Commissioner for Better Regulation
Red Tape Commissioner

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12 September 2019

Ms Beth Jones
Deputy Secretary, Rural and Regional Victoria
Chief Executive of Regional Development Victoria
Department of Jobs, Precincts and Regions
111 Armstrong St North,
BALLARAT VIC 3000

Dear Ms Jones

REGULATORY IMPACT STATEMENT FOR MINERAL RESOURCES (MINERAL INDUSTRIES) AMENDMENT REGULATIONS 2019

I would like to thank staff at the Department of Jobs, Precincts and Regions (the Department) for working with our team on the preparation of the Regulatory Impact Statement (RIS) for proposed amendments the Mineral Resources (Mineral Industries) Amendment Regulations 2019 (the proposed Regulations).

As you know, under section 10 of the *Subordinate Legislation Act 1994* (the SLA), the Commissioner for Better Regulation is required to provide independent advice on the adequacy of analysis provided in all RISs in Victoria. A RIS is deemed to be adequate when it contains analysis that is logical, draws on relevant evidence, is transparent about any assumptions made, and is proportionate to the proposal's expected effects. The RIS also needs to be clearly written so that it can be a suitable basis for public consultation.

I am pleased to advise that the final version of the RIS received by us on 10 September 2019 meets the adequacy requirements of the SLA.

Background

The Government announced in May when delivering the 2019-20 State Budget that it was removing the exemption for gold from Victoria's royalty regime on 1 January 2020. Removing this exemption would set the royalty rate at 2.75 per cent of the net market value of production, consistent with other minerals (apart from brown coal).

Analysis

The RIS, analyses the impacts of removing the exemption for gold compared with retaining the exemption. The Department explains that it only analysed this one option because:

- options were considered through the budget process, which are Cabinet-in-Confidence;
- the Government publicly announced the policy in the Budget; and
- the announced policy removes an existing exemption, which limits consideration of design options for the gold royalty that are inconsistent with Victoria's current royalty regime.

The Department undertakes two pieces of analysis in the RIS: a quantitative analysis; and a qualitative analysis.

Quantitative analysis

The Department explains in the RIS that it commissioned independent analysis of the potential impact of a gold royalty on state revenue and gold producers. This analysis projected that a 2.75 per cent gold royalty, with a 2,500 ounce per year low production threshold would raise $14 million per year over the 2019-20 Budget forward estimates.

The RIS states that since this analysis was undertaken, there have been several major developments:

- the Australian dollar gold price has surged through a combination of a higher US dollar gold price and a weaker exchange rate;
- Centennial Mining entered voluntary administration; and
- Stawell Gold Mine has recommenced pouring gold.

Based on this recent market data the Department's analysis is presented in the RIS. It covers a range of estimates of the impact of the gold royalty on industry and revenues. This analysis indicates that the revenue estimates are expected to be higher than the budget forecast.

The Department notes that producers are more sensitive to the gold price and exchange rates than to royalty payments and explains that all gold producers would be profitable with a royalty in the low price and higher price scenarios. In a very low price scenario (gold prices sustained at AU$1,418 per ounce) the most marginal producers would be expected to cease operation. However, the Department explains that the very low or negative margins some producers would face at these prices, would cause some current producers to exit the market, rather than the royalty itself.

Further, the RIS explains that the regulatory costs on gold producers as a result of the gold royalty are very low. The low production threshold means only the three largest current producers would pay the royalty. For large producers, the additional regulatory cost (separate to the royalty itself) is that of preparing a royalty return, which is expected to be between $1,500 and $3,000 per producer, per year.

In conclusion, the Department claims that the benefits of a gold royalty to the community through increased public investment are likely to outweigh the costs to producers due to the multiplier effect of public investment, where money spent within an economy multiplies output as it flows through the economy. It notes that this conclusion holds for all price scenarios where the level of production is unaffected (low price and above).

Qualitative analysis

In the RIS, the Department compares removing the exemption with retaining the exemption against four objectives, that:

- economic activity and job creation resulting from gold resource development in Victoria continues;
- all Victorians are adequately compensated for the private development of gold resources in the state;
- Victorian gold producers are likely to remain profitable, i.e. the gold price exceeds a producer's operating costs, under forecast gold prices; and
- resources sector activity in Victoria is consistent with the purpose of the Act, as gold production is encouraged in a way that is compatible with the economic, social and environmental objectives of the state.

The Department notes that removing the exemption meets all four objectives but retaining the exemption only meets the first and third objectives. Based on this analysis, the Department explains that removing the exemption is preferred.

Implementation and evaluation

In the RIS, the Department commits to engaging with stakeholders on a regular basis to discuss the effect of the proposed Regulations, particularly in relation to business impacts. The Department will evaluate the proposed Regulations as part of a broad and comprehensive review of fees, rents, other royalties and levies scheduled for 2020-21. It also explains that the evaluation strategy will consider baseline data and key performance indicators if the royalty's impact is greater than expected.

Should you wish to discuss any issues raised in this letter, please do not hesitate to contact my office on (03) 9092 5800.

Yours sincerely

Anna Cronin

Commissioner for Better Regulation