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Western Australia's Iron Ore Royalties in an Era of Fiscal Stress, Supply Chain Reordering and Geoeconomic Risk

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Western Australia's Iron Ore Royalties in an Era of Fiscal Stress, Supply Chain Reordering and Geoeconomic Risk

Abstract

Beyond other minerals, Western Australia is unusually exposed to the fiscal, employment and strategic consequences of iron ore (ABS, 2026). The State's royalty system has generated large revenue flows during the two iron ore booms (Bankwest Curtin Economics Centre, 2026) yet the budget position has not been structurally insulated from rising expenditure, higher net debt and potential employment contraction (Australian Government Treasury, 2023-24). This article argues that the 7.5 per cent ad valorem royalty on direct shipping iron ore should be reconsidered in light of three linked developments, being a mature Pilbara production system capable of sustaining high export volumes with fewer workers, a more concentrated and strategically organised buying environment centred around China, and the use of Western Australian iron ore cash flows by global mining houses to strengthen balance sheets and fund portfolio growth elsewhere. The paper reviews the history of royalty reform, the State's contemporary budget dependence, the changing employment and capital intensity of the Pilbara system, and the geoeconomic pressures shaping iron ore trade. It evaluates three policy options, namely retaining the present base case, increasing the value-based ad valorem rate for major producers to 10 per cent, and adopting a progressive ad valorem structure linked to price bands. A pragmatic ad valorem increase is motivated for large direct shipping ore producers, coupled with a preservation fund to quarantine windfall royalty revenue for future generations. The central policy proposition is that royalty reform can be designed as a modest, transparent and administratively efficient reset of resource-owner value rather than as a punitive intervention in a globally important industry.

Keywords: Western Australia; iron ore; royalties; fiscal policy; mineral economics; sovereign wealth fund

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1. Introduction

Western Australia has built one of the world's most important export economies on the extraction, transport and sale of iron ore (ABS, 2026; Australian Government Treasury, 2023-24). The Pilbara iron ore system has created large private returns, significant public revenues and a distinctive economic structure in which commodity prices, export volumes, population growth and State fiscal capacity are closely connected (BHP, 2025; Hepburn, 2018). The central question for policy is no longer whether iron ore has benefited Western Australia, but rather whether the present royalty framework remains adequate for a mature production province operating in a less open, less predictable and more strategically contested global trading environment.

Iron ore royalty reform is presented as both a fiscal and a geoeconomic issue. Its argument is that Western Australia now faces a convergence of risks outlined as rising public net debt after a period of exceptional commodity revenues (Chambers, 2026), a potential reduction in iron ore employment as producers optimise mature assets, and a changing external market in which the dominant customer has become more organised in procurement and more willing to use commercial negotiations for strategic ends. These risks are not independent. A State that depends heavily on royalties and resource-linked employment has less fiscal and political room to absorb a simultaneous fall in price, employment and confidence (Cartwright, 2026).

This article therefore considers royalty policy not as a narrow schedule of rates (Coorey, 2026) but as an instrument through which a resource-owning jurisdiction allocates value between present revenue, future opportunity, private profitability and public resilience. Royalties compensate the community for the depletion of non-renewable minerals. In principle, they should balance investment incentives with resource-owner equity, revenue stability, transparency and administrative simplicity. In practice, that balance changes as market conditions, industry profitability, infrastructure maturity and the State's fiscal needs change.

The paper advances a pragmatic reform position. It does not recommend a full shift to a profit-based royalty, despite the theoretical attraction of capturing economic rent, because such systems can be complex to administer and contested in implementation (Hays, 2026). It instead recommends a targeted increase in the value-based ad valorem rate for large direct shipping ore producers, from the current base to 10 per cent, with beneficiated products and smaller producers left under the existing structure. The simplicity of the ad valorem model is retained, but the rate is reset to better reflect the maturity, profitability and strategic importance of the Pilbara system.

A second recommendation is institutional rather than merely numerical. Windfall iron ore revenues should not be fully absorbed into recurrent expenditure during boom periods (Johnson, 2024). A preservation or sovereign wealth-style fund should be established to save a defined share of excess iron ore royalty receipts. The purpose is to transform part of the value of a depleting mineral estate into a durable public asset. Such a fund would not remove the need for disciplined expenditure control, but it would improve intergenerational equity and reduce the risk that temporary price spikes are converted into permanent spending commitments (Kabundi et al, 2022).

