2014-15 Pre-Budget Submission to NSW Government

The Economic Contribution of Mining to NSW

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The NSW Minerals Council represents the state’s minerals industry, and provides a single, united voice on behalf our member companies.

Our membership includes producers, operators, explorers and service providers.

We support a strong and diverse state economy, a better deal for mining regions, and an effective and efficient regulatory framework for mining.

We promote the highest standards in environmental management, community engagement and health and safety. We also advance the industry’s social licence to operate by communicating the benefits of a responsible and sustainable minerals industry to the community and within our industry.
NSW State Budget 2014-15

Mining is a strategic industry for NSW. In addition to the energy and exports mining provides, the sector also makes a significant direct contribution to the NSW Budget. Each year the royalties, taxes, fees and levies paid by the NSW mining sector to the NSW Government are estimated to be well over $1.5 billion.

The NSW mining sector is currently experiencing tough times, particularly in the coal industry. Around 2000 direct mining jobs have been lost in NSW in the last eighteen months, including around 1500 jobs lost in the Hunter. While the tough times are predominantly due to a combination of low commodity prices and a high currency rate, some current NSW Government policy settings are making tough times tougher.

The NSW Government must restore investor confidence

While the NSW minerals industry is a fundamental part of the NSW economy and a major source of state government revenue, an uncertain regulatory environment in NSW is contributing to a decline in investor confidence. This threatens future growth in the industry and the potential benefits it could generate for the state, including royalties, exports, regional economic development, and jobs.

It is critical that the 2014-15 NSW Budget takes steps to ease pressure on the NSW minerals sector and restore investor confidence.

1. No New Impositions on the Industry

The 2012-13 State Budget included unexpected new fees and levies of totalling nearly $80 million over four years. This was a significant impost on an industry already facing many external challenges. These revenues were supposed to improve service delivery and community engagement as well as continue exploration funding programs. Despite assurances, the industry does not believe it has received the benefits or improved service levels these fees and levies were supposed to provide.

In view of this, it would be unfair for any new taxes, fees or levies to be imposed on the industry in the upcoming Budget. Additional industry costs at this difficult time will ultimately put mining jobs at risk.

2. More Investment in Mining Region Infrastructure

The NSW Government is on track to meet its initial $160 million commitment to the Resources to Regions program. While this is a welcome start, a commitment to ongoing funding is required.

The program eligibility should also be expanded to include additional mining communities so they are able to apply for funding and seek their fair share. In particular, the local government areas of Gunnedah, Broken Hill, Cessnock, Maitland and Lake Macquarie should be eligible for the program.

3. Delivery of Promised Support for Mining Exploration

Exploration is a crucial part of the mining process and critical to the long-term economic future of NSW. The 46 per cent decline in NSW exploration expenditure over the last two years is a warning that action must be taken to address current exploration challenges and support exploration activity.

The NSW Government allocated $2 million in the 2013-14 State Budget for a Competitive Drilling program yet to date there has been little progress in the allocation of these funds towards exploration activity. It is absolutely critical that this program be delivered.
4. Support the Department of Planning to make timely decisions

Major projects such as mines provide billions in investment and thousands of ongoing jobs. Given the significant economic returns it is reasonable to expect that sufficient resources are provided to the Department with lead responsibility for project assessment.

In the 2012-13 NSW Budget the Department of Planning and Infrastructure received $13 million in supplementary funding “to accelerate the assessment of significant state developments”. Despite this commitment, project assessment times continue to increase, resulting in significant potential investment being tied up in the planning system.

The Department of Planning must be provided with the resources needed to efficiently do its work. Improving the efficiency of the planning system would restore some of the investor confidence that has eroded in recent years, providing better certainty for proponents and the community.

5. An Industry Action Plan for the NSW Minerals Industry

The NSW Government’s Economic Development Framework has so far failed to include the critical industry of mining. It’s now time for an Industry Action Plan that covers the NSW minerals sector. This would recognise the key economic role of the sector in NSW, help to address a broad range of policy challenges, and give global investors greater confidence that the NSW Government supports a strong future for mining in NSW.

