



Australian Government
Commonwealth Grants Commission

File ref: 2011/0058

Mr John Hawkins
Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Hawkins

At the Senate Estimates Hearing on 1 June 2011, I was asked whether the Commission had undertaken any estimates of the impact of Western Australia's removal of concessions on royalties applying to iron ore fines that was to take effect on 1 July 2010 and specifically if the Commission agreed with the estimates of revenue and GST impacts made by the Western Australia Government

In response to that question, I am providing information on the Commission's estimates.

The Commission has not sought to verify the estimates made by Western Australia. It used its own estimates based on the latest available mining production data (for 2008-09) and those estimates show the revenue effect had the concession removal of 1 July 2010 come into effect on 1 July 2008 and the consequent GST implications (assuming that there were no lags in the GST allocation process).

Yours sincerely

~~John Spasojevic~~
Secretary

3 June 2011

- 1 Following an agreement with two major iron ore fines producers, the Western Australian government announced its intention to remove the concessional royalty applying to about half of iron ore fines production in the State. The change would take place from 1 July 2010 and would bring the royalty rate applying to those producers in line with the legislated rate of 5.625 per cent.
- 2 Although the change will not affect its assessments until its 2012 Update, the Commonwealth Grants Commission undertook some analysis of the potential impact so it could advise States on how it would respond to the policy change well before it impacted GST shares. To simplify the analysis, it was performed for one financial year only and assumed the GST impact would be immediate, not lagged by two years as is normally the case. The analysis also assumed there would be no three year averaging of historical data to determine GST shares.
- 3 The Commission estimated Western Australia would have collected an additional \$210 million had the increased royalty rate applied in 2008-09.
- 4 Table 1 provides an estimate of the GST impact of leaving iron ore fines in the low royalty group.

Table 1 GST Impact of leaving iron ore fines in the low royalty group, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Iron ore fines in low royalty group	55.4	37.8	15.2	-110.5	5.3	1.3	3.4	-7.9

Source: Commission simulation

- 5 Table 2 shows the impact in 2008-09 of moving fines to the high royalty group. Western Australia would collect an additional \$210 million in own source revenue but lose \$582 million in GST.

Table 2 GST Impact of moving iron ore fines to the high royalty group, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Iron ore fines in high royalty group	170.2	78.1	280.1	-582.3	29.1	0.4	3.4	21.0

Source: Commission simulation.