2. Background Economics

2.1 Royalty history and the 2011 precedent

Western Australia's iron ore royalty structure is historically tied to State Agreements, the Mining Act framework and the development of a world-scale export industry from the 1960s onward (MCA, 2026). For many years, product distinctions such as lump, fines and beneficiated ore carried different royalty rates. Those distinctions reflected earlier market conditions and infrastructure assumptions. As the market matured, the economic rationale for concessional treatment of some direct shipping products weakened. Demand for fines rose, pricing shifted, and

producers moved from longer-term arrangements toward benchmark and spot-linked pricing systems.

The 2011 reform to iron ore fines royalties is a critical precedent. The State moved to remove a concession and bring fines toward parity with lump ore, ultimately setting the direct shipping ore rate at 7.5 per cent. The reform was introduced in a period of budget pressure, but it was also defensible as a recognition that the market had changed. Fines were no longer a residual product requiring concessional treatment. They were central to the export system and capable of generating substantial value. The policy lesson is that royalty settings are not immutable. They can be adjusted when market structure, product value and public interest justify reform.

The same lesson applies today, although the context differs. The earlier change corrected a product concession within a rapidly growing market. The current question is whether a mature, infrastructure-rich and highly profitable industry should continue to face the same base rate after more than a decade of exceptional growth, corporate balance sheet repair and public revenue dependence. The argument for change is not that iron ore companies have failed to contribute, as they have contributed significantly. The argument is that community compensation for resource depletion should be recalibrated when the industry has moved from expansionary capital build-out to optimisation of established assets.

Royalty policy is also embedded in the federal fiscal system. Western Australia's royalties interact with Commonwealth revenues, the goods and services tax distribution and horizontal fiscal equalization (Tunny, 2025). Any reform therefore has State and national dimensions. However, the existence of federal interactions should not be treated as a reason for policy paralysis. Resource ownership is vested in the State, and the State has a legitimate interest in ensuring that its royalty regime reflects both the value of extraction and the costs of maintaining the economic and social ecosystem that supports production.

2.2. Budget dependence and the net debt problem

The overall fiscal case begins with a tension. Western Australia has enjoyed remarkable iron ore royalty receipts during the post-2020 period, yet the State's net debt outlook has not been permanently repaired (ABS, 2026; ABARES, 2026). Large royalty inflows helped fund infrastructure, services and economic resilience during and after the pandemic period. They also helped support the broader State economy while iron ore prices remained above conservative forecasts. However, debt is forecast to rise materially in the forward estimates, creating an uncomfortable policy problem, being that of a State that received boom revenues and yet still faces a constrained balance sheet.

This matters because royalty revenue is volatile and expenditure tends to be sticky. When commodity price assumptions are exceeded, governments often receive unanticipated revenue. If that revenue funds permanent programmes, asset investment commitments or recurrent service growth, the budget becomes vulnerable when prices normalise. There is a recurring gap between revenue and expenditure across budget years and the debt trajectory has become a structural overhang. The issue is not immediate insolvency as Western Australia's debt remains manageable in the conventional sense. The issue is reduced fiscal flexibility in a State whose social, infrastructure and diversification needs are expanding.

