

Coal royalties in NSW

They don't fund regional towns

Coal royalties are a tiny part of NSW Government revenue. Over the last decade, they have averaged only 2.4% of NSW Government revenue. Coal royalties do little to fund regional communities, schools, hospitals, teachers, and nurses.

Discussion paper

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Summary

New South Wales is one of the largest coal exporters in the world. Coal companies and politicians frequently claim that coal royalties—the price paid by mining companies to use coal, a publicly-owned resource—are very important for the NSW economy, funding essential services and infrastructure across the state.

In reality, however, royalties paid by coal mining companies make up a trivial portion of the NSW budget. They comprised only 4.2% of total NSW Government revenue in 2022–23, and this was an unusually high amount driven by the global energy price spikes associated with the Russian invasion of Ukraine. From 2013–14 to 2022–23, royalties averaged just 2.4% of government revenue.

The coal industry likes to claim that coal royalties somehow directly fund specific services like schools and hospitals. However, like most NSW Government revenue, coal royalty income is not allocated to fund specific programs or regions. It is grouped with the rest of Government revenue, meaning its contribution to the funding of any given program is equivalent to the overall share of coal royalties in the state's budget. Over the last decade, that overall share has been, on average, 2.4%. This means that insofar as coal royalties can be considered to have “funded” anything in particular, they have funded only 2.4% of each schoolteacher, nurse, school, or hospital in NSW.

The NSW Government is attempting to link coal royalty revenue directly to regional economic development in coal-producing regions through the Royalties for Rejuvenation Fund. However, the Fund has not resulted in a single dollar spent on regional development and has a current balance of only \$78 million.

Recent increases to royalty rates are expected to have an insignificant effect on total NSW Government revenue, increasing the share of royalties in total revenue by only 0.28%. By contrast, the extensive changes to royalty rates introduced by Queensland in 2022 demonstrate that it is possible for reforms to generate significant revenue growth for the public without changing the willingness of the mining industry to make investments.

In addition to not receiving a fair return for use of their resources, the NSW public is being forced to bear the costs of environmental and health damages caused by coal mining. These come in the form of emissions costs, health costs, and the costs of rehabilitating coal mines. To date, NSW has not rehabilitated a single major open-cut coal mine. Security deposits held by the NSW Government are insufficient to cover the costs of rehabilitating all mines in NSW, leaving the cost to fall on the taxpayer.

Introduction

The coal industry is a small part of the economy of New South Wales, and the royalties paid by coal mining companies make up a trivial portion of the state's budget. Despite this, politicians and lobby groups claim the opposite. For example, NSW Premier Chris Minns said in 2023:

I don't support [a coal port protest], I'd rather it didn't happen, we sold \$40 billion worth of coal last year and we need it if we're going to transition our economy to renewable energies.¹

Minister for Natural Resources, Courtney Houssos, said during Budget Estimates in 2024:

I am a vocal supporter of our coal industry... These are important exports that are very important for our State's economy and are bringing in valuable royalties for our State as well.²

Liberal and National politicians make similar claims. For example, former Deputy Premier John Barilaro said:

[Coal] is the state's largest export commodity, and is a major source of revenue, which the NSW Government uses to help fund essential services and infrastructure such as schools, hospitals, roads and transport.³

Naturally, the lobby group NSW Mining, claims that the coal industry:

... pays billions of dollars in mining royalties to the NSW Government that contribute to the funding of essential infrastructure and services, like roads, hospitals, schools and police.⁴

The aim of this paper is to explore data on NSW Government revenue and coal royalties, and to place these in context.

¹ Lewis (2023) *Two protesters fined after more than 100 climate change protesters charged after blockade at Port of Newcastle*, <https://www.abc.net.au/news/2023-11-27/nsw-100-port-of-newcastle-protesters-arrested-climate-police/103153354>

² Houssos (5 September 2024) "Finance, Domestic Manufacturing and Government Procurement, Natural Resources", *Budget Estimates*, p 17
[https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20\(Houssos\)%20-%20CORRECTED.pdf](https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20(Houssos)%20-%20CORRECTED.pdf)

³ NSW Government (2020) *Strategic Statement on Coal Exploration and Mining in NSW*, <https://www.resourcesregulator.nsw.gov.au/sites/default/files/2022-11/strategic-statement-on-coal-exploration-and-mining-in-nsw.pdf>

⁴ NSW Mining (2024) *Our Economic Contribution*, <https://nswmining.com.au/mining-in-nsw/our-economic-contribution/>

The coal industry in NSW

Australia is the world's largest exporter of coal. Most of this coal is mined in—and exported from—NSW and Queensland. Together, these states exported 338 million tonnes of coal in 2023–24, worth \$127 billion.⁵ Coal is Australia's second-largest export by value, behind iron ore.

The NSW coal industry makes up just under half of the Australian coal industry and is responsible for half of Australia's annual coal exports. There are 36 operating coal mines in NSW, employing just over 17,700 full time equivalent (FTE) workers.⁶ Of the rest of the Australian coal industry, the overwhelming majority is located in Queensland, with relatively small industries in Victoria and Western Australia.

The NSW coal industry sold 167 million tonnes of coal in 2022–23. Almost all this coal (86%, or 144 million tonnes) was exported, with a value of around \$57 billion. This effectively makes NSW the world's third-largest coal exporter, behind Queensland and Indonesia.⁷

The coal mined in NSW is mainly thermal coal, which is used for electricity generation domestically and overseas. NSW's thermal coal exports represent 74% of total NSW coal production, and 68% of Australia's thermal coal exports.⁸

A small percentage of the coal mined in NSW is used in steel production. This higher quality coal is known as metallurgical coal and is sometimes also referred to as 'met' or coking coal. The quality of NSW's metallurgical coal is relatively poor; it is referred to as 'semi-soft' coking coal or "pulverised coal injection" (PCI) coal. PCI coal is "basically high-quality thermal coal".⁹

By contrast, Queensland exports primarily higher quality metallurgical coal. Close to 70% of Queensland coal exports consist of metallurgical coal, representing 67% of Australia's total metallurgical coal exports.¹⁰ Figure 1 summarises the structure of the coal industry in

⁵ DISR (2024) *Resources and energy quarterly: June 2024*, <https://www.industry.gov.au/publications/resources-and-energy-quarterly-june-2024>

⁶ Coal Services (2024) *NSW coal industry statistics*, <https://www.coalservices.com.au/statistics/>; ABS (2024) *Labour Force, Australia, Detailed*, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/>

⁷ Tradeimex (2024) *Coal Exports Statistics 2023*, <https://www.tradeimex.in/blogs/coal-exports-statistics>

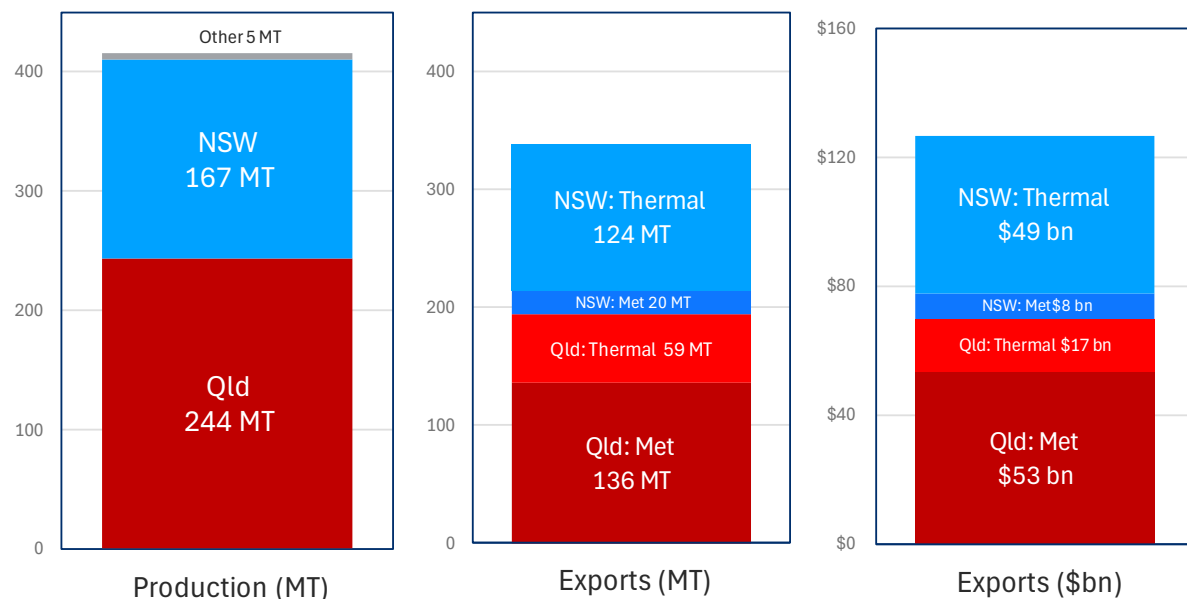
⁸ DISR (2024)

⁹ Minerals Council of Australia (2021) *Best in class: Australia's bulk commodity giants*, https://minerals.org.au/wp-content/uploads/2023/01/Best-in-Class-Australian-Metallurgical-Coal_7-May-2021.pdf

¹⁰ Queensland Department of Resources (2024) *Coal industry review statistical tables*, <https://www.data.qld.gov.au/dataset/coal-industry-review-statistical-tables>

Australia and NSW, excluding brown coal production in Victoria (for which data is not readily available).

