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Submission by Regional Development Australia Pilbara

RE: Select Committee on the Effectiveness of the Australian Government's Northern Australia Agenda:

Regional Development Australia (RDA) Pilbara prepares a wide range of socio-economic studies and undertakes initiatives for the Pilbara region that supports the overall objectives of RDA "an Australian Government initiative that brings together all levels of government to enhance the development of Australia's regions."

RDA Pilbara is also a member of the Northern Regional Development Australia Alliance that comprises the eight RDAs within Northern Australia.

In fulfilment of this mandate RDA Pilbara is responding to the call for submissions by Select Committee on the effectiveness of the Australian Government's Northern Australia agenda. RDA Pilbara believes it can provide local intelligence and regional and cross-regional perspective on the key issues.

The significant contribution of the Pilbara economy to the economy of WA and Australia needs to be maintained, by keeping costs as low as possible and increasing the market opportunities, particularly for SMEs. The significant diversification in the resources sector will assist in providing a more stable platform for all businesses in the Pilbara. The need for diversification in other sectors has long been recognised by RDA Pilbara, other development agencies, the business sector and government departments. Whilst some opportunities have been explored there are limitations to diversification, including geographic isolation and a small population.

Western Australia is the largest iron ore producer and exporter in the world, accounting for 38% of global production and 53% of global seaborne exports in 2016. The Pilbara region accounts for 94% of Australia's iron ore exports. The iron ore industry is a large part of Western Australia's economy, accounting for 65% of the value added by its mining industry and 15% of its gross state

product. The iron ore industry remains globally competitive with high quality reserves, low cost production and established, long-term markets in China, Japan, Korea and Taiwan. The Pilbara is also the centre of the Australian offshore gas (LNG) industry with an output of over \$22 billion.

Please find below comments on the items identified in the Terms of Reference.

1. Facilitation of public and private investment in infrastructure and economic development:

A number of key initiatives have been supporting investment in our region in recent years. One of the most impactful was the WA State's Royalties for Regions funding programme, which financed key investment in towns such as Karratha, Port Hedland, and Newman. These investments have helped future proof these communities for key services in the health, social and local infrastructure areas.

Nevertheless, much still needs to be done in terms of economic diversification and in particular in developing public private partnerships that can harness the very significant new opportunities arising in non-traditional mining and energy sectors such as lithium processing, aquaculture and renewable energy.

The role of the Northern Australia Investment Facility (NAIF) is beginning to show some impact with 50% of the projects under due diligence being located in WA and covering sectors such as a marine supply base, fish farming, minerals processing and energy processing. Nevertheless, there appear to be only a small number of projects in the Pilbara itself. This is not that surprising given the huge geographical area that the NAIF covers. What this does indicate is that if the outcomes (economic impact, return on investment, job creation etc) of the NAIF prove positive then the funding should be increased by an order of magnitude (currently \$5 billion) to broaden its depth and reach.

Another critical area is that of roads and the \$1.5 billion allocated to roads infrastructure in Northern Australia is welcome. The Pilbara relies on road transport to connect its towns and rural and remoter communities with essential services, as well as opening up the region to agriculture and tourism opportunities. It is not clear in the 2018 Northern Australia Implementation report what level of funding for roads has been allocated to the Pilbara.

The NAIF and the Office of Northern Australia 2018 Implementation report referred to above present "Case Studies" to highlight their projects. It would be very useful to actually have a full description of all projects (implanted and pipeline) listed by sector and geographical region clearly presented on their websites.

2. Economic and social benefit arising from that investment for Northern Australians, in particular First Nations people:

A key initiative that has been initiated through the focus on Northern Australia has been the *Indigenous Reference Group (IRG) to the Ministerial Forum on Northern Australia*.

The IRG has already produced 36 recommendations on a range of key measures to increase Indigenous participation at all levels of the economy and enhance their economic development. According to the 2018 Implementation report 16 of these recommendations have been taken on board by government for implementation with further advice to be developed on the remaining 20.

As such it is too early to say what will be the process and outcomes from the implementation of the IRG recommendations. However, for the Pilbara region it is essential that there is a coherent and sustainable improvement in the livelihoods of the indigenous communities.