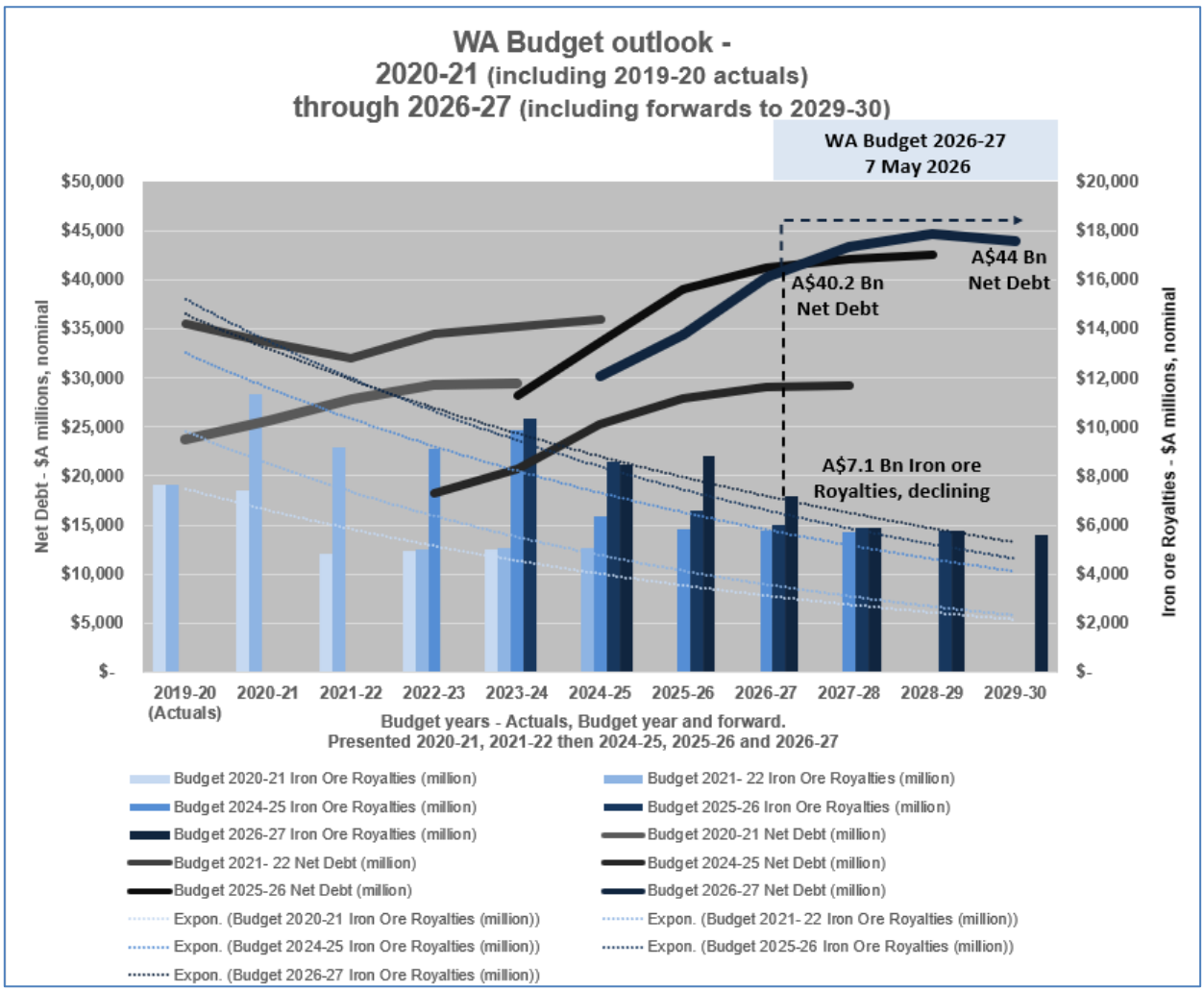


Figure 1: Western Australia's Department of Treasury and Finance – Budget Outlook

Iron ore has been especially important because it represents the dominant component of mineral royalty receipts in the State. Commodity royalties have formed a large share of consolidated revenue when combined with GST redistribution and interjurisdictional transfers. Iron ore royalties have therefore served not merely as a sector-specific tax return but as one of the pillars of State fiscal management. A fall in iron ore price, a decline in export value, or a sustained downgrade in receipts would rapidly affect budget choices. That risk is magnified if the State enters such a period with higher debt and higher service expectations.

The political economy of debt is central to the argument. History recalls the political memory of earlier forecast errors and the role of net debt in changes of government. In Western Australia,

fiscal credibility is closely tied to perceptions of competence, discipline and the prudent use of resource wealth. A policy that allows high royalty years to be consumed without building a durable buffer may be vulnerable to criticism from both fiscal conservatives and resource-owner equity advocates. Royalty reform is therefore framed as a tool for strengthening the balance sheet, not simply raising revenue for immediate expenditure.

Table 1. Main fiscal and policy pressures identified

Pressure	**Policy significance**
High reliance on iron ore royalties	Creates exposure to price, volume and realised value changes.
Rising net debt outlook	Reduces fiscal flexibility and strengthens the case for durable revenue reform.
Sticky expenditure after boom years	Raises the risk that temporary revenue funds permanent commitments.
Need for diversification and infrastructure	Requires stable capital without relying solely on future commodity surprises.