Figure 1: Coal production and exports in Australia and NSW, 2022–23



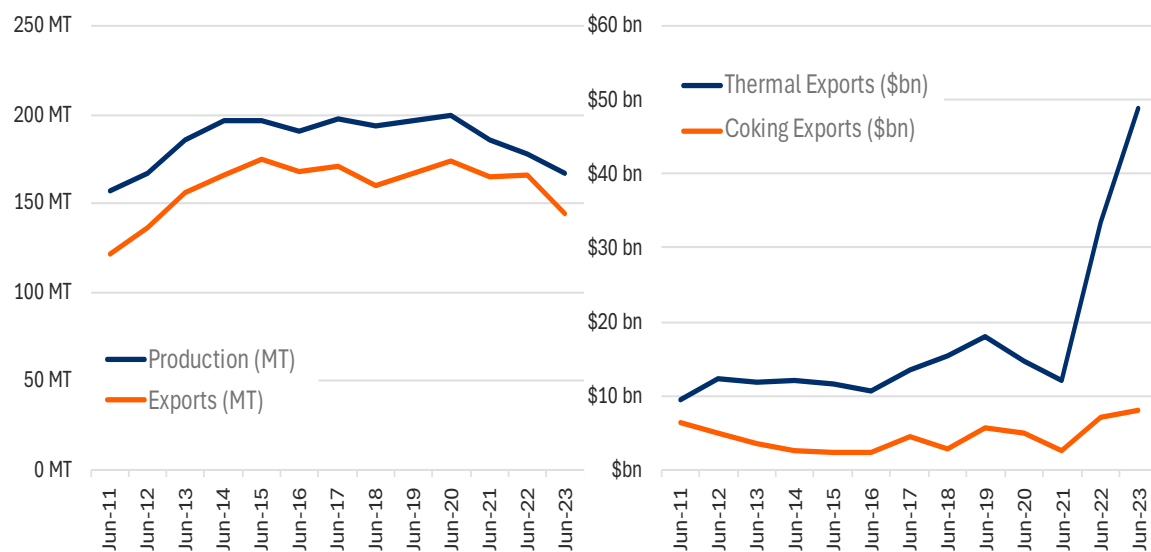
Source: DISR (2024); Queensland Department of Resources (2024)

The distinction between the production and export profiles of the NSW and Queensland coal industries is important because the two industries are likely to have different future outlooks. Demand for thermal coal is likely to experience a more rapid downturn than demand for metallurgical coal as coal-fired electricity generation decreases in response to global emissions reduction targets. While metallurgical coal is also a fossil fuel and must be phased out to meet emissions reductions targets, the decarbonisation of steelmaking is less advanced than that of electricity generation, so demand for metallurgical coal is likely to decline relatively slowly. Because of this, some mines present themselves as metallurgical coal mines when they are in fact largely thermal and PCI coal mines.¹¹

Over the past decade, production volumes in the NSW coal industry have remained relatively stable since peaking in 2014, with a gradual decline since 2021. However, fluctuations in global coal prices, particularly following the Russian invasion of Ukraine, have driven the recent surge in export revenues for thermal coal (Figure 2).

¹¹ Campbell (2023) *You must be coking! Are new coalmines OK if they help make steel?*, <https://australiainstitute.org.au/post/you-must-be-coking-are-new-coalmines-ok-if-they-help-make-steel/>

Figure 2: Trends in NSW coal production (MT) and export values (\$bn)



Source: DISR (2024) and Department of Resources- Qld (2024)

Figure 2 shows that the value of coal exports from NSW reached \$57 billion in 2022–23. This represented an increase of \$42 billion from 2020–21 and came despite production declining by 10%. This dramatic increase in revenues meant that the NSW coal industry enjoyed a pre-tax windfall of \$38.8 billion in 2022–23 alone.

However, little of this windfall was returned to taxpayers: some of the major companies in the NSW coal industry, such as Peabody and Centennial, paid no company tax in 2022–23.¹² In addition, the industry pays a surprisingly small amount of royalties for the coal from which it has been able to reap such rich rewards.

¹² ATO (2024) 2022-23 Report of Entity Tax Information, <https://data.gov.au/data/dataset/corporate-transparency>

Royalties on coal in NSW

This section takes an in-depth look at coal royalties in NSW, including their functional purpose; historical patterns; projected growth; what they do or do not fund; and the impacts of the recent royalty rate increase.

WHAT ARE ROYALTIES?

Royalties are payments made to the owners of various types of assets—including natural resources, property, franchises, copyrighted works, and patents—for the ongoing use of such an asset.¹³ In the case of natural resources like coal, a royalty payment represents the price that a company pays for a raw input that it eventually sells on for a profit.

According to NSW Resources, all coal resources are publicly owned.¹⁴ Therefore, royalties paid for coal mined in NSW are payments made to the NSW public, the owners of the coal resources.

Importantly, despite being payments made to the government, royalties are not taxes. They are essentially a purchase price paid for an asset. If a person was to purchase, say, a piece of land, no one would consider the price they paid for that land to be a tax—even if the person happened to buy the land from the government.

Accordingly, royalties are not treated as taxes by the NSW Government. Mining royalties are not contributions to total taxation revenue; instead, they go into consolidated revenue to form part of the annual State Treasury budget process.¹⁵ In other words, they are considered part of the NSW Government's total revenue, but not part of its total taxation revenue.¹⁶

While coal, gold, silver, and uranium are always publicly owned in NSW, other minerals can be privately owned.¹⁷ Most of the royalties on privately owned minerals (88%) are returned to their owners. This highlights a key difference between a royalty and a tax. A tax would never be directed toward private owners or individuals. Royalties are not a form of taxation.

¹³ Investopedia (2024) *What Is a Royalty?* <https://www.investopedia.com/terms/r/royalty.asp>

¹⁴ NSW Resources (2024) *Paying royalties*, <https://meg.resourcesregulator.nsw.gov.au/mining-and-exploration/compliance-and-reporting/paying-royalties>

¹⁵ NSW Resources (2024)

¹⁶ See for example Table 4.1, NSW Government (2024) *NSW Budget 2024-25 — Budget Paper 1*, <https://www.budget.nsw.gov.au/>

¹⁷ NSW Resources (2024)

COAL ROYALTIES IN NSW

In NSW, royalties for minerals are levied under the *Mining Act 1992* for coal and non-coal minerals and the *Petroleum Onshore Act 1991* for oil and petroleum resources.¹⁸ The royalty arrangements for coal, non-coal minerals, and petroleum are all different.

Coal royalties in NSW are charged at a percentage of the dollar value of production, minus allowable deductions. This type of royalty is known as an *ad valorem* royalty. The rate of the royalty depends on the type of coal mine (underground or open cut) and how far below the surface mining occurs.

Coal royalty rates were recently increased by 2.6%, with the increase taking effect from 1 July 2024. Table 1 outlines the current coal royalty rates in NSW.