6. Cap Mine Safety Levy at CPI

In previous years the Mine Safety Levy has risen exponentially without a reasonable degree of fiscal accountability and demonstrated need. The industry welcomed the Mine Safety Levy Review, commenced in 2013 but notes that the outcomes of this review are not clear. With levy increases of well over 100% over the past seven years, a ‘blank cheque’ approach to the levy cannot continue. Any future increases in the Mine Safety Levy should be capped at CPI.

7. Protect Jobs by Removing Unfair Levies and Reversing Cuts to Allowable Deductions

The Coal Washery Rejects Levy was introduced in 2009. It is an inequitable levy, applied retrospectively and targeting mining operations in the Illawarra.

In 2008 the NSW Government also removed transportation costs from the deductions allowable for the calculation of coal royalties. Mining operations in the Western Coalfields in particular were unfairly hit by this decision.

Both these measures place an unfair burden on operations in the Illawarra as well as those with longer transport routes such as near Lithgow, Gunnedah and Mudgee. Both these measures should be reversed to protect local jobs.
Despite current tough times, the mining industry continues to make a substantial contribution to the NSW economy, supporting tens of thousands of jobs, contributing billions to Gross State Product, and returning billions more to taxpayers through royalties and taxes.

Since 1798 the mining industry has made a very significant contribution to the NSW economy and, as outlined in Table 1, continues to do so. NSW mining has expanded over the past decade to become a $21.2 billion industry.

In 2013, NSW miners exported over 162 million tonnes of coal – around 83% of the state’s coal production - predominantly to Asian trading partners Japan, China and Korea.

Coal is the state’s most valuable commodity export and accounted for 31% of the value of all merchandise leaving NSW in 2012-13.2

Gold, copper, zinc and lead continue to be the primary metals produced in NSW.

NSW coal production also makes an important contribution to the state’s economy in the form of affordable and reliable electricity produced by the state’s coal-fired power stations. It is also used by the local steel and cement sectors in their production processes.

Table 1: A snapshot of mining’s economic contribution to NSW

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1 ABS, Labour Force Australia, Detailed, Quarterly, November 2013
2 NSW Trade and Investment, Value of NSW minerals production at average market prices, 2012-13
3 NSW Treasury, 2012-13 Budget Statement
4 NSW Trade and Investment, Mineral Resources 2012-13
Mining is NSW’s most important export industry

NSW has a long history of exporting our mineral resources for economic benefit and our modern economy continues this trend. Mining delivered around 29 per cent of NSW total exports by value in 2012, and coal is our single most valuable export\(^5\).

Newcastle Port is the world’s largest coal export terminal, and is at the end of a long coal supply chain that is economic backbone of the Hunter Valley. South of Sydney, Port Kembla is also a major operation, exporting coal and other minerals to many countries.

Major customers for our coal and minerals include our long-established trading partners in the developed economies of Japan, Taiwan and the Republic of Korea as well as the emerging and rapidly growing markers of China and India.

The coal export relationships NSW has with these countries underpin the broader trading relationships NSW seeks in relation to other products and services. Put simply, unless NSW gets these mining trading relationships right our ability to maximise other trading opportunities will be hampered.

**Figure 1: NSW merchandise exports value 2012-13**

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<th>Product</th>
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<tr>
<td>Coal</td>
<td>31%</td>
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<tr>
<td>Other</td>
<td>46%</td>
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<tr>
<td>Wool</td>
<td>1.4%</td>
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<tr>
<td>Beef</td>
<td>2%</td>
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<td>Petroleum</td>
<td>3.4%</td>
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<td>Wheat</td>
<td>2.9%</td>
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NSW Miners contributed $12.8 billion directly into the NSW economy during 2012-13

Mining plays an important role in the state’s economic prosperity in our mining regions, and also in areas not traditionally associated with mining like the western suburbs of Sydney.

The *NSW Mining Industry Economic Impact Assessment 2012/13*,\(^6\) prepared for the NSW Minerals Council by Lawrence Consulting and the University of Wollongong, outlines the direct expenditure from the companies surveyed and modelled indirect economic impacts.

