Parliamentary Budget Office

Policy costing

Phase out thermal coal exports by 2030	
Party:	Australian Greens

Summary of proposal:

This proposal would introduce permits on exporting thermal coal, with a yearly cap of total permits available for purchase. Coal exporters would pay for permits to export thermal coal each year. The yearly export cap amount and the amount charged for the thermal coal export permits are as follows.

Financial year	Thermal coal export cap ('000 tonnes per year)	Price of permits ($ per tonne)
2019-20	85,000	$1.00
2020-21	161,750	$1.50
2021-22	145,250	$2.00
2022-23	128,750	$2.50
2023-24	112,250	$3.00
2024-25	95,750	$3.50
2025-26	79,250	$4.00
2026-27	62,750	$4.50
2027-28	46,250	$5.00
2028-29	29,750	$5.50
2029-30	10,750	$6.00

The amount spent on permits would be deductible for company tax purposes.

Permits can only be purchased by coal exporters, and permits would initially be allocated based on the previous year's production.

The policy has a start date of 1 January 2020 and would result in a complete ban of thermal coal exports by 1 January 2030.

Costing overview

This proposal would be expected to decrease both the fiscal and underlying cash balances by $177 million over the 2019-20 Budget forward estimates period. This impact reflects a decrease in revenue of $170 million and an increase in departmental expenses of $7 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2029-30 is included at Attachment A. The proposal would be expected to have a negative fiscal impact from 2020-21 as a result of a timing difference between permit revenue and income tax collections. The effect of the cap on exports has a larger negative effect on profitability and therefore overall company tax collections over time, which is only partially offset by the permit revenue.

Departmental expenses associated with the proposal would be expected to be $7 million over the 2019-20 Budget forward estimates period. These costs would be associated with administering the export limits.

The revenue estimates for this proposal include:

- revenue from companies buying the export permits
- the flow-on effects on company tax, both through deductibility of permits and reduced profitability of coal exporters
- the flow-on effects of the changes to other income tax due to lower dividend payments from affected companies.

There are a range of impacts that have not been captured in this costing because their magnitude and timing are highly uncertain. For example, this proposal could result in broader macroeconomic impacts, including on employment, trade income, and the exchange rate, which would be expected to have flow-on effects on broader Government revenue and payments. Secondly, while domestic thermal coal prices would be expected to reduce under this proposal, with a negative impact on the profitability of coal miners, they would also be expected to have an offsetting positive impact on the profitability of downstream users of thermal coal. Thirdly, it is possible that a secondary market in coal export permits may develop under this proposal, which could give rise to some tax revenue impacts associated with trading gains or losses. None of these impacts have been included in this costing.

Note that the Parliamentary Budget Office (PBO) has not assessed the effects on export volumes and prices for thermal coal of the recent announcement from Glencore[1] that they will be limiting coal production in Australia.

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	83	-99	-51	-110	**-177**
Underlying cash balance	83	-99	-51	-110	**-177**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in relation to this costing.

General

- There will be no material impact on global prices as a result of the cap on coal exports.

[1] Stevens, Matthew, 2019. *Glencore bows to climate lobby and caps coal production*, Australian Financial Review, 20 February 2019.

- All affected companies would have total incomes above $50 million and hence would be subject to the 30 per cent company tax rate.
- All affected companies would be taxable.

Thermal coal export permits

- All permits up to the export cap would be purchased each year.

Company Tax

- In the absence of the proposal, total thermal coal export tonnage would grow by 0.5 per cent each year from 2022-23.
  - Coal export amounts over the 2019-20 Budget forward estimates period are as projected in the Budget baseline.
- Thermal coal export prices would be the amount projected over the 2019-20 Budget forward estimates period in the 2019-20 Budget. Beyond the 2019-20 Budget forward estimates period, prices would be maintained by indexing them by the consumer price index.
- After deductions (including the new permit deduction) and offsets, the tax payable by affected companies would be approximately 4 per cent of their total income.
  - This is based on the ratio of tax payable to total income for mining companies in the *2016-17 Taxation Statistics*.

Other income taxes

- Approximately 30 per cent of shareholders of affected companies would be domestic shareholders able to claim franking credits.
- Approximately 70 per cent of the fall in profits as a result of this proposal would be expected to flow on to domestic shareholders via changes to dividend payments.
  - Domestic shareholders would have an average tax rate of 32 per cent.

Methodology

Thermal coal export permits

The thermal coal export permit revenue was calculated by multiplying the expected purchase of coal export permits by the specified price of permits. This value was then used to calculate total company tax deductions at the company tax rate.

Company tax

The reduction in corporate tax revenue was calculated by applying the average tax-to-income ratio of mining companies to the reduction in corporate income (including for the permit deduction) that would occur due to lower coal exports.

Other income taxes

As the proposal would decrease the profitability of affected companies, it has been assumed that this will lead to lower dividend payments. To calculate this, dividend payments by coal companies were reduced in line with company profits and the reduction in tax paid by their Australian shareholders was estimated taking account of the imputation system. This amount also took into account the effect of lower imputation credits for shareholders.

Departmental costs were calculated based on administrative and compliance costs of similar proposals.

Permit revenue and departmental expense estimates have been rounded to the nearest $1 million. Revenue estimates for company tax and other income tax have been rounded to the nearest $10 million.

Data sources

Commonwealth of Australia, 2019. *Budget 2019-20*, Canberra: Commonwealth of Australia.

Australian Taxation Office, 2019. *Taxation Statistics 2016-17*, Canberra: Australian Taxation Office.

Stevens, Matthew, 2019. *Glencore bows to climate lobby and caps coal production*, Australian Financial Review, 20 February 2019.

Attachment A – Phase out thermal coal exports by 2030 – financial implications

Table A1: Phase out thermal coal exports by 2030 – Fiscal and underlying cash balances ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Revenue													
Thermal coal permits	*85*	*243*	*291*	*322*	*337*	*335*	*317*	*282*	*231*	*164*	*65*	*940*	*2,671*
Income Tax[(c)]	*-*	*-340*	*-340*	*-430*	*-520*	*-610*	*-700*	*-800*	*-890*	*-980*	*-1,080*	*-1,110*	*-6,680*
Total – revenue	***85***	***-97***	***-49***	***-108***	***-183***	***-275***	***-383***	***-518***	***-659***	***-816***	***-1,015***	***-170***	***-4,009***
Expenses													
Total – departmental	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-2**	**-7**	**-19**
Total	**83**	**-99**	**-51**	**-110**	**-185**	**-277**	**-385**	**-520**	**-661**	**-818**	**-1,017**	**-177**	**-4,028**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

(c) Income Tax refers to both individual income tax and company income tax.

\- Indicates nil.