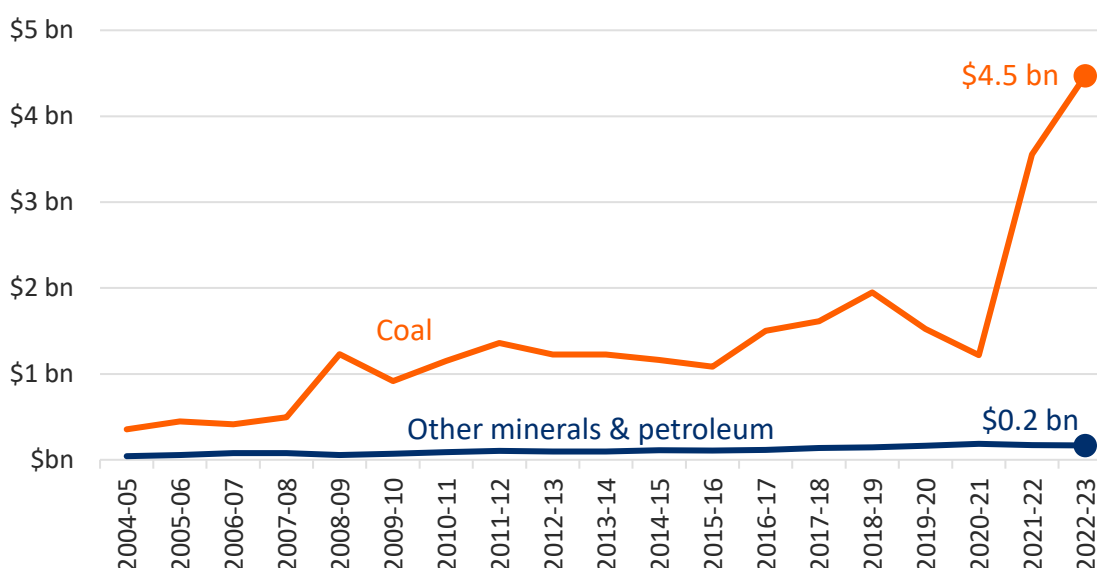
Table 1: Current coal royalty rates in New South Wales

Type of coal mine	Rate (%)
Underground: below 400m	8.8%
Underground: less than 400m	9.8%
Open cut	10.8%

Source: NSW Resources (2024)

Coal royalties comprise the vast majority of royalty revenue collected in NSW, with other minerals and petroleum royalties comprising only a few per cent of royalty income. Over the last decade, total coal royalties were between \$1 billion and \$2 billion a year. However, in 2022–23, this figure jumped to \$4.5 billion in royalties, as shown in Figure 3.

Figure 3: Growth in coal and other royalties since 2004–5, NSW, \$ billion



Source: NSW Resources (2024) *Paying royalties*, <https://meg.resourcesregulator.nsw.gov.au/mining-and-exploration/compliance-and-reporting/paying-royalties>

¹⁸ NSW Resources (2024) *Paying royalties*, <https://meg.resourcesregulator.nsw.gov.au/mining-and-exploration/compliance-and-reporting/paying-royalties>

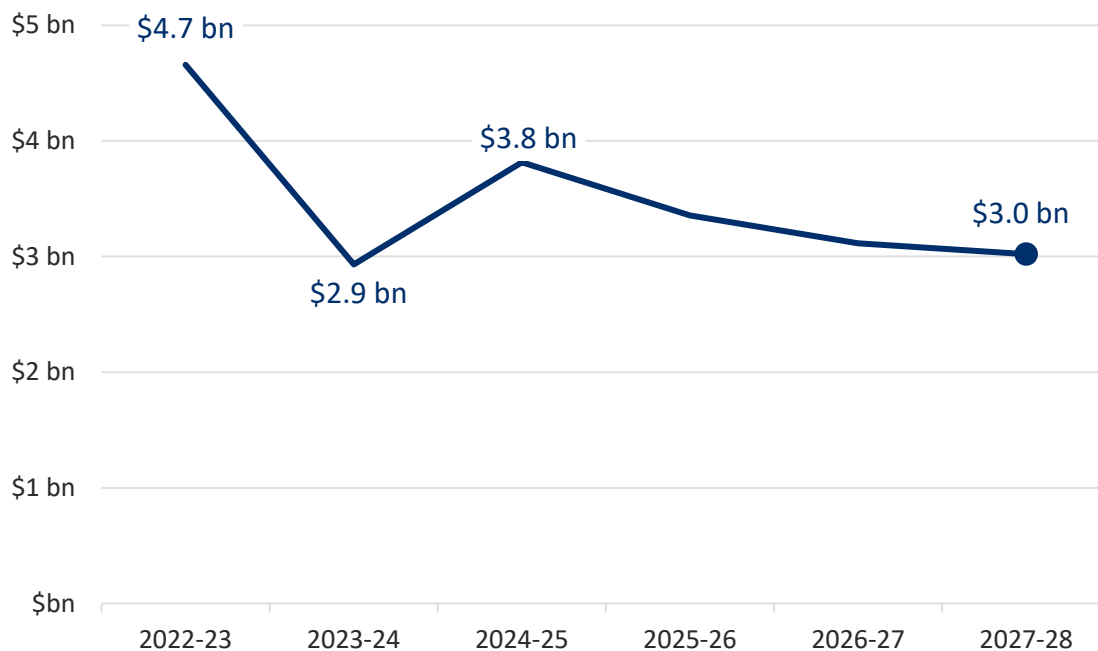
Over the past 20 years, coal royalties have grown with both increasing coal volumes and higher export prices, with volatility according to swings in global coal prices. In 2004–5, coal royalties represented 89% of all royalties in NSW. This rose to 96% in 2022–23.

Figure 3 shows the extraordinary growth in royalty income since 2020–21. This increase has been driven by global energy price spikes associated with the Russian invasion of Ukraine. Thermal coal prices more than quadrupled from \$A82 a tonne in 2020–21 to \$A366 a tonne in 2022–23.¹⁹ Over this same period, NSW export tonnages remained at or below their ten-year average of 166MT a year.

Figure 3 also highlights that for most of the last 20 years, despite claims from NSW Mining, the coal industry has not generated “billions of dollars in mining royalties”.²⁰ For most of the time period coal royalties were less than \$1.5 billion a year, and only since the spike in global energy prices have they increased to over \$2 billion a year.

These relatively high royalty levels are unlikely to last. In the most recent NSW budget, royalty revenue is forecast to decline significantly to 2027–28 with the easing of global coal prices and a stable production outlook. While the NSW budget papers do not publish individual forecasts for coal and other royalties, the total royalty revenue projection to 2027–28 is shown in Figure 4.

Figure 4: Projected decline in total NSW royalty revenue to 2027–28



Source: NSW Government (2024) *NSW Budget 2024-25 — Budget Paper 1*, <https://www.budget.nsw.gov.au/>

¹⁹ DISR (2024)

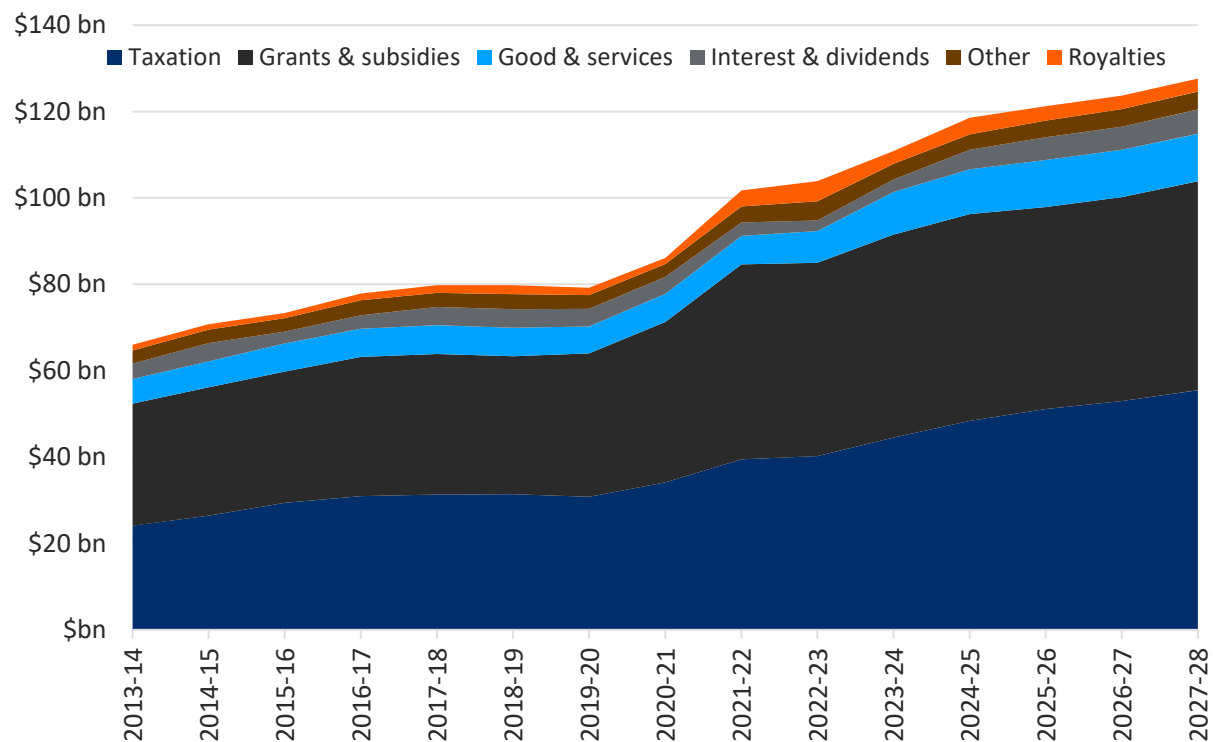
²⁰ NSW Mining (2024) *Our Economic Contribution*, <https://nswmining.com.au/mining-in-nsw/our-economic-contribution/>

Figure 4 shows royalty revenue is expected to fall 37% to \$2.9 billion in 2023–24 before stabilising at an average of \$3.3 billion a year to 2027–28. This is higher than the historic trend, reflecting in part the recent increase in the royalty rates (discussed in more detail in the following sections).

