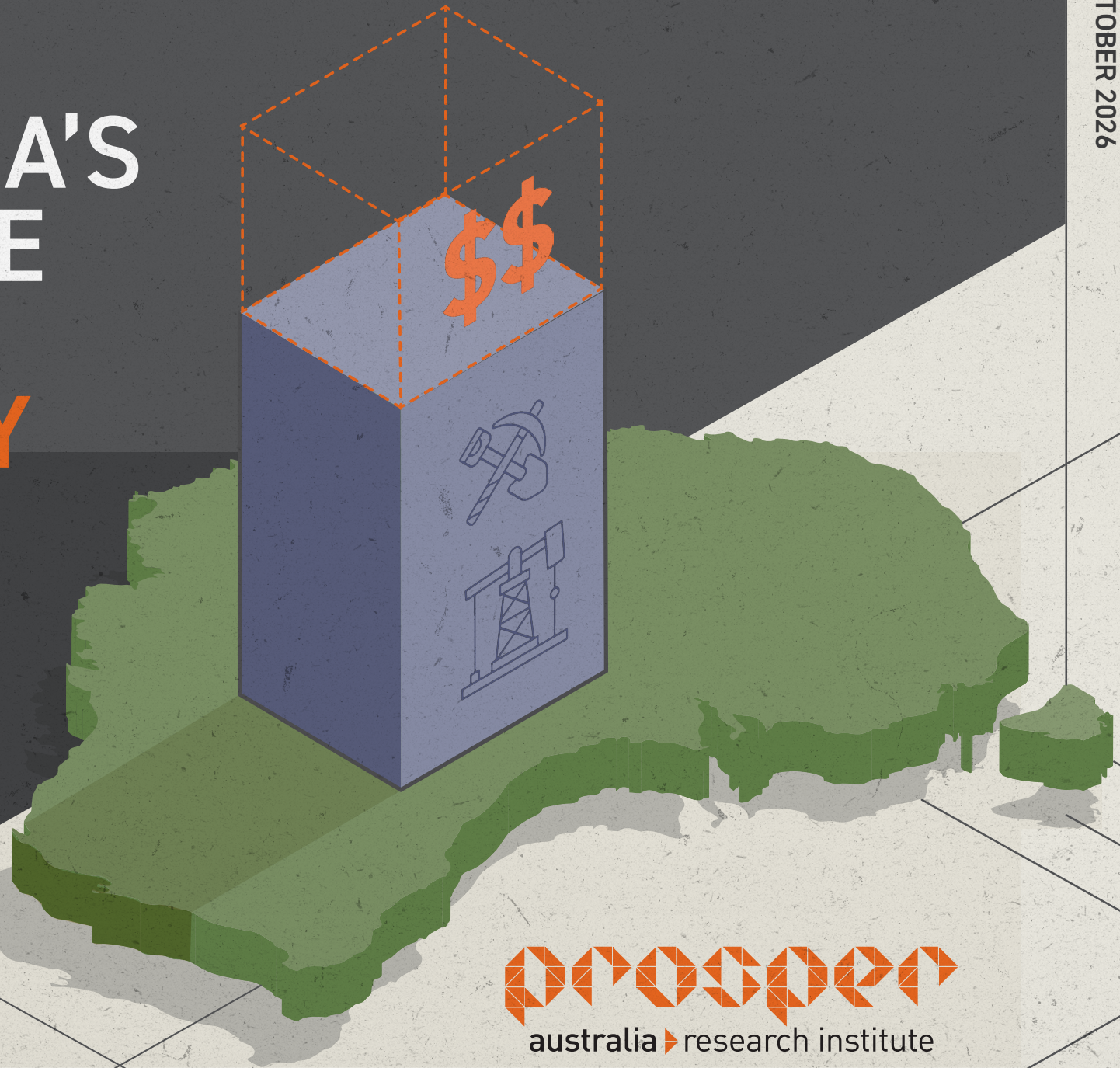


AUSTRALIA'S RESOURCE WEALTH GIVEAWAY

How weak public
capture leaves billions
in revenue on the table

Richard Wielga



Prosper Australia Research Institute acknowledges the Traditional Custodians of the country throughout Australia, and we pay our respects to their elders past and present.

About Prosper:

Prosper Australia Research Institute is an economic research organisation founded in the Georgist tradition of political philosophy. Our work centres on the monopolistic nature of land and how it shapes our economy and society. Our vision is a just and equitable society, created by ensuring everyone who benefits from our land, natural resources, and natural monopolies pays a fair rent for their use.