2.3. Structural change in the Pilbara iron ore system

The Pilbara iron ore system has changed from a growth-constrained development frontier into a mature industrial platform. During the boom periods, private capital built mines, rail, ports, processing infrastructure, logistics systems and energy networks at a scale capable of supporting very large export volumes. Once that backbone exists, the economic problem shifts. Producers no longer need to replicate the initial surge in buildings and structures to maintain output. They can focus on sustaining capital, productivity, automation, mine sequencing, blending and operational optimisation.

This maturity alters the relationship between output, capital and employment. It can be argued that the industry has demonstrated an ability to produce very high export volumes with materially

different labour inputs. Periods of lower employment have not necessarily produced equivalent reductions in tonnes. This suggests that the system now has a high degree of operating leverage and a more elastic tonnes-per-worker relationship than during the earlier expansion phase. For firms, that is a strength. For the State, it means that the employment dividend from iron ore may fall even when export volumes remain strong.

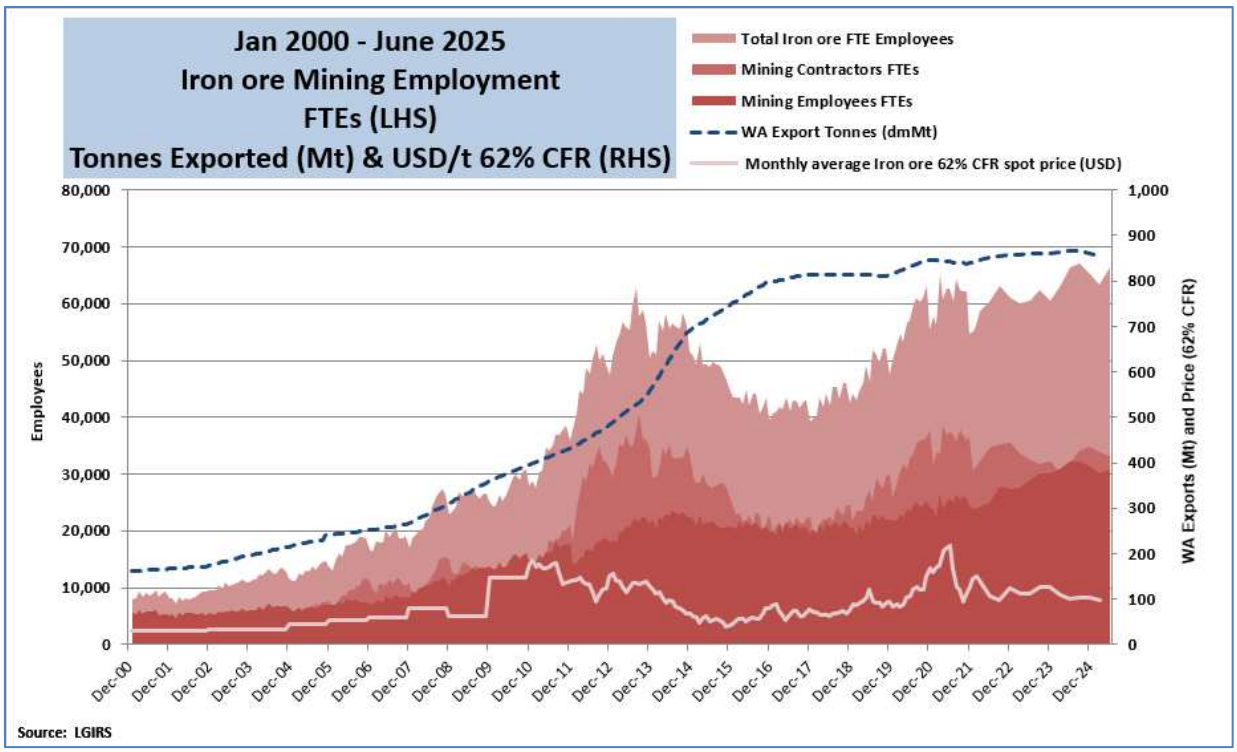


Figure 2: Western Australia's Department of Mines, Petroleum and Exploration Statistics Digest – Iron Ore Employment

The current capital discipline of major producers reinforces this shift. The industry is no longer characterised by repeated large-scale greenfield expansions in shared infrastructure. It is increasingly defined by sustaining projects, replacement mines, efficiency investments and selective debottlenecking. This is a new epoch of optimisation and capital control. Such a regime can maintain profits and cash flows while offering fewer construction and operating employment opportunities than earlier phases. It may also reduce the political salience of industry claims that higher royalties would necessarily undermine massive future capital commitments.

