A senior economics lecturer expects the Federal Government will take a subdued approach when factoring in mining and energy.

Prices for Australia's major export commodities - iron ore, coal and liquefied natural gas (LNG) - have dropped significantly in recent years, weighing heavily the federal purse.

Dr Lee Smales, from Curtin University in Western Australia, said Treasurer Scott Morrison had already set modest price assumptions for the key exports in the mid-year economic financial outlook (MYEFO).

"It's amazingly difficult to forecast commodity prices because they are extremely volatile," he said.

"However, it should be apparent when preparing budgets, as well as corporate reports, an element of prudence, erring on the side of caution, should be warranted."

Along with the economic input generated by having projects and jobs, state government budgets are bolstered by the royalties they receive from mining companies.

The royalties are calculated in different ways depending on the resource - typically either as a percentage of the market value of a flat rate per tonne.

It's a different matter for federal coffers, which don't receive direct royalties from mining.

"The federal budget is effected by the actual profitability of the resource sector," Dr Smales said.

"The idea being that during a boom, mining companies derive higher earnings, and this in turn leads to higher corporate taxes which the Federal Government receives.

"And there is also a multiplier effect, so firms in complementary sectors benefit from that, and pay more tax.

"Then there's additional staff, usually on higher salaries, which contributes more income tax to the budget, and leads to an increase in spending which benefits the wider economy."
However, along with low commodity prices, the sector has moved from a construction to a production phase, so there are <a href="/news/2016-04-08/wa--election-economic-stability-a-focus-for-electorates/7309246" target="_blank" title="">less jobs, lower wages, and company profits are well down</a>.

The iron ore factor at work
Iron ore is Australia's highest value export earner, with the price hitting record highs early around $US180 tonne in 2011.

That equates to around $230 tonne at today's exchange rate of US76 cents.

But at the time the Australian dollar was worth more.

From the highs of 2011, the steel-making ingredient took a plunge to <a href="/news/2015-09-23/chinese-steel-production-peaks-sends-iron-ore-coal-price-down/6795954" target="_blank" title="">$US37 a tonne in December 2015</a>.

The value has staged a comeback in recent months, sitting around $US60, <a href="/news/2016-03-08/iron-ore-price-surges-on-steel-demand/7229920" target="_blank" title="">a level many analysts caution was unsustainable</a>.

Dr Smales said despite the resurgence, the government appeared to be taking a cautious approach with its price assumption in the budget.

"The consensus is a $10 change in the price of iron ore will change the tax revenue the Federal Government receives by $2.5 billion a year," he said.

"In the MYEFO, the price assumption was $US39 a tonne, down from $US48 in the previous budget.

"It could be that the government is looking at this as a temporary increase, and is looking beyond that.

"But it is possible they're keeping a positive surprise in store for the budget when it arrives."

Coal no longer king but brings in princely sums
Like all bulk mineral commodities, <a href="/news/2015-12-10/debate-over-future-of-australian-coal-industry-and-indian-demand/7010772" target="_blank" title="">the coal price has also fallen back drastically</a>.

It peaked at the height of the global financial crisis in 2008 around $US180 tonne ($235) but is now fetching closer to $US52 ($68).

The global price drop has seen Australia's coal industry <a href="/news/2016-01-22/callide-mine-sold/7108018" target="_blank" title="">take a hit</a> as a result.

"Coal is still Australia's second biggest export, it accounts for 10 per cent of all exports, so it's still very important to the economy," Dr Smales said.

"In its mid-year outlook, Treasurer Scott Morrison used $US52 a tonne as the price assumption and that's not very far away from where it is now."
The LNG sector hit some significant benchmarks in the last financial year.

New-build projects from the west coast to the east coast started the move from construction to production and exports of LNG have begun.

Aside from corporate taxes, Australia's oil and gas industry also pays a petroleum resource rent tax (PRRT) to federal authorities.

Theoretically, that should also be a boost to their coffers, but the 40 per cent PRRT is levied on taxable profits.

"It's very important to note that the PRRT is based on profits, not revenue," Dr Smales said.

"With the high investment and ongoing costs of running those projects, coupled with very low crude oil prices (Australia LNG price is pegged to the price of oil), it's unlikely those projects are going to be generating any profits in the near future."

Crude oil fell from around $US120 barrel ($156) in 2008 and is currently worth around $US40.

"Given that, it is unlikely those project developments will have a huge effect on this budget," Dr Smales said.

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