



ROYALTIES



THE CURRENT ROYALTY SCHEME UNDER THE MINING ACT

Royalties are the payment an operator makes to the State for the right to access the community's minerals. Royalty payments are determined by applying either a per tonne rate to the quantity of minerals sold, or a percentage (ad valorem) to the sales value less relevant deductions. As commercial sale arrangements have developed over time, some of the calculation processes have become out of step with industry practice and may lead to differing royalty outcomes between similar operators. The time to determine the value of the minerals is at the time the mineral or extractive mineral leaves the mine or quarry. This is known as the ex-mine gate value. However, under common sales contracts, the value of the mineral is not often known at that time, making it difficult for many operators to calculate royalty.

In the *Discussion Paper*, we sought your view on whether the value shown on the sales invoice (in 'arm's length' transactions) may be a better point of reference for royalty calculation. We outlined that this approach would reflect the approach currently taken by many operators, and would be consistent with the approach taken in leading practice jurisdictions. By updating the Act to reflect the contract price from the first sale, the determination of the value of the mineral would be more objective, and there would be greater consistency between operators in the calculation of royalty. Where a genuine 'arm's length' sale doesn't occur (including where minerals are transformed) the current process under the Act works well, but could benefit from some minor amendments. The Act currently provides limited guidance where an operator cannot locate a similar sale for their mineral within the current return period, and so we sought your views on a calculation mechanism that would ensure an operator can pay royalty on a value that, in their opinion, a willing and knowledgeable buyer would be prepared to pay for the minerals.

WHAT YOU SAID

Submissions recommended increasing royalties, linking bonds with performance and/or royalties and incorporating other jurisdictional models and assessments for royalties.

FUTURE DIRECTIONS BEING CONSIDERED

The Review Team is considering recommending amendments that will introduce a 'first sale' approach to the calculation of royalties that will be levied on the relevant 'arms length' contract price. Where there is no relevant 'arms length' transaction, or where the minerals are 'transformed', royalty will be calculated based on market prices or relevant price determinations. This will bring South Australia in line with other leading practice jurisdictions around the world, and will create certainty for industry and ensure that South Australian's are recovering appropriate value for the extraction of the community's minerals.

Leading Practice Mining Acts Review — June 2017