

Palaszczuk's Promise

The Palaszczuk government is breaking an election promise by subsidising Adani's coal project, offering a \$1bn subsidised loan and a secret deal on 'royalty deferment', another subsidised loan of up to \$700m. These subsidies come at great cost to Queensland.

As Opposition Leader, Anastacia Palaszczuk promised no taxpayer funds would go to Adani under a Palaszczuk Government. She criticised then Premier Campbell Newman for his willingness to subsidise Adani. Ten days before the 2015 Queensland election, she said:

What we're seeing at the moment is Campbell **Newman throwing a bucket of taxpayers' cash** - and we don't know how much that is: is it \$400 million or \$500 million? - **at one particular company [Adani], ...**

So the Government is doing the wrong thing here by Queensland taxpayers by picking a winner and picking losers. It needs to stack up financially. It needs to be commercially viable and the market should decide that.¹

Soon after winning government, Palaszczuk reiterated this promise: "Queenslander taxpayers' money is not going to be used to fund commercial operations."² Very recently, Palaszczuk again "ruled out" financing Adani, saying

My government has always said that it is a matter for Adani to get the finance. This is a private investment.³

Despite these promises, the Palaszczuk government strongly endorses taxpayer subsidy of Adani's project, and has done so for some time. They are responsible for a \$1 billion taxpayer loan to Adani from the Northern Australia Infrastructure Facility (NAIF) and have engineered a royalty deal that would effectively see Queensland taxpayers loan Adani a further amount that could reach over \$700 million on terms that are unknown, but certainly favourable.

¹ bold added <http://www.abc.net.au/pm/content/2015/s4166092.htm>

² <http://www.abc.net.au/pm/content/2015/s4265585.htm>

³ <http://www.smh.com.au/business/mining-and-resources/adani-funding-reportedly-in-doubt-as-palaszczuk-rules-out-loan-for-mine-20170704-gx4bxv.html>

Subsidised loan from the NAIF

On 18 February 2016 the Queensland Treasurer Curtis Pitt wrote to the federal government requesting that it consider a subsidised loan of nearly \$1 billion to Adani for its rail line, via the Northern Australia Infrastructure Facility (NAIF).⁴ NAIF is a federal financing agency set up in the 2016-17 Budget to provide concessional loans to projects unable to get commercial financing. Ms Palaszczuk has even been critical of how long the NAIF has taken to commence financing.⁵

The Queensland government plays an important legal role in facilitating NAIF loans. As the Queensland government itself notes:

Queensland is required to undertake an intermediary role in the provision of financial assistance from the Commonwealth to proponents and will maintain a substantial involvement in the scheme.

The State will have the final discretion on whether or not it will enter into a loan or other financial agreement with a proponent.⁶

On 27 May the Palaszczuk Government suggested it would not facilitate this loan:

Consistent with our election commitments, cabinet has determined that any NAIF funding needs to be between the Federal Government and Adani.⁷

Treasurer Pitt said:

We promised that Queensland taxpayer funds would not subsidise the Carmichael rail line and we are keeping that promise.⁸

In other words, the Palaszczuk Government accepted that this loan is a subsidy and that facilitating the loan would be a broken promise.

Yet Treasurer Pitt later said Queensland will fulfil its legal role if NAIF approves the financing.⁹ It appears the Queensland government wishes to allow the loan without themselves 'handling' the loan funds.

⁴ http://www.aph.gov.au/~media/Committees/economics_ctte/estimates/sup_1617/Industry/answers/SI-36_Waters.pdf

⁵ <http://statements.qld.gov.au/Statement/2016/12/2/parliament-tells-1np-to-stop-politicking-on-naif>

⁶ <https://www.treasury.qld.gov.au/projects-infrastructure/initiatives/naif/documents/naif-factsheet.pdf>

⁷ <http://statements.qld.gov.au/Statement/2017/5/27/queensland-jobs-investment-and-royalties-boost-from-new-resource-policy>

⁸ <http://statements.qld.gov.au/Statement/2017/5/29/northern-australia-infrastructure-facility>

In Senate Estimates, the NAIF confirmed that current legal arrangements would allow Queensland to agree for the NAIF funding to go direct from the Commonwealth to Adani. The CEO of the NAIF said

I've clarified with our counterparts in Queensland what the recent press was actually saying. What the Queensland government is wanting to achieve is absolutely able to be achieved within the framework of the arrangements that are in place ... That is that they would like any funds to flow from the Commonwealth by direction directly to a proponent.¹⁰

The Palaszczuk Government has the power to veto a NAIF loan to Adani.¹¹ They could stop the subsidy to Adani immediately. Failing to do so is a clear breach of Ms Palaszczuk's election promise.