Despite the recent growth in royalty revenue from the coal industry, royalty income remains a small part of total NSW Government revenue. According to NSW budget papers, the total revenue collected across taxation, royalties, Federal Government grants, and other sources, amounted to \$106 billion in 2022–23.²¹ Coal royalties of \$4.5 billion represent 4.2% of total NSW Government revenue in 2022–23. This contribution to total revenue is a record high, caused by recent growth in coal prices. Royalties are projected to decline to \$3 billion a year by 2027–28; if so, royalties will average only 2.7% of total NSW Government revenues.

Figure 5 breaks down NSW Government revenue by source, both historically (over the period 2013–14 to 2022–23) and over the budget projection period to 2027–28. The data highlights that, as with all states, the NSW Government’s revenue comes largely from Federal Government grants and taxation revenue (mainly stamp duties), not royalties.

Figure 5: NSW Government revenue by source, 2013–14 to 2027–28



Source: NSW Government (2024); ABS (2024c) *Government Finance Statistics, Australia*, <https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-australia/>

²¹ NSW Government (2024) *NSW Budget 2024-25 – Budget Papers*, <https://www.budget.nsw.gov.au/2024-25/budget-papers>

That data clearly indicates that royalties make a small contribution to the NSW budget, and that the NSW Government is far from reliant on them to fund their services. Over the historical period 2013–14 to 2022–23, royalties averaged just 2.4% of government revenue. Over the projection period to 2027–28, they average 2.7% of total revenue.

On a per capita basis, the NSW Government collects \$4,930 per person in NSW taxation and receives \$5,490 per person in grants and subsidies each year, mainly from the Federal Government. In comparison, the NSW Government collects \$548 per person in coal royalties. This data is shown in Figure 6.

Figure 6: NSW Government revenue per person by source, 2022–23



Source: NSW Government (2024) and NSW Resources (2024)

WHAT DO ROYALTIES FUND?

In NSW, and Australia as a whole, specific government revenue streams are rarely used to fund specific programs or geographical regions. It was only in the early history of the Australian taxation system that specific taxes were earmarked for specific spending programs.²² Today, both government revenues and government spending are transacted mostly through a single account known as the consolidated revenue fund.

NSW Resources makes it clear that royalty income is treated this way:

Royalties from state-owned minerals go into consolidated revenue and are allocated for the provision of services to the people of NSW through the budget process.²³

This means coal royalties do not fund individual schools, hospitals, teachers, or nurses. The coal royalty revenue is simply deposited into the same account as all other tax and revenue sources. All government spending then comes from this account based on the various spending decisions made by state governments.

As only a relatively small portion of revenue comes from royalties, the exact amount of royalty income received does very little to determine total spending or influence spending decisions. It is also likely that even if royalty revenue were a significantly larger share of total revenue, its volatile nature and potential impact on federal funding, would minimize its influence on long-run spending decisions.²⁴

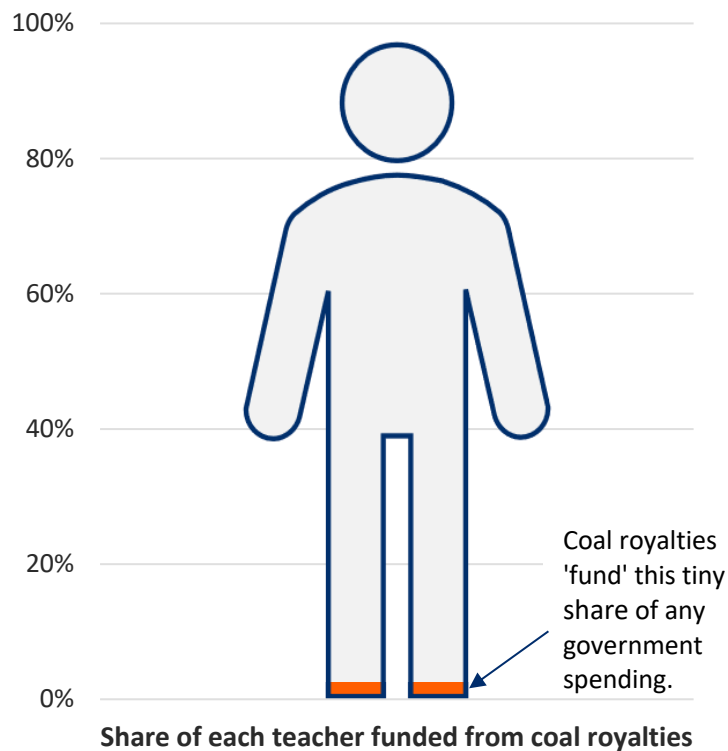
Therefore, the share of schoolteachers, hospitals or any regional programs that are funded by coal royalty revenue is the same as the share of coal royalties in total NSW Government revenue. In this case, coal royalties fund on average only 2.4% of each schoolteacher, nurse, school, or hospital. This is clearly not very much, as illustrated in Figure 7.

²² Treasury (2006) *A brief history of Australia's tax system*, <https://treasury.gov.au/publication/economic-roundup-winter-2006/a-brief-history-of-australias-tax-system>

²³ NSW Resources (2024)

²⁴ Commonwealth Grants Commission (2024) *About GST Distribution*, <https://www.cgc.gov.au/about-gst-distribution>

Figure 7: Share of each schoolteacher 'funded' from coal royalties, 2022–23



Source: NSW Government (2024); NSW Resources (2024)

For argument's sake, assuming that the \$103 billion in annual NSW Government spending is spread equally across all 8.2 million citizens of the state, coal royalties would fund Government spending for only 4.2% of the population, or around 350,000 citizens. This figure is based on the current record high royalty revenue. On longer term averages, royalties would only fund about 2.4% of the population, or around 188,000 citizens.

Coincidentally the major coal mining area of the Hunter Valley, including the local government areas (LGAs) of Singleton, Maitland, and Cessnock, have a combined population of 188,880. It could therefore be said that royalties do hypothetically 'fund' NSW Government spending in this region.²⁵ However, this contradicts the idea that coal-producing regions generate substantially more government revenue than other regions and therefore deserve to receive a greater share of Government spending in return—coal generates just enough royalty revenue to fund the coal-producing Hunter region.

Moreover, there are continued claims of under-provision of services in the Hunter regions.²⁶ This suggests that although coal royalties generate more government revenue when coal

²⁵ ABS (2024) *Regional population*, <https://www.abs.gov.au/statistics/people/population/regional-population/>