The productivity story is not negative in itself. Efficient operations, automation and disciplined capital allocation are rational responses to mature assets and potential market surplus. They help keep Western Australian ore globally competitive. However, the public policy implication is that the State cannot assume that employment, investment and royalty revenue will all rise together as they appeared to during the expansion era. In a mature system, output may remain robust, profitability may remain high, but employment intensity may decline. That changes the social contract around resource extraction.

3. Social Considerations

3.1 Employment, population and social licence

Employment is the most politically sensitive transmission channel between iron ore and the broader Western Australian community. Iron ore is not only a revenue source but also a labour market anchor. Direct mine organisation and contractor roles, alongside construction, maintenance, professional services and metropolitan head office functions, shape household incomes, regional populations and demand for services. When employment expands, the benefits of iron ore are visible in wages, migration, housing demand and State confidence. When employment contracts, the social licence of highly profitable producers becomes more contested.

Western Australia's population growth has historically tracked resource cycles. Interstate and overseas migration respond to perceived opportunity, wages and project activity. Strong iron ore markets can attract workers and sustain regional areas. A shift toward lower prices, capital discipline and headcount reduction can weaken those flows, which is linked to broader fiscal risk, that reflecting slower population growth that can reduce economic dynamism at the same time as the State needing to service higher debt and maintain infrastructure built for a larger or faster-growing economy.

The potential displacement of thousands of iron ore full-time equivalent positions would be difficult to absorb quickly. Other commodities may be expanding, but substitution is imperfect. Gold, lithium, copper and other minerals have different geographies, skills, project timelines and labour demands. In addition, some iron ore roles are highly specialised in Pilbara logistics, processing, autonomous operations, rail, port and technical services. A policy framework that relies on the market to automatically redeploy workers may underestimate the frictions involved.

The social licence issue is sharpened when workforce reductions occur alongside high corporate profitability, dividends and portfolio investment elsewhere. The public narrative becomes less about whether miners are viable and more about whether the State is receiving adequate value while bearing the social and infrastructure burden of the industry. A modest royalty reset can be presented as part of a broader bargain where producers retain a stable, transparent and investment-friendly jurisdiction, and while resource owners receive a slightly larger share of the value generated by mature assets and scarce ore bodies.

3.2. Geoeconomics, buyer power and portfolio strategy

Iron ore trade is increasingly shaped by geoeconomic conditions. The liberal free-trade environment that underpinned earlier assumptions has weakened. Commodity markets now operate within a more strategic setting marked by supply chain security, currency politics, stockpiling, state-backed procurement, regional blocs and great-power competition. Western Australia remains a reliable supplier, but reliability does not mean immunity from pressure. Its largest customer has an incentive to diversify supply, centralise purchasing power and negotiate harder on price, quality, freight and currency terms.

Chinese investment patterns are considered to illustrate diversification away from Australian minerals toward other jurisdictions. This does not remove Western Australia's significance, but it shows that buyers and state-linked entities seek optionality. Simandou, located in Guinea, and other prospective sources of supply are strategically important even if they cannot quickly displace

the Pilbara. Their presence changes bargaining narratives. The recurring message to resource jurisdictions is that alternative supply exists or can be developed. Yet these alternatives rely on the continued strength of Pilbara supply during the transition. Western Australia remains difficult to replace at scale, grade and reliability in the short to medium term.

Global mining companies also manage iron ore within diversified portfolios. Pilbara cash flows can fund balance sheet repair, dividends, copper growth, potash development or offshore iron ore optionality. From a corporate perspective, portfolio allocation is rational. From a State perspective, it raises a resource-owner question: if Western Australian ore generates low-risk cash flows that support global corporate strategy, should the State's royalty take remain fixed at a rate set under earlier market conditions? The answer depends on whether the royalty is viewed narrowly as a cost of extraction or more broadly as payment for the strategic optionality embedded in the resource base.