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\(^6\) The full report can be found in the publications section of the NSW Minerals Council’s website www.nswmining.com.au
The mining companies surveyed directly spent around $12.8 billion in NSW, including $3.1 billion in wages and salaries and $9.8 billion in the purchase of goods and services and community contributions. The Hunter received the largest proportion of direct expenditure from the companies surveyed, followed by Sydney, the Illawarra and the Central West.

The link between mining and Sydney is now much clearer. Sydney is now effectively the state’s second largest mining region and home to businesses supplying a range of goods and services, from engineers, law and project management to manufacturing and labour hire.

The importance of mining to regional economies has been confirmed, accounting for approximately 36% of the Hunter’s Gross Regional Product and 17% of the Illawarra’s Gross Regional Product.

**Figure 2: NSW Mining Industry Economic Impact Assessment 2012-13**

NSW mining sector payments to government have increased in recent years

The NSW minerals industry makes significant contributions to state revenue, particularly through the payment of royalties. According to DTIRIS, the industry has paid $6.3 billion in royalties to the NSW Government in the last five financial years, an amount that is expected to rise considerably in the future, provided NSW can remain competitive.

However, royalties are not the only source of income to governments paid by the minerals industry. The mining industry also pays a range of additional taxes, levies, fees and charges across local, state and Federal governments, including:

- **Local** – Rates, developer contributions (including Voluntary Planning Agreements)
- **State** – Payroll tax, Mine Safety Levy, Mines Rescue Levy, Coal Washery Rejects Levy, tenement administration fees, development application fees, environmental licence fees, water licence fees
- **Federal** – Company tax, Mineral Resources Rent Tax, Carbon Tax.

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NSW miners are challenged with lower commodity prices and increasing costs

The expansion of mining in NSW over the last decade was driven to a large extent by our competitive advantages in costs and high commodity prices. But increasingly the Australian mining sector is facing rising wages, operating costs, fuel bills, increased competition from overseas producers, softer global demand for some of our key products and a high Australian dollar.

At the same time, mineral commodity prices have weakened from the peaks recorded in 2011, with Australian thermal coal prices ex-Newcastle having declined 30% in the past three years. This impacts on royalty revenues to government and also on mine profitability, leading to job reductions in many mines.

The combination of rising costs and weaker commodity prices has placed NSW mining companies under significant financial pressure, affecting the commercial viability of some proposals and forcing the scaling back of workforces and production at some operations.

The industry has taken steps to reduce its costs and these efforts will continue. This must be accompanied by the removal of government imposed cost burdens and regulatory delays.

Regulatory burdens have led to a decline in investor confidence in the NSW minerals sector

Global resource investors continue to rank NSW poorly amongst major mining countries and in comparison to other states in Australia.

The Fraser Institute, a leading Canadian public policy research organisation, conducts an annual global survey of mining executives to measure their perceptions of the policy and regulatory environment for minerals investment. The 2013 report surveyed representatives from 690 exploration and mining companies on the investment climate in 112 jurisdictions around the world.\(^8\)

The latest Fraser Institute rankings released in February 2014 show NSW now lags behind all states and the Northern Territory as a place to invest in mining in Australia.

The ranking of NSW in global terms has also fallen in recent years. In 2011 NSW ranked 20th in the world in terms of mining investment attractiveness. NSW now ranks 39th in the world. Western Australia is currently ranked 6th in the world.

NSW is now seen as a less attractive destination for mining investment than countries such as Ghana, Namibia and Botswana on a Policy Perception Index which surveys policy factors affecting investment decisions.

According to the Fraser Institute Survey, "environmental regulations", "regulatory duplication and inconsistencies" and "uncertainty concerning administration of regulations" all contributed to the poor ranking that NSW received.

This poor ranking for NSW is supported by the trend in mining capital investment over recent years.

While mining capital investment in Queensland and Western Australia has grown strongly and is now relatively steady or continues to increase, capital investment in NSW has fallen sharply\(^9\).

**Figure 4: Mining Capital Investment- Australian States**

The drop in mining capital investment in NSW has been particularly sharp over the last two years\(^{10}\). This has the potential to do significant long term damage to the NSW economy.

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\(^9\) ABS 5625.0 Private New Capital Expenditure
\(^{10}\) ABS 5625.0 Private New Capital Expenditure
The recent Australian Bureau of Statistics *Mineral and Petroleum Exploration Report* adds to the evidence that investor confidence in NSW is dwindling. The report shows that expenditure on mineral exploration in NSW has fallen steadily over the past two years.