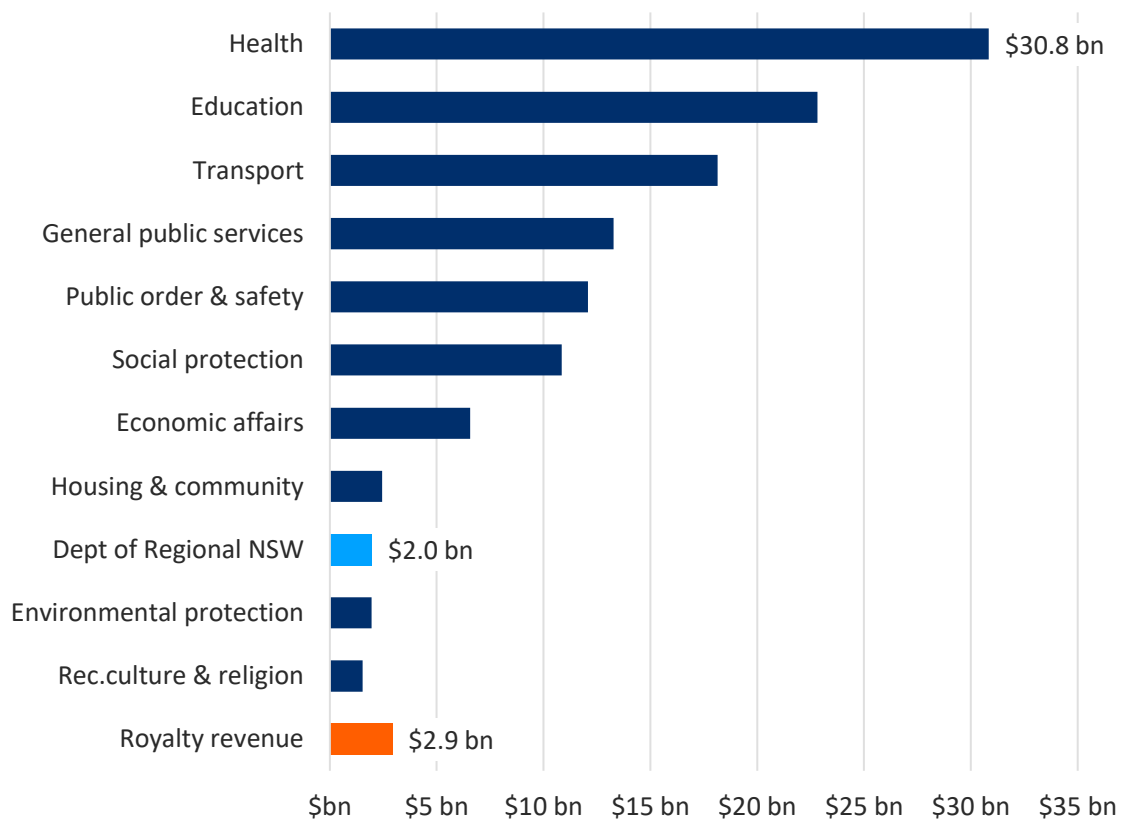
²⁶ NSW Parliament Legislative Council. Portfolio Committee No. 2 (2022) *Health outcomes and access to health and hospital services in rural, regional and remote New South Wales*, <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2615>; Burfitt

prices are high (as in recent years), this does not translate into increased government spending in the Hunter region. Equally, it is also not the case declining royalty receipts due to a falling coal price would result in lower government spending in these regions. Again, the key point is that individual revenue streams, such as coal royalty revenues, do not go directly to funding individual programs or regions.

Clearly, coal royalties are not ‘funding’ the Hunter region in any meaningful way. Furthermore, they are not ‘funding’ any significant government service provision elsewhere in the state.

Finally, royalty revenue forecast in 2023–24 can be compared to the major spending functions in the NSW budget to demonstrate that royalties do not fund regional spending programs. Figure 8 illustrates this comparison, including the projected spending by the Department of Regional NSW.

Figure 8: NSW budget spending programs versus royalty revenues, 2023–24, \$ billion



Source: NSW Government (2024) NSW Budget 2024–25 – Budget Paper 1 & 2

(2023) Auditor-general delivers damning report on regional, rural and remote education in NSW, ABC News 10 Aug 2023, <https://www.abc.net.au/news/2023-08-10/auditor-general-regional-rural-remote-education-nsw-report/102711530>

Figure 8 highlights how small royalty revenues are compared to major spending programs on health, education, and transport. Any claim that royalties somehow fund these important social programs is therefore misleading and not supported by the data.

Interestingly, royalty revenue is of a similar magnitude to total spending at the Department of Regional NSW. Unsurprisingly, however the associated Department Operating Statement shows no connection to royalty revenue. Most (84%) of the Department’s funding comes from appropriation revenue, and grants and contributions. This dispels the idea that royalty revenue funds regional spending programs.²⁷

ROYALTIES FOR REJUVENATION FUND

One attempt to link coal royalty revenue directly to regional economic development is the Royalties for Rejuvenation Fund (the Fund).²⁸ The Fund was announced by the former NSW Coalition Government in 2021, with Deputy Premier John Barilaro stating its purpose as follows:

Make no mistake, coal mining has a strong future in this state, but to ensure stability for the long haul we are setting aside funds so those coal mining communities, which produce such a valuable resource for our state, can plan what their future looks like.²⁹

The Fund’s website explains that it sets aside “at least \$25 million each year from mining royalties to support coal mining communities” in order to allow those communities “to plan for the future and to diversify their economies” beyond coal.³⁰ The site explains that this funding is to be used for “strategic planning, workforce development programs, constructing enabling infrastructure, and establishing new industries and employment opportunities.”³¹

Importantly, the Fund was established with the caveat that no money could be distributed to communities until 2028–29 or until the Fund matured to \$250 million, whichever occurred sooner.³²

²⁷ NSW Government (2024) NSW Budget 2024-25 – Budget Paper 2, p.11-2, <https://www.budget.nsw.gov.au/>

²⁸ NSW Government (2024) *Royalties for Rejuvenation Fund*, <https://www.nsw.gov.au/regional-nsw/resources/royalties-for-rejuvenation-fund>

²⁹ NSW Liberals (2021) *Royalties for Rejuvenation: Funding the Future for Coal Mining Communities*, <https://nswliberal.org.au/news/royalties-for-rejuvenation-funding-the-future-for-coal-mining-communities>

³⁰ NSW Government (n.d.) *Royalties for Rejuvenation Fund*, <https://www.nsw.gov.au/regional-nsw/resources/royalties-for-rejuvenation-fund>

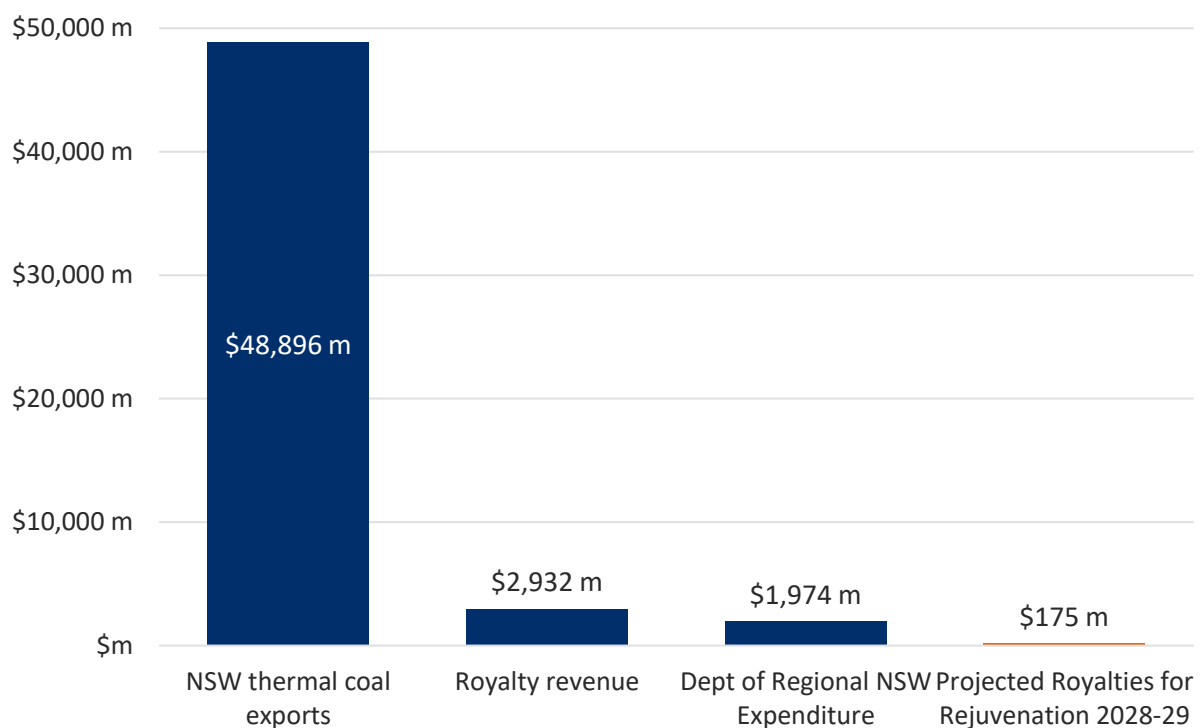
³¹ NSW Government (n.d.) *Royalties for Rejuvenation Fund*

³² Houssos (7 March 2024) “Finance, Domestic Manufacturing and Government Procurement, Natural Resources”, p 32 & p. 58, [https://www.parliament.nsw.gov.au/lcdocs/transcripts/3216/Transcript%20-%20CORRECTED%20-%20PC1%20-%20Budget%20Estimates%20\(Houssos\)%20-%207%20March%202024.pdf](https://www.parliament.nsw.gov.au/lcdocs/transcripts/3216/Transcript%20-%20CORRECTED%20-%20PC1%20-%20Budget%20Estimates%20(Houssos)%20-%207%20March%202024.pdf)

According to NSW Resources, the Fund’s balance at the end of the 2023–24 financial year was \$78.4 million.³³ Of the \$25 million contributed each year to the Fund, \$2.5 million is spent each year for operational purposes, resulting in an annual increase of \$22.5 million a year from government contributions.³⁴

If the money put into the Fund is invested in a way that achieves similar returns to the long-term performance of the Future Fund, the Australian Government’s sovereign wealth fund—around 8.2% a year—its projected balance at the start of 2028–29 will be around \$175 million. Figure 9 compares this potential expenditure to the current spending of the Department of Regional NSW, royalty revenue and NSW thermal coal export values.