THE NAIF LOAN IS A SUBSIDY

There is no doubt that NAIF finance represents a subsidy to Adani and represents an economic cost to Queensland taxpayers.

While federal Minister for Resources, Matthew Canavan, says NAIF financing is not a subsidy, he is contradicted by:

- The Commonwealth Budget papers, which account for the NAIF's concessionality as a substantial budgetary cost of \$1.6 billion over four years;
- The Productivity Commission, who in Senate Estimates confirmed that concessional loans are subsidies;
- The WTO's definition of subsidy, under which concessional taxpayer loans are subsidies;
- Numerous other coal companies, who have called it a subsidy.¹²

THE NAIF LOAN WILL COST QUEENSLANDERS

While the NAIF is a federal body, Queensland is responsible for this subsidy and there will be costs for Queenslanders.

⁹ <http://www.abc.net.au/radionational/programs/breakfast/qld-to-help-adani/8571694>

¹⁰ Economics Committee Senate Estimates 1 June 2017 22:05:00

http://parlview.aph.gov.au/mediaPlayer.php?videoID=353983&operation_mode=parlview

¹¹ NAIF Investment Mandate (s13(4)) <https://www.legislation.gov.au/Details/F2016L00654>

¹² Outlined in Swann (2017) *Boondoggles the Mind*, <http://tai.org.au/content/it-boondoggles-mind>

Queenslanders will themselves pay for this subsidy directly. Queensland taxpayers contribute 20% of federal personal income tax, a major source of Federal Government funding and therefore NAIF loans.¹³

Allowing the NAIF funding to go to Adani takes away from jobs and other benefits from other industries that could use the loan. NAIF is currently considering a large number of projects and 53% of these projects are in Queensland.¹⁴ NAIF proposals include renewable energy, telecommunications, agriculture and many other industries. If the Queensland government does not veto the Adani loan, it is taking funding from these other projects, giving coal mining an advantage over these industries.

QUEENSLANDERS WANT NAIF LOANS FOR OTHER PROJECTS, NOT ADANI

Most Queenslanders, like most Australians, do not want this subsidy to go to Adani.

A ReachTel poll of 1,618 Queenslanders in May 2017 showed strong opposition to subsidies for the Adani coal proposal, including among LNP and One Nation voters. 57% said the Queensland government should reject the loan, to fund other projects.¹⁵

In May 2017, The Australia Institute conducted a nationally representative poll of 1400 Australians. It found almost two thirds (64 per cent) opposed the proposed \$1 billion subsidised loan to Adani.¹⁶

Between 16 and 28 September The Australia Institute conducted a nationally representative poll of 1442 Australians, asking about priorities for the NAIF.¹⁷

- Australians would prefer the funding to go to virtually any other project. Among the national sample, 75% selected health infrastructure, 54% selected education and 51% selected renewables projects; only 11% chose rail lines for coal trains and 7% chose ports for coal, the least often selected options.

¹³ <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2014-15/?anchor=Individuals#Figure6>

¹⁴ http://www.aph.gov.au/~media/Committees/economics_ctte/estimates/add_1617/Hansard/OFFICIAL_EconomicsLegislationCommittee_2017_03_02_4806.pdf p178

¹⁵ <http://www.tai.org.au/sites/default/files/QLD%20ReachTEL%20polling%20-%2024%20May%202017%20-%20Adani.pdf>

¹⁶ <http://www.canberratimes.com.au/comment/palaszczuk-and-turnbull-governments-are-adani-mines-lonely-fans-20170519-gw8nnp.html>

¹⁷ <http://www.tai.org.au/sites/default/files/Polling%20Brief%20-%20Priorities%20for%20the%20NAIF.pdf>

- Queenslanders showed similar results, selecting health (75%), education (54%) and renewable energy (52%) most often, and selecting coal and gas infrastructure least often.
- 75% preferred renewables funding over coal; only 11% preferred coal funding.
- Among Queenslanders, 79% preferred renewables over coal.
- 62% said more jobs would be created spending \$5bn on hospitals and schools, than would be created spending it on coal. Results were similar amongst Queenslanders

Subsidised loan from Royalty Deferment

From early May 2017 there were reports the Queensland Government would provide a 'royalty holiday' or 'ramp-up' for Adani. Other coal mines in Queensland pay the state for ownership of the coal they mine, via a royalty that starts at 7% of the coal's value.¹⁸ Adani was to be given special treatment, effectively free coal, a deal reported to cost Queensland \$320 million.¹⁹ The Queensland government was widely criticised for breaking its promise not to subsidise Adani.