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**Figure 5: NSW Mining Capital Investment**

![Mining Capital Investment - NSW ($M)](image)

**Figure 6: NSW Quarterly Exploration Investment**

![Quarterly expenditure $m](image)

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2014-15 Budget Priorities for the NSW Minerals Industry

1. No new taxes, fees or charges imposed on mining

What NSWMC is seeking

The 2014-15 NSW State Budget must not impose any new taxes, fees or charges on the NSW mining industry.

The NSW minerals industry is currently experiencing its most difficult trading conditions for the last 20 years. Weaker commodity prices, high costs and a high Australian dollar are presenting significant challenges. Policy settings in NSW, including additional levies, regulatory uncertainty and the broken NSW planning system are making it even tougher to cope in these challenging times.

The impact of this challenging set of global and local circumstances is demonstrated through falling investment, job cuts, mine closures, and reduced exploration expenditure. In this operating environment, the industry is extremely sensitive to any new costs.

The 2012-13 State Budget included unexpected and new fees and levies totalling nearly $80 million over four years. This was a significant impost on an industry already facing many external challenges. These revenues were supposed to improve service delivery and community engagement as well as continue exploration funding programs. Despite assurances, the industry does not believe it has received the benefits or improved service levels these fees and levies were supposed to provide.

In relation to the administration levy, a component of the revenues raised were supposed to be invested in community engagement initiatives, yet there is little evidence that this has occurred. Any unexpended portion of these funds should be returned to the industry to be applied to effective existing community engagement programs such as the Upper Hunter Mining Dialogue.

Falling commodity prices in recent years compounded by higher exchange rates burdening exports have put the industry under significant financial pressure resulting in substantial job losses and reduced production at some operations.

In addition to royalties and payroll taxes, the industry now pays many different levies, including the Mine Safety Levy, Mine Subsidence Levy, Coal Washeries Levy, Administrative Levy, and New Frontiers levy.

In view of this and the experience of the 2012-13 State Budget, it would be unfair and unreasonable for any new costs or new levies to be imposed on the industry in the upcoming budget.

No Changes to Stamp Duties

At a time when NSW has just been announced as the lowest ranked Australian jurisdiction for minerals investment,12 recently proposed changes to duties on the transfer of mining tenements are another impediment to investment and represent a continuation of the pattern of increasing industry costs.

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12 Fraser Institute Annual Survey of Mining Companies 2013, www.fraserinstitute.org
Broadening the duties will increase the transaction costs for exploration and mining investment in NSW. The proposals are more onerous than other states and would place NSW at a disadvantage.

We generally oppose the changes, which go beyond ‘clarifications' of tax treatment and extend to overriding the longstanding authority that mining information is not ‘property' and is therefore outside the scope of stamp duty laws, representing a significant broadening of the current stamp duty base in NSW - widely recognised as an inefficient form of taxation.

2. Funding for Resources for Regions to support NSW mining regions

What NSWMC is seeking

The NSW Government must deliver a long-term, sustainable and ongoing Resources for Regions funding program to support public infrastructure investment in all NSW mining communities.

Proper consideration must also be given to a dedicated ‘Royalties for Regions’ program, funded from existing royalty revenues.

Billions in mining royalties will be paid to the NSW Government over the four year forward estimates period, so it is important that the government invests in the future of mining communities such as Muswellbrook and Singleton, which together contributed 56% of all state royalty revenue in 2011-12.13

In addition to royalties, the NSW minerals industry also makes a considerable contribution to state government revenue through payroll tax and a range of other charges and levies. The industry also makes significant contributions to local infrastructure through developer contributions and voluntary planning agreements.

There is still significant underfunding of infrastructure in many mining communities, recognised by the NSW Government when it introduced the Resources for Regions program.

The NSW Government should this year meet its initial $160 million commitment to the Resources to Regions program. This is a welcome start, but a stronger commitment to ongoing funding is required.