Figure 9: Royalties for Rejuvenation compared to coal exports and royalties, \$ million



Source: NSW Government (2024); DISR (2024); Queensland Department of Resources (2024)

Clearly the Royalties for Rejuvenation Fund is tiny in comparison to coal royalties and regional spending through the department, and far smaller still in comparison to coal export revenue. This demonstrates that the Fund could not possibly fund anything substantial. For further proof, a recent regional hospital development in NSW, the Eurobodalla Regional

³³ Beattie (5 September 2024) “Finance, Domestic Manufacturing and Government Procurement, Natural Resources”, *Budget Estimates*, p 50
[https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20\(Houssos\)%20-%20CORRECTED.pdf](https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20(Houssos)%20-%20CORRECTED.pdf)

³⁴ Beattie (5 September 2024) “Finance, Domestic Manufacturing and Government Procurement, Natural Resources”, *Budget Estimates*, p 49
[https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20\(Houssos\)%20-%20CORRECTED.pdf](https://www.parliament.nsw.gov.au/lcdocs/transcripts/3328/Transcript%20-%20PC1%20-%20S%20September%202024%20-%20Budget%20Estimates%20(Houssos)%20-%20CORRECTED.pdf)

Hospital, is reported as costing \$330 million.³⁵ That means the Royalties for Rejuvenation Fund could perhaps cover the construction costs of one half of one new hospital in the coal regions of NSW.

RECENT ROYALTY RATE CHANGES

The 2023–24 NSW budget announced that coal royalty rates would increase across the board by 2.6% from 1 July 2024—the first such increase since January 2009.³⁶ Table 2 outlines the changes by type of coal mine.

Table 2: New and old coal royalty rates in NSW, % of sale price

Type of coal mine	Old	New
Underground: below 400m	6.2%	8.8%
Underground: less than 400m	7.2%	9.8%
Open cut	8.2%	10.8%

Source: NSW Resources (2024)

When announced, the changes were expected to generate an additional \$2.4 billion in revenue over three years, or close to \$800 million a year, as outlined in Table 3.³⁷

Table 3: Initial projected impact of coal royalty rate changes, \$ million

Type of coal mine	2024–25	2025–26	2026–27	Total
Revenue at new royalty rates	\$3,718	\$3,304	\$3,026	\$10,048
Revenue at old royalty rates	\$2,832	\$2,520	\$2,310	\$7,661
Impact of policy change	\$887	\$784	\$716	\$2,387

Source: NSW Treasury (2023) *NSW Budget 2023–24 - Budget Paper No.01*, <https://www.budget.nsw.gov.au/budget-archives>

In the latest budget papers, for the first year of operation (2024–25), royalty revenue is expected to be \$883 million higher than 2023–24, a figure similar to the projected increase when the policy was announced.³⁸

However, annual changes in royalty revenue are also driven by other factors including export prices and tonnages—and, as discussed in previous sections, royalty revenue is expected to fall over the Budget projection period. After the first year of the new royalty

³⁵ NSW Health (2024) *Eurobodalla Regional Hospital Development*, <https://www.hinfra.health.nsw.gov.au/eurobodalla-health-service>

³⁶ Revenue NSW (2024) *Coal Royalty Changes from 1 July 2024*, <https://www.revenue.nsw.gov.au/news-media-releases/coal-royalty-changes-1-july-2024>; NSW Treasury (2023) *NSW Budget 2023-24 - Budget Paper No.01 Budget Statement*, <https://www.budget.nsw.gov.au/budget-archives>

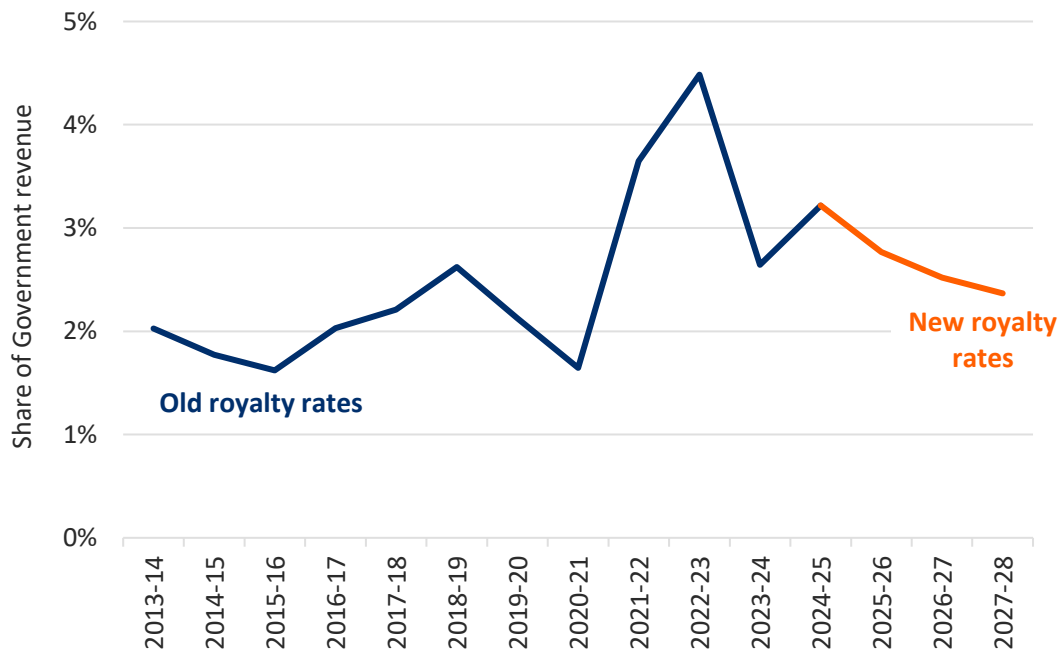
³⁷ Hutchinson & Fowler (2024) *Miners urge Minns to speed up mine approvals after \$2.7bn royalty hike*, *Australian Financial Review*, 6 Sept 2024, <https://www.afr.com/companies/energy/nsw-s-2-7b-coal-royalty-hike-won-t-cost-jobs-investment-treasurer-20230906-p5e2ci>

³⁸ NSW Treasury (2024) *NSW Budget 2024-25 - Budget Paper No.01 Budget Statement*, <https://www.budget.nsw.gov.au/2024-25/budget-papers/>

rates, royalty revenue is expected to fall by \$794 million, or 21%, over the forward estimates to 2027–28. Over the same period, total NSW Government revenue is expected to increase by over \$9 billion, an increase of 7.7%.³⁹

To gauge the lasting impact of the new royalty scheme, Figure 10 outlines an analysis of the share of royalty revenue in total NSW Government revenue, before and after the policy change.

Figure 10: Royalty revenue as a share of total NSW Government revenue, %



Source: NSW Government (2024); ABS (2024c)

As shown in Figure 10, prior to the policy change, the share of royalty revenue in total NSW government revenue averaged 2.4%. After the policy change, the forecast share of royalty revenue in total NSW government revenue is expected to increase by only 0.28% to an average of 2.72%. The royalty changes therefore represent a very small policy change.

According to a report published in the *Australian Financial Review*, the industry—at least in private—viewed NSW’s changes favourably in comparison to the bigger changes made during 2022 in Queensland.⁴⁰ These changes saw Queensland implement a progressive royalty rate regime, whereby the royalty rate payable increases as coal prices increase. This works similarly to progressive income taxes, with higher tax rates applying only to the part of the price above the relevant threshold. Such a system ensures that in times of relatively high “windfall” coal prices, the owners of the coal—Queenslanders—receive a proportionally greater share of the windfall.

