royalty regime, the Queensland Government (via Queensland Treasury) estimated that the new royalties would raise an additional $800 million in revenue over the 2022-23 period and then an additional $100 million each year over the subsequent three years to 2025-26. However, these forecasts are based on extremely conservative coal price forecasts. The Queensland Budget estimate of $0.8 billion revenue raised under the new regime for 2022-23 compares to a range of $2.9-7.5 billion revenue from other forecasters. Furthermore, as charted below, the Queensland Treasury's estimate of total coal royalties in 2022-23 is less than half ($5.5bn vs $9.5bn) of the next most conservative forecast forecasts by Westpac (which are at the lower end of the consensus range).

Royalty Revenue Forecasts (2022-2023), A$bn



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Not only are Queensland Treasury understating the impact of the new royalty regime, but their forecasts for revenue collected under the previous regime are also extremely low and a clear outlier relative to other projections. This pattern is repeated for 2023-24 also.

If other price forecasts (from highly credible sources) are applied, the royalty revenue forecast to be raised in 2022-23 is between $6.9-11.9 billion higher than the Treasury forecast, and in 2023-24 is between $3.5-4.6 billion higher than the Treasury forecast.

The Queensland Treasury hard coking coal (HCC) price forecast in 2023-24 (US$160/t) is below the long-term actual HCC price (US$185/t). However, it is unclear why Treasury believe that coal prices will fall considerably below their long-term average, particularly in an environment of high inflation and constrained supply growth.

Aside from coal price forecasts, the other key variable impacting royalty revenue forecasts is the AUD:USD exchange rate, due to international coal markets trading in USD but the royalty being calculated in AUD. Treasury appears to apply a very conservative (i.e., favourable) exchange rate to calculate royalty revenues. As a result, under alternative exchange rate forecasts, royalty revenue forecasts increase considerably for 2022-23, with total royalty revenues increasing 31-37% depending upon the forecaster and 48-53% for the 2023-24 period.

The imposition of the new royalty regime will increase cost structures across the Queensland coal export sector. Under the new royalty regime, the metallurgical coal cost curve rises dramatically, adding on average $30.10/t if Consensus price forecasts are applied, representing an additional cost impost of 18.2% across the industry. In contrast, the average cost for thermal coal rises almost $9/t, representing an average cost impost of 6.7%.

In conclusion, the new royalty regime in Queensland makes the state a clear outlier in terms of the maximum rates imposed on exporters. The royalty revenue forecasts from Treasury are based on extremely conservative (and unrealistic, in our opinion) coal price forecasts. As a result, they massively understate the revenue collection by the government and the cost impost placed on the sector. The royalties also clearly reduce the competitiveness of the Queensland coal export sector relative to its competitors by sharply increasing the cost structure.

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