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EXECUTIVE SUMMARY

Australia is a resource-rich country, but it does not always collect a strong public return from its finite mineral and energy resources. Viable resource projects should be able to earn a commercial return on the capital, technology and expertise they invest. But those underlying resources are finite public assets, so when prices and profits surge, the public should share properly in that upside.

The report compares Australia’s resource tax and royalty system against selected resource-rich peers, including Norway, Alaska, Chile, Peru, Québec, and Queensland coal. It does this by asking three practical questions:

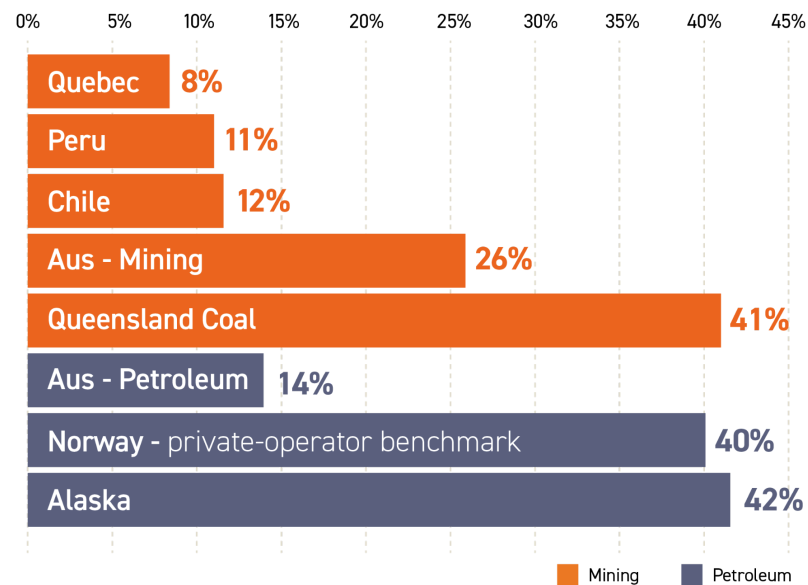
- First, is the system designed to collect more when prices and profits surge?
- Second, what level of revenue does the public actually collect?
- Finally, does stronger public capture automatically drive investment away?

AUSTRALIA’S RESOURCE CAPTURE IS UNEVEN

To compare what governments actually collect, this report uses a public-capture ratio measure: public revenue collected from the resource sector divided by the sector’s value added. In plain English, the ratio shows how much public revenue is collected for every dollar of resource value created.

Figure 1 shows the public-capture ratio for Australia and selected peers.

FIGURE 1: PUBLIC-CAPTURE RATIOS FOR AUSTRALIA AND PEERS



Source: Prosper Australia analysis.

Three findings stand out:

- **Finding 1: Petroleum is Australia’s clearest weakness:** Australia’s petroleum-only public-capture ratio is around 14%, far below two petroleum peers with 42% for Alaska and about 40% for Norway’s adjusted private-operator benchmark. Australia’s Petroleum Resource

Rent Tax looks strong on paper, but that design has not translated to strong observed revenue.

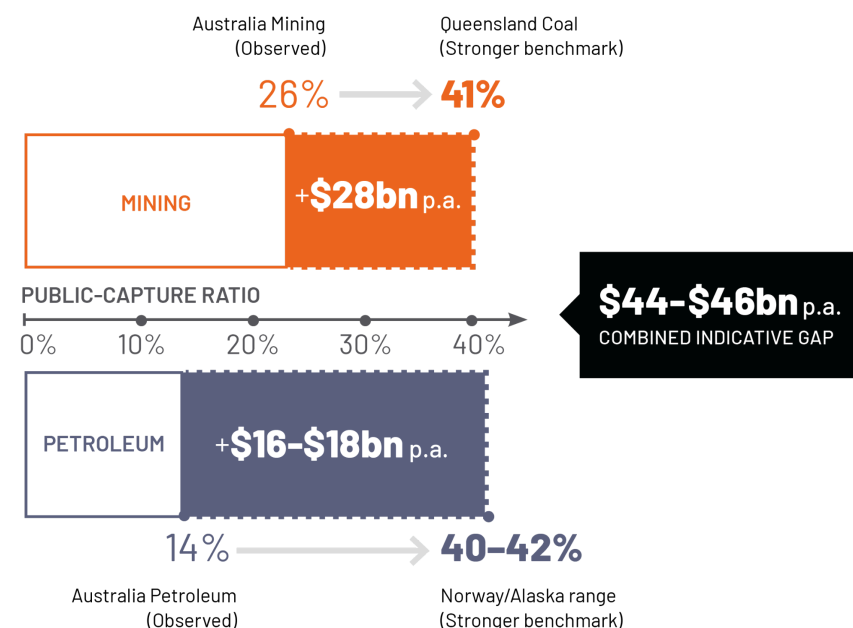
- **Finding 2: Mining performs better, but royalties stay flat in booms:** Australia's mining-only public capture ratio is around 26%, above the selected international mining peers in this report. But most mining royalties outside Queensland remain flat and low, meaning the royalty rates do not rise when commodity prices and profits surge.
- **Finding 3: Queensland coal is the domestic proof point:** Queensland coal's post-reform public-capture ratio is around 41%. It is not a perfect benchmark for Australia's broader mining sector, but it shows that much stronger boom-sensitive public-capture is possible in Australia.