³⁹ NSW Treasury (2024)

⁴⁰ Hutchinson & Fowler (2024)

In 2022–23, the new regime’s first year of operation, Queensland received \$18.4 billion in royalty income—a dramatic increase over the \$3.4 billion received under the old regime in 2021–22.⁴¹ A significant amount of this increase was driven by the record coal prices at the time, but even with prices stabilising, the current Queensland budget shows that royalty revenue is expected to remain significantly higher compared to projections made under the old regime. For 2025–26, the projected revenues are \$6.8 billion, compared to only \$4.2 billion for the same year under the old policy.

Since the introduction of the new policy, the Queensland coal industry has shown no signs of collapsing. The Australia Institute’s Coal Mine Tracker lists 14 new mines or expansions remaining in the state.⁴²

Previous research by The Australia Institute estimated that, had the NSW Government adopted Queensland’s policy in 2022–23, the progressive royalty rates could have generated between \$4.2 billion to \$6.2 billion in extra government revenue.⁴³

The Queensland experience highlights that it is possible to make genuine changes to royalty arrangements that generate significant revenue growth for the owner of resources—the public—without changing the willingness of the mining industry to build more mines in coal-rich regions.

⁴¹ Queensland Government (2024) *Budget Papers – various issues*, <https://budget.qld.gov.au/budget-papers/>

⁴² The Australia Institute (2024) *Coal Mine Tracker*, <https://australiainstitute.org.au/initiative/coal-mine-tracker/>

⁴³ Saunders & Campbell (2023) *Northern direction: If NSW had the Queensland coal royalty system*, <https://australiainstitute.org.au/report/northern-direction-if-nsw-had-the-queensland-coal-royalty-system/>

The costs of coal

While the coal mining industry makes only a small contribution to NSW Government revenue, the same cannot be said of the costs it imposes on the state. Coal mining incurs a range of significant costs: environmental, health-related, and social. This section examines these costs, focusing mainly on a range of the coal industry's environmental and health-related impacts.

THE COST OF GREENHOUSE GAS EMISSIONS

The coal industry is a major source of greenhouse gas emissions, both from mining coal and from the use of coal in generating electricity and making steel. While most Australian coal is exported and burned overseas, the emissions from its use results in the same level of global warming, regardless of where these emissions originate.

While Australia and much of the world does not put an explicit price on carbon, there are several methods that can be used to estimate the emissions costs of coal from NSW. This report uses three prices to do so:

1. The price of Australian Carbon Credit Units (ACCU), which was \$36.25 a tonne in September 2024.⁴⁴
2. The Australian Energy Regulator's (AER) guidance on a value of emissions reduction (VER), which was \$70 a tonne for 2024.⁴⁵
3. The average carbon price in major carbon markets, at \$79.26 a tonne.⁴⁶

The first step in estimating emissions costs was to gather data on NSW coal production fugitive emissions data from the Australian Greenhouse Gas Inventory. (The financial year 2021–22 is currently the most recent year for which data is available.) Fugitive emissions are greenhouse gases released through leaks and losses during the mining process.

The second step was to estimate the emissions produced by combustion of this coal, which was done by multiplying the level of NSW coal production by the relevant emissions factors published by the Department of Climate Change, Energy, the Environment and Water

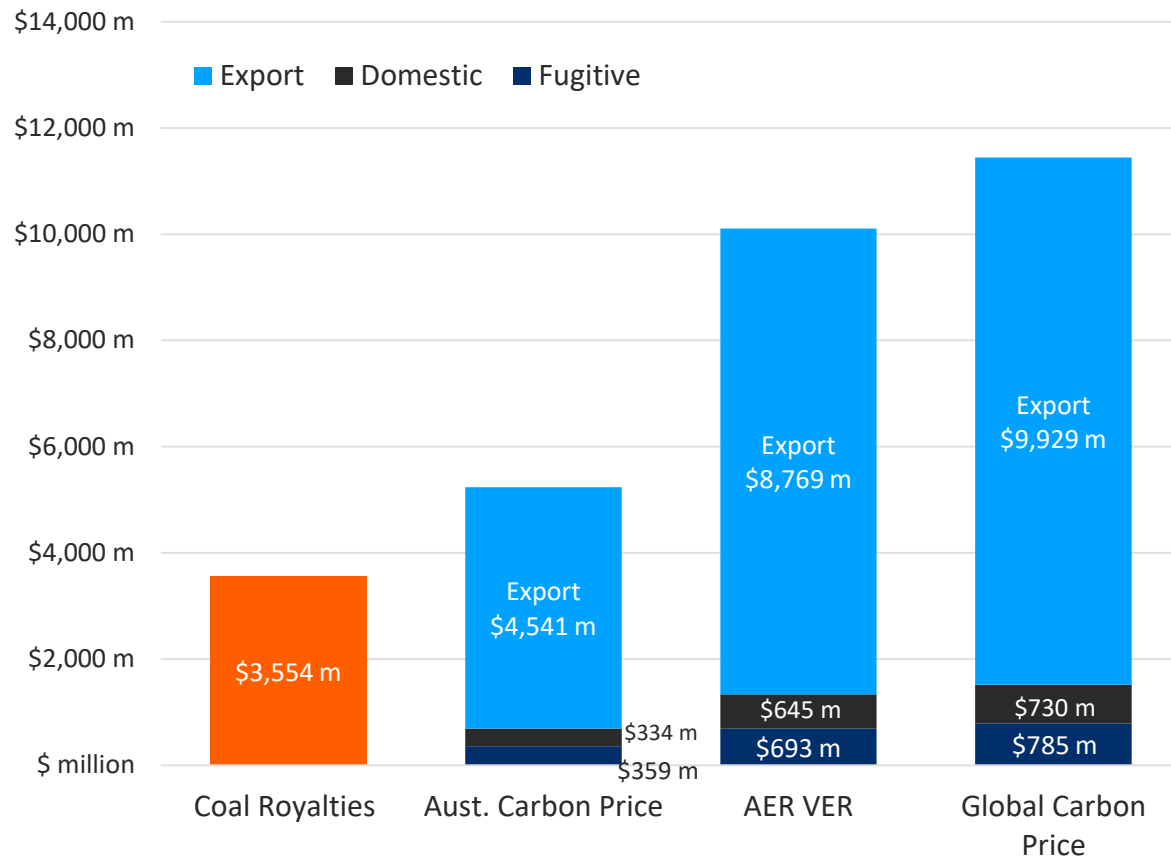
⁴⁴ Clean Energy Regulator (2024) *Quarterly Carbon Market Reports*, <https://cer.gov.au/markets/reports-and-data/quarterly-carbon-market-reports>

⁴⁵ AER (2024) *Valuing emissions reduction - AER guidance and explanatory statement*, <https://www.aer.gov.au/industry/registers/resources/guidelines/valuing-emissions-reduction-final-guidance-may-2024>

⁴⁶ Methodology from NAB (2023) *NAB Carbon Research: ACCU prices set to soar*, <https://business.nab.com.au/nab-carbon-research-accu-prices-set-tp-57768/>; World Bank (2024) *State and Trends of Carbon Pricing Dashboard*, <https://carbonpricingdashboard.worldbank.org/>

(DCCEEW). This step was carried out separately for each coal type (thermal and coking coal) and also for both domestic and exported coal. The estimates are shown in Figure 11, where they are compared to NSW coal royalty income.

Figure 11: Estimated emissions costs of NSW coal production and use, 2021–22



Source: Estimates using data from DCCEEW (2024)

As shown in Figure 11, the emissions costs generated by NSW are considerably higher than the royalty revenue it receives—even with historically high royalties in 2021–22 due to the spike in global energy prices following Russia’s invasion of Ukraine. In addition, the carbon cost estimates used here are on the conservative side; various researchers have suggested that carbon prices that fully account for the social costs of climate change would need to be considerably higher. For example, the US Environmental Protection Agency (EPA) has estimated the social cost of carbon to be between \$US120 a tonne and \$US600 a tonne.⁴⁷

In any case, without a proper price on carbon, the emissions costs are unaccounted for and are not borne by the coal mining companies in NSW. While there is debate over who should bear the cost of the emissions from burning coal, there is no doubt that coal companies in NSW do not fully account for the cost of fugitive emissions.

⁴⁷ US EPA (2023) *EPA Report on the Social Cost of Greenhouse Gases: Estimates Incorporating Recent Scientific Advances*, <https://www.epa.gov/environmental-economics/scghg>

REGIONAL ENVIRONMENTAL AND HEALTH COSTS

Coal dust has an adverse impact on health outcomes in NSW coal mining communities.