Currency and procurement issues add another layer. A shift toward Renminbi-denominated transactions or more centralised buyer negotiations would complicate commercial and public finance dynamics. Royalties are generally calculated in monetary terms that must be converted, audited and forecast. Increased currency complexity can produce disputes over realised prices, discounts and deductions. This is another reason to prefer a simple ad valorem reset over a complex profit-based system. The more contested the trading environment, the more valuable administrative clarity becomes.

4. Policy options for royalty reform

There are three broad policy options needing consideration. Option 1 is the present base case which looks to retain the existing 7.5 per cent ad valorem rate for direct shipping ore and assumes that the current royalty framework remains sufficient. This option has the advantage of stability and avoids immediate industry opposition. Its weakness is that it does not address the State's structural fiscal problem, the maturity of the industry, or the likelihood that future employment

benefits may be lower than past benefits. It also leaves windfall revenue management largely dependent on annual budget discipline.

Option 2 is a value-based ad valorem plus model. In its simplest form, the policy would raise the direct shipping ore royalty rate for major producers to 10 per cent. The manuscript narrows the target to producers exporting at or above 80 million tonnes per annum, leaving smaller and beneficiated producers under existing settings. This design is deliberately pragmatic. It focuses on producers with the scale, margins, infrastructure and market position to absorb a moderate increase. It also avoids disrupting magnetite or other beneficiated operations that may have different cost structures and strategic development needs.

Option 3 is a progressive ad valorem model anchored around a 10 per cent base and adjusted by price bands. This can consider a positive or negative 0.4 percentage point movement for each US$10/t change in the benchmark price around a central case. The attraction of this option is that it captures more value during high-price periods while easing the burden when prices fall. It resembles the logic of rent capture without requiring a full profit-based royalty. Its weakness is complexity. Price quality adjustments, cargo differences, currency effects and forecasting issues could create administrative and political friction.

A pure profit-based or economic rent royalty is also considered but not recommended as the immediate reform. Such systems can, in theory, better align payments with profitability. In practice, they require robust auditing of costs, deductions, transfer pricing, corporate overheads, financing arrangements and project-level profit. For a mature but operationally complex iron ore sector, the administrative demands and potential for dispute are substantial. Therefore it may be prudent to favour a staged approach: apply Option 3 as a policy discussion frontier, but adopt Option 2 as the implementable reform.

Table 2. Royalty reform options assessed in the article

Option	Description	Assessment

1. Base case	Retain 7.5 per cent ad valorem rate for direct shipping ore.	Stable but insufficient for the fiscal and structural risks identified.
2. Ad valorem plus	Increase rate to 10 per cent for major DSO producers above 80 Mtpa.	Preferred because it is simple, targeted and administratively efficient.
3. Progressive ad valorem	Vary rate around 10 per cent by price bands.	Conceptually attractive but more complex to administer and forecast.
Alt. Profit or rent royalty	Tax profit or economic rent rather than value.	Theoretically strong but not recommended as immediate reform due to complexity.

5. Observations and Recommendations

5.1 Recommended model: a targeted ad valorem reset

The recommended policy is to adopt a 10 per cent ad valorem royalty for lump and fines direct shipping iron ore producers exporting at least 80 million tonnes per financial year. The threshold is important. It ensures that the reform is aimed at the mature, large-scale Pilbara producers whose infrastructure, cost position and market access generate exceptional resilience. Smaller operators, emerging projects, beneficiated ores and magnetite projects would not be brought into the same rate increase. This helps preserve investment incentives where margins are thinner or development risks are higher.

The policy's rationale is rooted in equity, administrability and fiscal need. Equity requires that the resource owner receive an appropriate return for depletion of a non-renewable mineral estate. Administrability requires that the collection mechanism remain clear, predictable and compatible with existing systems. Fiscal need requires that reform produce meaningful revenue without

requiring a complex new bureaucracy. A rate increase from 7.5 per cent to 10 per cent meets these tests more readily than a profit-based system. It is visible, simple and capable of being modelled under different price assumptions.

