

**Parliamentary Joint Committee  
on the  
Australia Fund Bill 2018**

Submission by: Regional Development Australia Pilbara

12 February 2019

## Table of Contents

1	Relevance of the Bill to the Pilbara Region.....	1
2	Pertinent Socio-Economic Studies in the Pilbara.....	2
3	Pilbara Land Mass, Location and Local Government Areas.....	3
4	Economy of The Pilbara .....	3
4.1	Gross Regional Product and the Structure of the Economy .....	3
4.2	The Beef Industry and the Potential for Crop Production .....	4
5	Commodity Price Fluctuations.....	5
6	Impact of the 2013 - 2018 Resource Sector Downturn in the Pilbara.....	7
6.1	Population.....	7
6.2	Employment, Incomes and Expenditure.....	7
6.3	Air Passenger Movements .....	8
6.4	Property .....	8
6.5	Construction.....	10
7	Impact of Economic Crisis on SMES .....	10
7.1	Overview .....	10
7.2	Factors influencing the Viability of SMES .....	10
7.2.1	The Features of the SME Sector - Diminishing Numbers .....	10
7.2.2	High Cost Structure .....	11
7.2.3	High Cost of Insurance .....	12
7.2.4	Financial Constraints .....	12
8	Solutions .....	14
8.1	Existing Programmes.....	14
8.2	Proposed Measures .....	14

## 1 Relevance of the Bill to the Pilbara Region

The relevance of the proposed Australia Fund to the Pilbara is that the economy of the region is severely impacted by major global financial crises and sharp declines in commodity prices, leading to significant negative consequences for the economy and the business community. In this regard, the importance of establishing the Fund to the future of the Pilbara needs to be considered in the context of the need for a greater degree of certainty for businesses.

The economy of the Pilbara is based primarily on the extractive resources sector, mainly iron ore, oil and liquefied natural gas, but also more recently lithium, gold and other minerals. Related industries including construction, manufacturing, the retail trade, transport, salt and fertilisers increasingly contribute to the socio-economic viability of the region. The Pilbara also has a burgeoning cattle industry and potential for irrigated crop production, which are subject to the vagaries of both commodity prices and the weather.

The high value economy of the Pilbara is very important, not only to the region, but also to the State of Western Australia and Australia as a whole, however, economic performance is extremely variable and businesses suffer considerably during downturns. The levels of capital expenditure by mining and other primary commodity extraction companies' **rise and fall in line with prices**. In turn, capital expenditure trends and levels lead to **dramatic swings in the enabling economic environment** for Small and Medium Size businesses (SMEs) and their viability.

The 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.

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 63,850 jobs. The number of Fly-in Fly-out workers fluctuates in line with the fortunes of the resources sector and its business cycle. With greater certainty for SMEs the number of employees would rise and this in itself would improve the socio-economic wellbeing of the population.

In the period 2008 to 2011, prices for iron ore and liquefied natural gas (LNG) soared, resulting in one of the largest increases in capital investment in the history of Australia. This was followed by the slump in commodity prices over the period 2012 to late 2018, resulting in a very sharp decrease in investment and construction and consequently **a severe downturn** for almost all sectors of the economy in the Pilbara. Consequently, there was a fall in the number of small businesses. In turn, this led to extreme **socio-economic difficulties in the region**, with a fall in the Pilbara population, the number of businesses, house prices, rents, and the viability of non-resources industries, such as manufacturing, construction, the retail trade and transport.

During the latter part of 2018, the first signs of an upswing in the economy of the Pilbara 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. However, **future**

**very strong downturns are highly probable** and the **cycle of boom and bust** will continue for businesses. 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.

Therefore, RDA Pilbara fully supports the purpose of the Bill and the range of measures that could be taken to assist businesses and regional communities in the Pilbara to withstand the severe consequences of downturns in the resources sector of the economy. The adoption of the Bill would have a significant impact on the sustainability of the economy of the Pilbara and would alleviate social suffering that is a consequence of the cyclical nature of the resources sector.

## 2 Pertinent Socio-Economic Studies in the Pilbara

**RDA Pilbara** is involved in a range of economic development and social activities that includes the preparation of development plans and studies<sup>1</sup>. These have been used in the preparation of this submission. RDA Pilbara commissioned the 2012 Pilbara Plan Report, which included an analysis of the economy of the Pilbara and suggested steps to be taken in the future. In 2015/16 further analysis of the economy was undertaken in the preparation of an Investment Prospectus commissioned by RDA Pilbara for the Pilbara, the Kimberley and the Mid-West-Gascoyne regions. Four studies on the Cost of Doing Business were undertaken in 2013, 2014, 2015 and 2018, with full analysis of the cost structure of the Pilbara in relation to the resources sector investment boom from 2009 to 2012, the impact of the downturn from 2013 to 2018, and the beginning of an upturn in late 2018. A Study on Banking and Insurance in the Pilbara for RDA Pilbara was prepared in 2015. A number of other Studies have been published by RDA Pilbara on socio-economic issues and other submissions have been prepared.