One study published in 2024 on the coal mining regions of Singleton in NSW and Clermont in Western Australia found significant levels of particulate matter (PM) emissions in these areas.⁴⁸ For 10 of the 11 operating mines in Singleton, the study quoted data from National Pollutant Inventory that showed these mines are significant sources PM_{2.5} and PM₁₀, both of which are both known to be contributing factors in a range of health issues including chronic bronchitis, heart attacks and arrhythmias, and reduced life expectancy.⁴⁹

The same 2024 study quotes a range of research pointing to the adverse health outcomes these emissions have likely caused in the Singleton area, including several survey-based studies where more than 50% of respondents claimed coal dust to be a factor contributing to asthma, cancer, heart disease and some mental health issues.⁵⁰

The researchers conducted their own semi-structured interviews with Singleton residents and found that many interviewees were aware of coal dust and its health risks, and actively changed their behaviours in response.⁵¹

COAL MINE REHABILITATION

Coal mining causes extensive, long-lasting damage to landscapes and environments. Coal mining companies are required to rehabilitate mines after coal production ceases, but the industry does not have a good record of doing so; once mines stop generating profits, the companies can be reluctant to bear the costs of rehabilitation. These costs end up falling back onto the public, either in the form of government-funded rehabilitation or environmental damage from unrehabilitated land.

Data on mine rehabilitation in NSW is not publicly accessible, but it appears that not a single major open-cut coal mine has been successfully rehabilitated in NSW. Research published in 2017 by The Australia Institute, based off correspondence with the NSW Government, found that only one mine was known to be undergoing final rehabilitation, and only one other,

⁴⁸ Cattonar et al (2024) "Coal dust pollution in regional Australian coal mining towns: Social License to Operate and community resistance", *Geoforum*,

<https://www.sciencedirect.com/science/article/pii/S0016718524000691>

⁴⁹ NSW Health (2020) *Particulate matter (PM10 and PM2.5)*,

<https://www.health.nsw.gov.au/environment/air/Pages/particulate-matter.aspx>

⁵⁰ Cattonar et al (2024) "Coal dust pollution in regional Australian coal mining towns: Social License to Operate and community resistance"

⁵¹ Cattonar et al (2024) "Coal dust pollution in regional Australian coal mining towns: Social License to Operate and community resistance"

minor mine was known to have completed final rehabilitation.⁵² At the same time, there were up to 123 mines in “care and maintenance” (when a mine is closed and managed in a stable state) and up to 410 abandoned mines.

In 2020, Glencore received NSW Government certification for a section of rehabilitated land from its Westside open-cut mine.⁵³ Westside was a small mine that produced a very small amount of coal—less than one Mt of coal per year. Most mines in Hunter Valley produce over 5 Mt per year, while BHP’s Mt Arthur mine can produce 25 Mt per year.⁵⁴ Glencore promoted this certification as “a first for the State’s coal industry under contemporary mine rehabilitation criteria”.⁵⁵

For many open-cut coal mines, rehabilitation would involve backfilling “final voids”, which are the large holes that remain once mining is completed.⁵⁶ One report estimated in 2016 that there were at least 45 such voids either planned or approved in NSW, covering a total of 6,050ha.⁵⁷ Voids frequently fill with poor quality, highly saline water that has negative impacts on local groundwater.⁵⁸ There is no requirement in NSW to backfill voids and mining approvals frequently permit companies to proceed without any plans to backfill. In a 2017 assessment of mining rehabilitation security deposits, the NSW Audit Office noted that “planning approvals generally contain limited information on landforms for final voids”.⁵⁹

Coal mine rehabilitation is expensive and mining companies typically cite cost as the main reason for not backfilling voids. Research by The Australia Institute published in 2021 found that backfilling coal mine voids in the Upper Hunter region would cost between \$12 billion and \$25 billion.⁶⁰

The NSW Government requires that a rehabilitation security bond be paid by the mining company before exploration and mining begins. This bond is supposed to cover “the full

⁵² Campbell et al (2017) *Dark side of the boom*, <https://australiainstitute.org.au/report/dark-side-of-the-boom/>

⁵³ Glencore (n.d.) *Macquarie Coal*, <https://www.glencore.com.au/operations-and-projects/coal/past-operations/macquarie-coal>

⁵⁴ BHP (2024) *Mt Arthur Coal Modification Update Response to submissions now completed*, <https://www.bhp.com/news/articles/2024/05/mt-arthur-coal-modification-update-response-to-submissions-now-completed>

⁵⁵ Glencore (n.d.) *Macquarie Coal*

⁵⁶ Campbell & Carter (2021) *Mind the gaps*, <https://australiainstitute.org.au/report/mind-the-gaps/>

⁵⁷ Walters (2016) *The Hole Truth*, Energy & Resource Insights, http://downloads.erinsights.com/reports/the_whole_truth_LR.pdf

⁵⁸ Walters (2016), http://downloads.erinsights.com/reports/the_whole_truth_LR.pdf

⁵⁹ NSW Audit Office (2017) *Mining rehabilitation security deposits*, <https://www.audit.nsw.gov.au/our-work/reports/mining-rehabilitation-security-deposits>, p 12

⁶⁰ Campbell & Carter (2021), <https://australiainstitute.org.au/report/mind-the-gaps/>

rehabilitation costs” so that “the NSW Government does not incur financial liabilities in the event of a title holder defaulting on their rehabilitation obligations.”⁶¹

Despite this requirement, the NSW Government states that as of July 2024, it holds just \$4 billion in rehabilitation bonds for all large mines in NSW.⁶² These total deposits therefore represent a fraction of the estimated cost of properly backfilling and rehabilitating coal mine voids in just the Upper Hunter region. In the Illawarra region, rehabilitating the recently closed, small underground Russell Vale Colliery is estimated to cost \$215 million.⁶³ However, the current security deposit for this mine is worth only \$12.4 million. Additionally, the mining company responsible is reported as having debts exceeding \$1 billion.

The NSW Audit Office’s 2017 assessment of mining rehabilitation security deposits concluded that “security deposits [that] the Department holds are not likely to be sufficient to cover the full costs of each mine’s rehabilitation in the event of a default”.⁶⁴ It also concluded that security deposits do not cover risks and uncertainties including unexpected environmental degradation once the mine is deemed to be fully rehabilitated.

The mining company is responsible for estimating the cost of rehabilitation bonds themselves. This creates a moral hazard, incentivising the company to underestimate rehabilitation costs and therefore pay a smaller deposit, or to overestimate the cost of backfilling final voids and therefore gain approval for leaving them unfilled. The NSW Audit Office also noted that there is “limited independent verification of mining company claims about the size of the outstanding rehabilitation task”.⁶⁵

The Australia Institute has labelled this discrepancy between estimated rehabilitation costs and security deposits the “rehabilitation gap”.⁶⁶ The rehabilitation gap makes it likely that billions of dollars in rehabilitation costs will fall on taxpayers. If rehabilitation is publicly funded, it would represent an enormous subsidy to the mining industry. Similarly, if the NSW Government decides not to fund mine rehabilitation, the public will bear enormous costs in the form of ongoing environmental damages.

⁶¹ NSW Resources Regulator (n.d.) “Security deposits”, <https://www.resourcesregulator.nsw.gov.au/mine-rehabilitation/security-deposits>

⁶² NSW Resources Regulator (n.d.), <https://www.resourcesregulator.nsw.gov.au/mine-rehabilitation/security-deposits>

⁶³ Fuller (2024) “NSW Resources Minister pledges closed Illawarra mines' rehabilitation after concerns about securities”, *ABC*, <https://www.abc.net.au/news/2024-03-07/russell-vale-wongawilli-mines-remediation-concerns-nsw-resources/103559530>

⁶⁴ NSW Audit Office (2017) <https://www.audit.nsw.gov.au/our-work/reports/mining-rehabilitation-security-deposits>, p 2

⁶⁵ NSW Audit Office (2017) <https://www.audit.nsw.gov.au/our-work/reports/mining-rehabilitation-security-deposits>, p 2

⁶⁶ Campbell & Carter (2021), <https://australiainstitute.org.au/report/mind-the-gaps/>

Conclusions

Despite NSW being one of the largest coal exporters in the world, coal royalties make up a trivial portion of the NSW budget. Coal royalties do not fund regional towns, nor do they fund individual schools, hospitals, teachers, or nurses.

Recent changes to coal royalty rates have had an insignificant impact on NSW Government revenue. The Government's attempt to use coal royalties to fund coal-producing regions directly through the Royalties for Rejuvenation Fund has not yet resulted in a single dollar spent.

The public owns coal resources in NSW but does not receive a fair return on these resources. In addition, the public is forced to bear the significant environmental and health costs caused by coal mining.