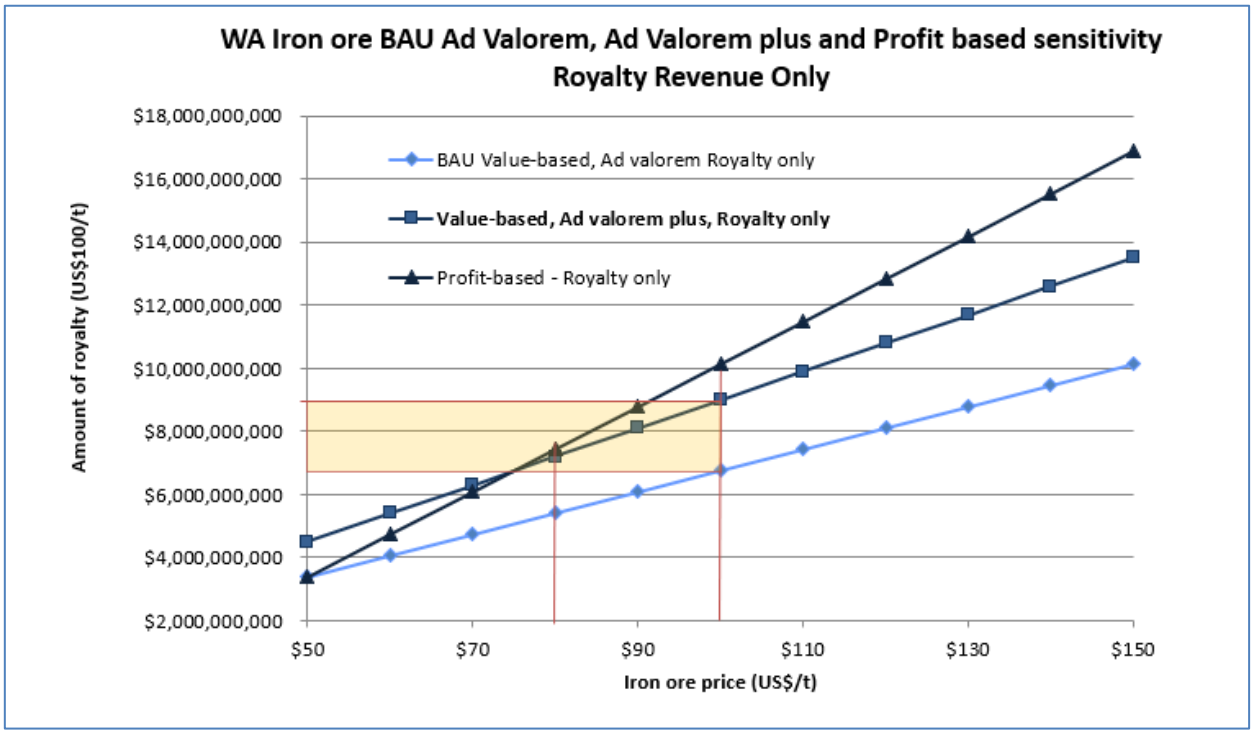


Figure 3: Ad Valorem Base Case, Ad Valorem plus (10 per cent) and 15 per cent Profit-based modelled at US$100.

The reform should be presented as a marginal reset, not a hostile intervention. Iron ore producers would continue to operate in a stable legal environment with transparent rates. The increase would not seek to confiscate profits or undermine competitiveness. Instead, it would recognise that the Pilbara's infrastructure base is built, that major producers remain low-cost and globally strategic, and that Western Australia faces budget and employment risks that were less acute when the current rate was last reset. Stability for industry and fair value for the community can coexist.

The policy should be accompanied by a clear statement of use. If additional royalty revenue is simply absorbed into ordinary expenditure, public support may be weaker and intergenerational benefits lower. A defined proportion should therefore be allocated to debt reduction, economic diversification and a preservation fund. The balance between these uses is a political choice, but

the principle should be explicit as the reform is intended to convert part of depleting mineral value into fiscal resilience and long-term public assets.

5.2 Preservation fund and fiscal governance

A preservation fund is essential to policy architecture. The problem with resource booms is not only volatility but temptation. High prices generate revenues that can make structural expenditure growth appear affordable. When prices fall, governments face difficult choices between debt, service reductions and new taxes. A fund creates an institutional mechanism to prevent all windfall revenue from being consumed in the year it is received. It also strengthens the moral argument for royalty reform by linking increased payments to future generations rather than immediate political spending.

Further analysis can be proposed to define windfall revenue, with modelling potentially beginning from a benchmark above the average CFR (cost and Freight) 62 per cent Fe price, adjusted for realised grade and diluents. The precise threshold should be developed by Treasury, industry and independent experts. What matters is the governance principle. The rule should be transparent, formula-based and difficult to override except in clearly defined emergencies. A credible rule is more important than an aggressive saving rate that future governments may abandon.