**Other Agencies** and organisations have undertaken many other studies on the economy of the Pilbara, such as a study on future retail and commercial space needs for the then Shire of Roebourne<sup>2</sup>. In 2014 additional analysis was carried out as part of a study on the revitalisation of the three older suburbs in Karratha<sup>3</sup>, and studies on the development options for some of the smaller towns, such as Onslow and Roebourne. The Western Australia Chamber of Minerals and Energy has prepared various studies related to economic development, including for example,

---

1

*The Cost of Doing Business in the Pilbara - May 2013; Cost of Doing Business in the Pilbara - June 2014; The Cost of Doing Business in the Pilbara - August 2015; The Cost of Doing Business in the Pilbara - November 2018*

*Town of Port Hedland Community Directory - December 2017; West Pilbara Children and Family Community Directory - October 2017; North West Ageing and Aged Care Strategy - August 2017; Ten Year Community Plan for the NGO Sector in the Pilbara - July 2016; Non-Government Organisation Map and Gap Analysis Report (NGO MAGA)*

*Map and Gap Supply Chain Study - Karratha - 2017; Developing Funding Proposals - A Guidance Manual for Practitioners (January 2017); Mid and North Western Australia Investment Portfolio - July 2016; Summary Brochure; Full Portfolio (10mb); Study on Insurance and Banking in the Pilbara - August 2015; Pilbara Resources and Beyond Report - January 2014; Pilbara Report 2012 – Exploring opportunities in the nation's powerhouse; Pilbara Report 2012 – Investment Summary; Pilbara Report 2012 – Investment Prospectus; Pilbara Report 2012 – Full Report; Lithium Valley - Establishing the Case for Energy Metals and Battery Manufacturing in Western Australia - July 2018 Full Report; Summary Document*

*Pilbara State of the Environment Report - June 2013 - Part 1; Part 2*

*RDA Pilbara – Submissions; Inquiry into how the mining sector can support businesses in regional economies; Senate Inquiry - Location of Corporate Commonwealth Entities; Transitioning Regional Economies; Governance and operation of the Northern Australia Infrastructure Facility; Inquiry into National Freight and Supply Chain Priorities*

*2 Commercial and Retail Property Demand Analysis and Strategy – Shire of Roebourne – Imani Development Austral – January 2013*

*3 Karratha Revitalisation Plan - Shire of Roebourne - May 2014 –Essential Environment and Imani Development*

work carried out on the cost structure of the Pilbara and employment. The Department of Infrastructure, Regional Development and Cities has prepared studies on aspects of the economy related to land availability and use. The Pilbara Development Commission has prepared an Investment Blueprint for the region, which covers the period to 2050.

### 3 Pilbara Land Mass, Location and Local Government Areas

The Pilbara region, located in northern Western Australia, accounts for 20% of the state's total land mass. Its area of 507,896km<sup>2</sup> equates to two thirds of the area of New South Wales, is twice the size of Victoria and more than five times bigger than Tasmania. The Pilbara is remote and distances between the main centres of Karratha, Port Hedland, Newman and Onslow are large. It comprises four local government areas: The City of Karratha, the Shires of Ashburton and East Pilbara, and the Town of Port Hedland. There are approximately 10 major/medium population centres and more than 25 smaller ones. A substantial number of people have worked in the region on a fly-in-fly-out basis in the past.

The climate of the Pilbara is arid and tropical. The region experiences high temperatures and low, irregular rainfall that follows the summer cyclones. The average annual rainfall in the region is between 200 and 350 millimetres (7.9 and 13.8 inches). Almost all of the Pilbara's rainfall occurs between December and May, usually with occasional heavy downpours, including tropical cyclones. There are quite large areas of land with semi-fertile or fertile soils, which are suitable for irrigation.

### 4 Economy of The Pilbara

#### 4.1 Gross Regional Product and the Structure of the Economy

Data from the Pilbara Development Commission<sup>4</sup> and elsewhere gives an indication of the high economic value of the region.