The current program eligibility is too narrow and should be expanded to include additional mining communities so they can apply for funding and seek their fair share. In particular, the local government areas of Gunnedah, Broken Hill, Cessnock, Maitland and Lake Macquarie should be eligible for the program.

With an election due in March 2015 it is important for the NSW Government to show it has a strong ongoing commitment to the Resources to Regions program.

The Infrastructure NSW (INSW) State Infrastructure Strategy acknowledged the infrastructure challenges of rapidly growing coal mining communities and recommended ‘targeted investments are made to improve local infrastructure in coal communities.’14

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13 NSW Trade and Investment, Economic Assessment of Mining Affected Communities, February 2013
14 Infrastructure NSW, State Infrastructure Strategy, p137
NSWMC is seeking a long-term, sustainable funding model from existing revenue streams to support public infrastructure investment in mining regions, and for the NSW Government to fully consider a proper Royalties for Regions style program, funded from existing royalties.

NSWMC does not support the impost of additional financial burden on the minerals industry – whether that be through increased royalties, other taxes, fees, charges or levies – to fund this important initiative.

3. Government support for mining exploration investment

**What NSWMC is seeking**

Clear support for future exploration programs and acknowledgement of the importance of exploration for the future strength of NSW mining and the economy more broadly.

Exploration is a crucial part of the mining process and critical to the long-term economic future of NSW. The 46 per cent decline in NSW exploration expenditure over the last two years \(^{15}\) is a warning that action must be taken to address current exploration challenges and support exploration activity.

The NSW Government allocated $2m in the 2013-14 Budget for a Competitive Drilling program. So far there has been little progress in the allocation of these funds towards actual exploration activity.

It is absolutely critical that this program be supported and the promised funding be invested.

Ongoing investment confidence is important for prospective new or replacement mining projects over the next decade. In a global operating environment, options for mine investment exist in all continents and reservations about NSW have grown in comparison with other jurisdictions and other Australian states.

4. Provide the resources for the Department of Planning to make timely decisions

**What NSWMC is seeking**

Provide the Department and Planning and Infrastructure with the resources it needs to speed up the planning and assessment process and ensure timely and consistent decision-making.

Major projects such as mines that provide billions in investment and thousands of ongoing jobs should have greater dedicated resources and staff to enable decisions to be made more promptly.

The NSW Government must provide the resources to the Department of Planning Infrastructure to enable it to achieve timely and consistent assessments and decisions on major mining projects.

\(^{15}\) (ABS Dec 2013 exploration expenditure)
In 2012-13 NSW State Budget the Department of Planning and Infrastructure received $13 million in supplementary funding “to accelerate the assessment of significant state developments”. The outcomes delivered by this funding are not evident for the mining sector.

The assessment process for many of these projects takes years with typical up-front costs prior to lodgement of a development application of hundreds of millions of dollars. Global investors are also increasingly bewildered by growing assessment timelines, constant changes to policy and processes, and inconsistent decisions in the assessment of proposed mining projects in NSW.

Improved efficiency of the planning system would help restore some of the confidence in the planning system that has eroded in recent years. Clear assessment timeframes would provide certainty for proponents and the community.

The NSW Government also needs to resource and prioritise its work on the proposed ‘Integrated Mining Policy’ to achieve consistent, whole-of-government policy and regulation of the industry.

5. An Industry Action Plan for the NSW Minerals Industry

What NSWMC is seeking

The NSW Government must commit to develop an Industry Action Plan for the NSW Minerals Industry as part of its Economic Development Framework.

This Industry Action Plan must recognise and include the Hunter Coal Industry as an essential part of the NSW mining sector.

The NSW Government has completed action plans for seven key industries as part of its economic development framework, but has so far failed to acknowledge the critical importance of the minerals industry to the future of the NSW economy as part of this process.

It is therefore appropriate than an Industry Action Plan for the NSW Minerals sector be incorporated into the NSW Government’s economic development framework and commenced as soon as possible. This would recognise the key economic role of the sector in NSW and also give global investors greater confidence that the NSW Government supports a strong future for mining in NSW.