3. Funding models and policy measures that capture the full value of existing and emerging industries:

The Pilbara economy is not very well diversified. It is a **high-risk economy for small and medium size businesses** in particular, as a result of an extremely high cost structure, a small internal market and considerable fluctuations in the demand for goods and services in the resources sector. Moreover, there are only a small number of small and medium enterprises servicing the needs of the vast resources sector, which is the main driver of economic performance. Growth in the number of SMEs is unlikely, even when the economy is in an expansion phase and the contribution of the manufacturing sector, in particular, is much lower than it could be if there was increased certainty and a lower level of risk

New forms of finance¹ need to be investigated including online avenues to venture capital and angel investment, crowd funding, peer-to-peer lending, and guarantor loan schemes. These finance options may offer more potential to fund growth for SMEs in regional areas, particularly for business start-ups or for knowledge-based and service-delivery businesses. This needs to be discussed with the business community.

A critical area for investigation by the select committee is the development of new water infrastructure. The excellent work undertaken by CSIRO to map the water resources in Northern Australia must be commended. However, this was scientific research and as has been clearly stated in various forums the need is to convert this knowledge into implementation projects and investment.

This will require innovative approaches, which do not yet appear to be happening. While fully recognising the need for diligent consultation with Indigenous interest groups and local communities, as well as careful environmental impact analysis, it is imperative that streamlined pathways be developed to bring this vast resource to benefit the next phase of economic development for the region.

1 Access to Finance - Growing SMEs in regional Western Australia – Regional Australia Institute – June 2015

4. Measures taken to develop an appropriately skilled workforce:

The workforce in the Pilbara is also primarily reliant on the resources sector. The region has a very small population of only 61,483 (2017) and there are only about 64,000 jobs. The number of Fly-in Fly-out (FIFO) workers fluctuates in line with the fortunes of the resources sector and its business cycle, in particular when there are new projects under construction. With greater certainty for SMEs the number of employees would rise, and this in itself would improve the socio-economic wellbeing of the population.

There has been considerable debate on the issue of FIFO workers in recent years. RDA Pilbara fully supports initiatives that enhance residential communities, while recognising that under certain circumstances (construction, maintenance shutdown etc) FIFO is the logical business choice.

The level of social infrastructure investment in Karratha over the last ten years (new hospital, recreation centre, entertainment and arts centre, CBD upgrade etc) will be a useful case study for the select committee to review as to how such investment can lead to stabilising and then increasing the permanent resident population by significantly improving the “liveability” of regional towns.

A stable and resilient local population provides the foundation upon which programmes for developing local skills can be designed and implemented. Without the former there is little point in the latter.

5. Emerging national and international trends and their impact on the Northern Australia agenda:

During the latter part of 2018, the first signs of an upswing in the economy of the Pilbara have emerged. The more positive economic outlook will result in a greater demand for goods and services in the short and medium term, resulting in a better business outlook. The fluctuating nature of the economy of the Pilbara means that companies providing goods and services to the resources sector are regarded as risky enterprises by financial institutions and the capacity of SMEs to borrow is limited. This means that there are ongoing constraints to survive, let alone expand and diversify, which has long been recognised as a necessity to widen and deepen the economy.

As a consequence of improved economic and price influences, it has been clear that the investment outlook for both iron ore and LNG has strengthened in the Pilbara due to a number of factors. Moreover, within the resources sector there is more diversification, with investments in lithium, a substantial increase in gold exploration, and possibilities for investment in large-scale solar power systems, large fertiliser ventures and copper exploration.

In Australia in general, and in the Pilbara in particular, the resources sector has transitioned from a period of high investment to a period of strong increases in production, which has already

supported significant increases in export volumes of iron ore and LNG. According to the WA Department of Mines, Industry Regulation and Safety², while investment levels seen during the peak of the commodity cycle are unlikely to be repeated in the near future, continuity of employment and royalties in Western Australia are secure at current levels of production and planned levels of investment. Interest and investment in new sectors, such as lithium, continues to improve, and established industries such as gold and iron ore remain steady.

Our analysis on the factors influencing the Pilbara business outlook indicates a more positive environment than that of the last few years. There is more supportive market and investment factors in the forecasts and the prospects for diversity have increased to an extent. Also, resource companies have made dramatic cost reductions as a result of which margins have increased

There are both downside and upside risks to the forecasts. The main downside risks include failure of policy in the USA, Europe, China and Japan to further address debt problems; geo-political risks in the Middle East and possibly in the South China Sea; the risk of increased trade friction; and the possibility of a sharp fall in growth rates in China, leading to reduced demand for commodities. The upside opportunity is that the global economy strengthens with further increases in commodity demand, continued positive growth in South-East Asia and India markets, and there could be growing consumer and business confidence, particularly in the USA in the medium term.

Yours sincerely

Diane Pentz
CEO
RDA Pilbara

² <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>