- The Pilbara Regional Investment Blueprint highlights the Pilbara's role: 'The Pilbara's share of Australia's Gross Domestic Product (GDP) rose from 2% in the late 1990's and early 2000's, to 6.2% in 2014. The size of the Pilbara's economy is approximately 55% of New Zealand's GDP and greater than the individual GDP of 127 of the world's 189 nation states.
- The output generated by the Pilbara Region economy<sup>5</sup> is estimated at \$60.2 billion. The Pilbara Region represents 39.3% of the \$153 billion in output generated in Regional WA, 12.3% of the \$489 billion in output generated in Western Australia and 1.7% of the \$3.5 trillion output generated in Australia.

The data also illustrates the **importance of the resources sector** to the economy and therefore its **high-risk structure**:

- The value of regional exports generated by the Pilbara economy is estimated at \$49 billion, of which mining makes up some 83%;
- Mining exports of \$41 billion comprise 48% of the value of mining exports of Western Australia and 33% of the value of mining exports from Australia;

---

<sup>4</sup> <https://www.pdc.wa.gov.au/> - Edition 1, August 2018 PILBARA ECONOMIC SNAPSHOT

<sup>5</sup> <https://www.economyprofile.com.au/pilbara/industries/output>

- On the other hand, the value of manufacturing at \$866 million comprises only 4.7% of Western Australian manufacturing production exports;
- The value of iron ore production is \$61.2 billion with 3,039 jobs;
- The value of LNG production is \$21.5 billion with 11,212 jobs;
- The value of construction is \$8.9 billion with 11,212 jobs;
- The value of tourism is \$413 million with 1,904 jobs;
- The value of agriculture is \$111.5 million with 176 jobs; and
- The value of arts and recreation is \$35.9 million with 176 jobs

## 4.2 The Beef Industry and the Potential for Crop Production

The context for the value of the Bill to the beef and crop production industries is that they have increasingly contributed to the economic growth of the Pilbara and are subject to fluctuations in beef and crop prices and the impact of weather variations.

The value of the WA beef industry is \$655 million, which is made up of a live export industry, domestic consumption and boxed beef exports, both chilled and frozen. The Pilbara has a herd of some 243,000 (about 11% of the WA herd) and the industry is growing. According to industry players there is the potential to create a major Wagyu beef operation in the Pilbara, valued at \$1.8 billion<sup>6</sup> by 2031, with less reliance on live cattle exports and the production of more high-quality boxed beef for Asian markets. Whilst crop production is small, there is the potential for growth from irrigation.

However, further development of the livestock and crop production industries and their viability depend on climatic factors, the availability of water and commodity prices. Based on the evidence and information of studies on climate and insurance in the Pilbara, clearly the risks to businesses associated with climatic factors is likely to rise. In this regard a study of the Insurance and Banking Industry carried out by RDA Pilbara in 2015<sup>7</sup>, shows that the North West coast of WA is cyclone prone. "The northwest Australian coastline between Broome and Exmouth is the most cyclone prone area - about 75% of severe cyclone crossings in Australia between 1970/71 and 2007/08 were in Western Australia". Whilst the cyclones bring rainfall, they also pose a risk to agricultural businesses.

Further, a study by CSIRO<sup>8</sup> on the water resources of the Pilbara notes that water availability is required to lift the productivity of irrigated agriculture and livestock in the region by expanding existing precincts and starting new ones under the \$40 million Royalties for Regions funded Water for Food initiative. In this regard the Pilbara is a semi-arid region that is significantly surface water limited, given annual potential evaporation cannot exceed annual rainfall by more than a small order of magnitude.

The assessment indicates that the Pilbara is likely to be even hotter in the future, while rainfall patterns will continue to be highly variable with no clear wet or dry trends. Winter rainfall has decreased in the West Pilbara, because cold fronts have progressively reached less far north since

---

<sup>6</sup> Pardoo Beef Corporation chairman Bruce Cheung: Committee for Economic Development of Australia agribusiness outlook Perth 2018

<sup>7</sup> Study on Banking and Insurance in the Pilbara: Regional Development Australia Pilbara - Prepared by: Imani Development Austral - 2015

<sup>8</sup> *Hydroclimate of the Pilbara: past, present and future A technical report to the Government of Western Australia and industry partners from the CSIRO Pilbara Water Resource Assessment* Stephen Charles, Guobin Fu, Richard Silberstein, Freddie Mpelasoka, Don McFarlane, Geoff Hodgson, Jin Teng, Christina Gabrovesk, Riasat Ali, Olga Barron, Santosh Aryal and Warrick Dawes CSIRO Land and Water 7 October 2015