The fund should have three objectives. First, it should preserve part of the value of a finite mineral estate. Second, it should smooth the budget by building buffers during high-price periods. Third, it should support long-term diversification and productivity-enhancing investment without becoming a discretionary grant pool. International experience suggests that resource funds are most credible when they have clear mandates, professional investment management, strong reporting and limits on politically directed spending. Western Australia can design a model suited to its own fiscal institutions while learning from these principles.

A fund would not eliminate the need for debt discipline, and nor would it solve every economic diversification challenge. It would, however, change the default treatment of exceptional royalty revenue. Rather than allowing windfalls to disappear into the consolidated account, the State would explicitly recognise that high prices are temporary and resource depletion is permanent. That recognition is the foundation of responsible mineral economics.

5.3 Implementation and stakeholder strategy

Implementing royalty reform requires careful sequencing. It is noted that governments can act unilaterally, as occurred in earlier reforms, or they can negotiate through a more consultative process. Each approach has risks. Unilateral action preserves political momentum and reduces the opportunity for concentrated lobbying to dilute reform. Consultation can improve design, reduce uncertainty and build legitimacy, but it may also allow opponents to frame the policy as anti-investment before the public interest case is fully explained. A hybrid approach is preferable, being to announce the policy direction clearly, consult on technical details, and legislate within a defined timetable.

The public case should be disciplined and should avoid claiming that miners have not contributed. Such a claim would be inaccurate and politically vulnerable. The stronger argument is that contribution must be recalibrated as circumstances change. The industry has benefited from stable institutions, efficient infrastructure, high-quality ore, proximity to Asia and a mature supply chain. The State has benefited from royalties, employment and investment. The issue is whether the distribution remains appropriate under new fiscal, employment and geoeconomic conditions.

Industry concerns should be addressed directly. On investment deterrence, the policy should emphasise the threshold design, the exclusion of smaller and beneficiated producers, and the continued simplicity of the ad valorem system. On competitiveness, it should point to the low-cost and strategic nature of Pilbara supply. On volatility, it should explain why a preservation fund and conservative budget assumptions are paired with reform. On federal interactions, the State

should engage early with Commonwealth agencies on GST and taxation implications while maintaining the principle that resource ownership and royalty design are State responsibilities.

The State should also invest in transition planning for workers and regions. If employment contraction is already underway because of automation, productivity and portfolio optimisation, royalty reform should not be presented as causing that trend. Rather, additional revenues should help manage its consequences. Support for skills conversion, regional resilience, infrastructure, METS capability, energy transformation and economic diversification can strengthen the social legitimacy of the policy. The goal is not to punish a successful industry but to ensure that success continues to produce sustainable public value as the industry becomes less labour-intensive.

6. Conclusions

Western Australia's iron ore royalty policy sits at the intersection of mineral economics, public finance, labour markets and geoeconomics. The State owns the resource, hosts the industrial system, bears infrastructure and social obligations, and depends heavily on royalty flows. The major producers operate world-class assets, generate substantial returns and contribute significantly to State and national revenues. The policy challenge is to maintain this partnership while recognising that the environment has changed. The Pilbara is mature, the market is more strategically contested, employment intensity may decline, and the budget has less room to absorb shocks.

The existing 7.5 per cent ad valorem rate has the virtues of simplicity and familiarity, but it is no longer obviously sufficient as the default settlement between private profitability and public value. A targeted increase to 10 per cent for major direct shipping ore producers is a practical reform. It captures additional value from those most able to pay, avoids the complexity of profit-based royalties, preserves clarity for investors and can be justified by the State's fiscal and intergenerational responsibilities. A progressive price-linked model remains useful as a future

option or negotiation reference point, but it is less attractive as an immediate implementation pathway.

The reform will be strongest if paired with a preservation fund. Without such a fund, royalty increases risk being perceived as merely another revenue source for current spending. With a fund, the policy becomes a coherent mineral wealth strategy, yielding a modest reset of the royalty rate, a stronger balance sheet, and an institutional commitment to converting temporary commodity advantage into lasting public value. That is the central conclusion. Western Australia should modernise its iron ore royalty policy before fiscal stress, employment contraction and external market pressure force reform under less favourable conditions.

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