The Queensland Government subsequently announced "there will be no royalty holiday", with Adani paying royalties "in full". Instead, Adani will be able to 'defer' payment of royalties to later years of the mine's operation, with interest accruing on deferred royalties.²⁰

The details of the Adani deal are secret. The Government says they will remain commercial in confidence.²¹

'Royalty deferment' is effectively a loan. Adani will extract and sell Queensland's coal on the promise of paying the state back at some time in the future. Not only does the state miss out on short term revenue; the terms of this loan will not be disclosed. The Queensland public will not know the interest rate, the term of repayment or the form of security.

If Adani did not get this royalty deferment, it would have to seek a commercial loan in the market. The fact that it prefers the deferment to a commercial loan shows that the loan is being offered on concessional terms. Receiving a subsidised loan from the Queensland government transfers risk from Adani onto the Queensland taxpayer.

In short, the loan is a form of taxpayer assistance to some market participants provided on non-commercial terms. It is therefore a subsidy from Queensland taxpayers to Adani, and a breach of election promises.

¹⁸ <https://www.treasury.qld.gov.au/taxes-royalties-grants/royalties/mra001.php>

¹⁹ <http://www.abc.net.au/news/2017-05-22/adani-no-royalty-holiday-jackie-trad/8546968>

²⁰ <http://statements.qld.gov.au/Statement/2017/5/27/queensland-jobs-investment-and-royalties-boost-from-new-resource-policy>

²¹ <http://www.brisbanetimes.com.au/queensland/new-royalties-framework-could-apply-to-existing-operators-20170531-gwh3lf.html>

HOW BIG IS THE ROYALTY DEFERMENT?

The Australian reports that the deal for Adani will result in a flat rate of royalties of \$5 million per year over five years (\$25 million total) with the balance of royalties deferred.²² The Queensland government has not contested this account.

A recent report by The Australia Institute estimated the cost to Queensland from a five year royalty holiday to be \$749 million (nominal).²³ Under the reported deferment deal, Adani would pay only \$25 million in the first five years. Virtually all of the royalties would be deferred, totalling \$724 million.

These calculations were based the production schedule in Adani's Economic Impact Statement for the Carmichael mine. This is the potential royalty deferral to which the Queensland government has agreed, and so the scale of the loan they have offered, based on the media report.

Adani now says the mine will produce 25 million tonnes per year in the "first few years".²⁴ If production plateaus at 25 million tonnes the first five years, then using the same method, the royalty deferment would be \$482 million.

These calculations are outlined in Table 1 and Table 2 (page over). The calculations assume the thermal coal prices stay at recent levels.

Others have calculated a total deferment of \$370 million (nominal).²⁵ This calculation assumes 25 million tonnes per year and a decline in future coal prices, based on government forecasts. As one commentator noted, this figure serves as a conservative minimum. The potential loan amount, as reported, does not appear to be fixed and so could be much greater, if coal prices increase and production ramps up to approved levels.

In short, the Queensland government is giving Adani an open-ended subsidised loan -- of at least \$370 million, but potentially over \$700 million.

²² <http://www.theaustralian.com.au/business/mining-energy/adani-strikes-royalties-deal-with-qld-government/news-story/4564a64104de3739121ba117bc4ce8f5>

²³ The note also calculated a subsequent ramp-up, which with the holiday cost in total \$1.2bn. <http://www.tai.org.au/sites/default/files/P399%20Adani%20Royal%20Pardon.pdf>

²⁴ <http://www.cairnspost.com.au/news/national/carmichael-coal-to-help-india-cut-emissions-from-power-stations/news-story/e0b2d8b0a75f0d75d1e469fb49d10a5b>

²⁵ <http://www.smh.com.au/business/mining-and-resources/deferred-royalties-on-adani-could-hold-back-253m-from-government-20170601-gwi4cn.html>

Table 1 – Deferred Carmichael royalties, based on EIS

| | Unit | 2020 | 2021 | 2022 | 2023 | 2024 | Total |
|-----------------------|-----------|-------|-------|-------|-------|-------|------------|
| Production volume | Mt | 4 | 14 | 22 | 43 | 50 | |
| Coal price | AUD\$ M | 114.9 | 114.9 | 114.9 | 114.9 | 114.9 | |
| Coal quality discount | | 30% | 30% | 30% | 30% | 30% | |
| Carmichael price | AUD\$ / t | 80 | 80 | 80 | 80 | 80 | |
| Carmichael revenue | AUD\$ M | 322 | 1126 | 1769 | 3458 | 4022 | |
| Standard royalty rate | | 7% | 7% | 7% | 7% | 7% | |
| Royalties due | AUD\$ M | 22.5 | 78.8 | 124 | 242 | 282 | 749 |
| Royalties paid | AUD\$ M | 5 | 5 | 5 | 5 | 5 | 25 |
| Total deferred | AUD\$ M | 17.5 | 73.8 | 119 | 237 | 277 | 724 |