This Action Plan must recognise and include the Hunter Coal Industry as an essential part of the NSW Mining sector. Doing so would reflect the Premier’s public acknowledgement last year that the industry has a strong future in NSW,

“I say to an industry that exported 143 million tonnes through Newcastle last year, keep it up … I want to make the point that at a time when mining in general and coal mining in particular is under the gun, we have been exporting coal since 1799. I can’t see it stopping in my lifetime, my children’s lifetime, or their children’s lifetime. Nor should we want it to stop. It has been one of the great economic competitive advantages anywhere in the world.”

(Premier Barry O’Farrell, Reported in Newcastle Herald, 21/9/2013 at opening of NCIS coal loader)
6. Cap Mine Safety Levy at CPI

**What NSWMC is seeking**

The NSW Government must reform the ‘blank cheque’ approach to the Mine Safety Levy, which has increased by more than 100% over the past six years. Given the significant funding increases over recent years, any future increases in the Mine Safety Levy should be capped at CPI.

Safety is the industry’s highest priority and we support the provision of adequate funding for mine safety purposes. At the same time we expect funds that are provided by industry towards safety are to be applied strategically to ensure that best practices are pursued by operators and by regulators.

In recent years the Mine Safety Levy has risen exponentially without a reasonable degree of fiscal accountability and demonstrated need. The industry welcomed the Mine Safety Levy Review that commenced in 2013 but notes the outcomes of this review are not yet clear. With levy increases of well over 100% over the past seven years, a ‘blank cheque’ approach to the levy cannot continue.

NSWMC proposed, over three years ago, a mechanism to evolve the levy, by taking a strategic approach to its estimation and the adoption by all stakeholders of a collective health and safety plan. This would provide certainty over its allocation and purpose as well as provide much needed transparency.

NSWMC remains extremely concerned that despite repeatedly raising concerns over the last five years, there has been very little change in the levels of transparency.

NSWMC members remain extremely concerned at the unsubstantiated year on year increases in the Mine Safety Levy following previous increases in levies to fund Departmental activities and the introduction of additional new fees and levies in 2012-13 totalling nearly $80 million over four years.

Given these new fees and the significant increases in the Mine Safety Levy that have occurred over recent years, any future increases in the Mine Safety Levy should be capped at a maximum of CPI. In addition, a strategic approach to establishing the levy and outlining its purpose must be adopted to ensure transparency.

7. Protect Jobs by Removing Unfair Levies and Reversing Cuts to Allowable Deductions

**What NSWMC is seeking**

NSWMC is seeking the removal of the unfair levy for Coal Washery Rejects and the reversal of cuts to allowable transport deductions. These changes from 2008 and 2009 were poorly considered and are adversely affecting mining operations in the Illawarra, Western and Gunnedah coalfields.

The NSW Government should reverse both these decisions to remove the unfair burden on industry operations in the Illawarra as well as those with longer transport routes such as near Lithgow, Gunnedah and Mudgee.
The 2009 Coal Washery Rejects Levy is an inequitable levy, applied retrospectively, that specifically targets mining operations in the Illawarra.

Introduced in November 2009, the levy of $15 per tonne (indexed annually) was imposed on coal washery rejects received from ‘offsite and applied to land, other than as part of an approved mine remediation plan’.

Levy revenue was intended to be directed towards identifying alternatives and to encourage innovation to address the limited viable alternative uses for coal washery rejects.

The original intent of the levy is not being met. The levy is effectively a tax, and does not encourage or enable operations to develop alternative means of disposing coal washery rejects.

Furthermore, both operations subject to the levy are based in the Southern Coalfield. This is inequitable, as it has the effect of deterring business and development in the region.

No other Australian state has imposed a similar cost and it should be repealed.

In 2008 the NSW Government removed transportation costs from the deductions allowable for the calculation of coal royalties. This had a big impact on operations further away from port facilities, reducing their competitiveness and making it harder to support local jobs. Mining operations in the Western Coalfields in particular were unfairly hit by this decision.

The transport cost allowances that were removed included transport from mine stockpile to port/user, ship loading/port charges; and demurrage costs. This had a big impact on operations further away from port facilities, reducing their competitiveness and making it harder to support local jobs.

The Government should acknowledge the adverse impact this has on non-coastal mining regions and reinstate the allowable transport deductions in the calculation of royalties, providing welcome relief in the current economic conditions.