AUSTRALIA'S RESOURCE REVENUE OPPORTUNITY IS LARGE

To show the scale of the revenue opportunity, the report applies stronger sector-matched public-capture benchmarks to Australia's mining and petroleum sectors. Figure 2 translates the stronger sector-matched benchmarks into indicative additional public revenue.

- **Finding 4: Stronger benchmarks imply about \$45 billion more a year:** Applying stronger sector-matched benchmarks implies around \$28 billion per year in additional mining revenue (applying Queensland coal's benchmark) and \$16–\$18 billion per year in additional petroleum revenue (applying Norway's and Alaska's benchmarks separately). Combined, the indicative revenue opportunity for Australia is around \$45 billion per year across state and Commonwealth revenue streams (\$44–46 billion range across the two petroleum benchmarks).

FIGURE 2: AUSTRALIA'S LARGE RESOURCE REVENUE OPPORTUNITY



Source: Prosper Australia analysis.

- **Finding 5: Weak public capture creates a double loss:** Australia relies overwhelmingly on private operators, but some Australian resource projects have direct foreign state-linked ownership. When Australia under-captures resource rents, it loses twice: some of the remaining upside can ultimately support foreign public balance sheets. The report identifies around \$16 billion in direct foreign state-linked production value, equal to around 4% of Australia's total resource and energy

export earnings. On an indicative basis, almost \$2 billion per year of the broader annual public-revenue gap flows to foreign public balance sheets rather than our own.

STRONGER PUBLIC CAPTURE NEED NOT HALT INVESTMENT

The report tests whether stronger public capture drives investment away, looking at the forward-investment pipelines across peers and Queensland's post-coal royalty reform experience.

- **Finding 6: Stronger public capture need not halt investment:** The evidence does not support the simple claim that stronger public capture drives investment away. Norway and Alaska retain robust investment profiles, while other boom-sensitive jurisdictions continue to attract investment.
- **Finding 7: Queensland's coal sector remains robust post-reform:** While the evidence window following its highly progressive 2022 royalty reform is short, broad state-level indicators show a robust Queensland coal sector. Relative to NSW, Queensland coal production remained broadly stable, with no evidence that industry's warnings of broad decline have materialised.

PRACTICAL REFORM PATHWAYS

There is a clear public demand for Australia to rapidly modernise its public-capture mechanisms before more finite public wealth is extracted without a fair public return. To address this under-capture while allowing viable resource projects to earn a commercial return, the report

recommends two practical priorities: modernise state royalties and address petroleum under-capture.

- **Recommendation 1a: Market-linked state royalties:** Market-linked royalties rise when commodity prices exceed long-run norms. Prosper Australia's variable royalty proposal provides a practical starting point: the state determines a base commodity royalty rate that adjusts with current prices relative to the long-run median, so the public return rises automatically in boom conditions.
- **Recommendation 1b: Consider hybrid systems:** As an alternative to a purely market-linked royalty, states could combine a minimum royalty floor with a second boom-sensitive component linked to prices, profits or profit margins. This helps ensure a minimum public return while production continues, and allows the public share to rise when market conditions are strong. Alaska provides one practical example of a hybrid model, while Queensland's progressive coal royalties show how a strong boom-sensitive component can operate within Australia.
- **Recommendation 2: Address petroleum under-capture:** Petroleum is Australia's clearest revenue collection gap. State royalty reform can only go so far: major offshore petroleum projects are primarily subject to Commonwealth tax settings. This report does not design a new Commonwealth petroleum tax, but future reforms should be judged against the same principle: public returns should rise when prices and profits surge.

Low, flat royalties are policy choices. Better choices are available.