Table 2 – Deferred Carmichael royalties, 25Mtpa in first phase

| | Unit | 2020 | 2021 | 2022 | 2023 | 2024 | Total |
|-----------------------|-----------|-------|-------|-------|-------|-------|------------|
| Production volume | Mt | 4 | 14 | 22 | 25 | 25 | |
| Coal price | AUD\$ M | 114.9 | 114.9 | 114.9 | 114.9 | 114.9 | |
| Coal quality discount | | 30% | 30% | 30% | 30% | 30% | |
| Carmichael price | AUD\$ / t | 80 | 80 | 80 | 80 | 80 | |
| Carmichael revenue | AUD\$ M | 322 | 1126 | 1769 | 2011 | 2011 | |
| Standard royalty rate | | 7% | 7% | 7% | 7% | 7% | |
| Royalties due | AUD\$ M | 22.5 | 78.8 | 124 | 141 | 141 | 507 |
| Royalties paid | AUD\$ M | 5 | 5 | 5 | 5 | 5 | 25 |
| Total deferred | AUD\$ M | 17.5 | 73.8 | 119 | 136 | 136 | 482 |

Sources: Production volume from GHD (2013) *Carmichael Coal Mine and Rail Project SEIS Report for Economic Assessment*, Table 7 Coal production and operational capital expenditure of the Project;

Coal price is April 2017 Australian benchmark thermal coal price from www.indexmundi.com
Exchange rate from www.xe.com

Coal quality discount reflects the lower energy content of Carmichael coal compared to benchmark standards. Referenced by Adani Mining Pty Ltd in the Queensland Land Court in 2014. Cf. The Australia Institute (2016) *The Coal Wars: Fact Check*.
http://www.tai.org.au/sites/default/files/P303%20Coal%20hard%20facts_0.pdf

Royalty rate – Business Queensland (2017) *Mineral royalty rates*
<https://www.business.qld.gov.au/industries/mining-energy-water/resources/applications-compliance/royalties/calculating/rates>

It is not known what interest rate, repayment schedule or security will be applied. In the likely event that the loan interest rate or repayment schedule are concessional (subcommercial) then there is an interest rate subsidy. Queensland will bear risks of the mine becoming a stranded asset if security is insufficient, or tied to the project.

OTHER MINES GET THIS SUBSIDY AS WELL

The Queensland government is not only offering this subsidised loan to Adani. It has announced a royalties “framework” that it says is “transparent”.²⁶ The terms of the framework are unclear and the Adani deal will remain secret. However, it appears that subsidised loans (royalty deferral) will be available to new mines where the mining company provides for new infrastructure. The government initially highlighted the Galilee Basin, the Surat Basin and North West minerals province. The Queensland Treasurer has also announced that the new ‘framework’ could apply to existing mines where they were expanding.²⁷

The Galilee Basin and Surat Basins are large new coal basins. The Queensland government has announced a subsidy to any mine that opens up huge new coal basins.

Moreover, there does not appear to be any requirement that the deferral actually be needed. The Queensland government’s proposal is therefore more generous than the NAIF, which requires that the commercial sector not be willing to fund the project before it offers financing.

²⁶ <http://statements.qld.gov.au/Statement/2017/5/27/queensland-jobs-investment-and-royalties-boost-from-new-resource-policy>

²⁷ <http://www.brisbanetimes.com.au/queensland/new-royalties-framework-could-apply-to-existing-operators-20170531-gwh3lf.html>

Conclusion

While the Palaszczuk government continues to promise not to subsidise the Adani coal mine, it is now breaking that promise.

It is offering Adani a subsidised loan from the NAIF. By failing to veto that loan, it is taking funding away from other industries that could create jobs and that have much greater public support.

It is also offering a subsidised loan to Adani through royalty deferment, worth hundreds of millions and up to \$724 million.

The Queensland government is also now offering these subsidised loans to new coal mines across in the state.

As Queensland Treasury has noted, taxpayer assistance to mining comes at a cost:

Governments incur costs in the development of the mining industry ...

Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.²⁸

The Palaszczuk government is not only failing to keep its promise not to subsidise Adani and the coal industry, but creating substantial economic costs for the state of Queensland.

²⁸ Queensland Treasury (2013) *Queensland Treasury Response to Commonwealth Grants Commission: Response to Terms of Reference for Commonwealth Grants Commission 2015 Methodology Review*, https://www.cgc.gov.au/index.php?option=com_attachments&task=download&id=1728 p15-16, bold added