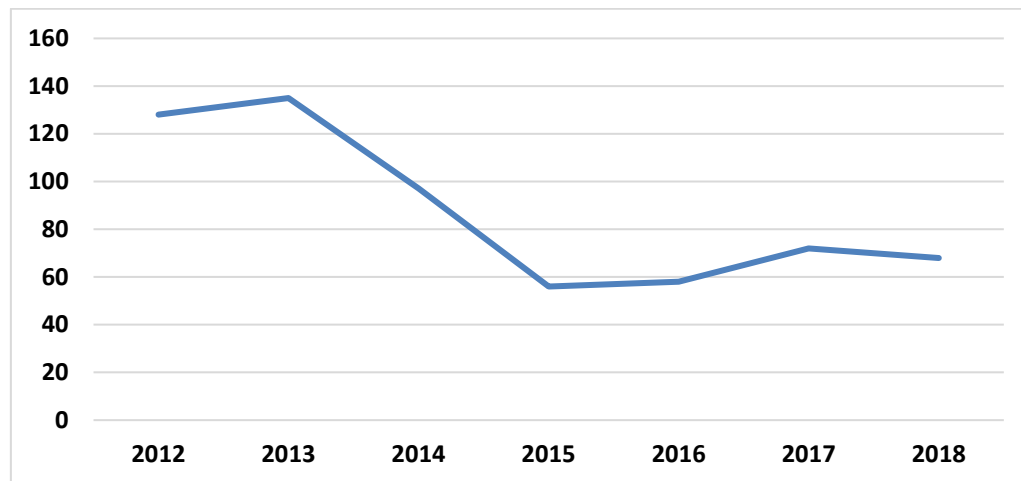
the mid-20th century on. Annual rainfall deficits increases are anticipated for all future climate scenarios, because of projected increases in potential areal evaporation.

## 5 Commodity Price Fluctuations

Commodity prices are dependent on the global economic and business cycles, in particular those of China and South East Asia. The economic downturn in the Pilbara from 2013 to 2018 highlights the vulnerability of businesses to fluctuations in primary commodity prices that resulted in a very sharp decrease in investments and the demand for goods and services in the region. The investment cycle in the Pilbara has followed the price movements of two key commodities in particular, iron ore and LNG, over the last decade, which are shown in the figures below.

The very large-scale investments in iron ore by the major players and smaller companies in the period 2009 to 2013 coincided with the most dramatic upswing in iron ore prices ever, followed by a very sharp decline in prices that started in 2012. After 2015 prices bottomed out or have risen slightly and replacement mines are now under construction in response to more stable prices.

**Figure 1: Iron Ore Average Prices 2012 to September 2018 (\$ per tonne - 62 % fines<sup>9</sup>)**



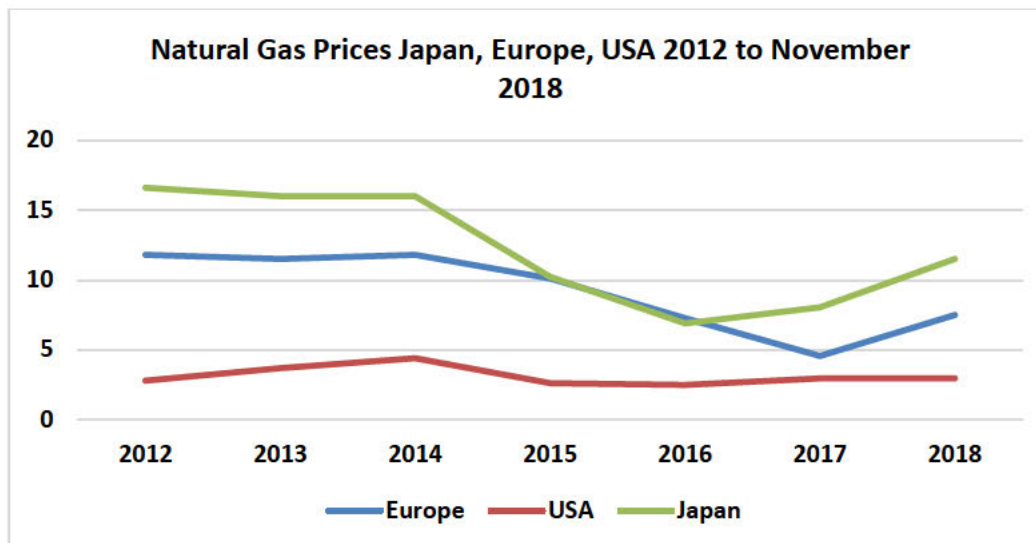
As with iron ore, the recently completed very large capital investment in LNG was based on financial viability related to LNG prices that were at a peak in 2011/12 in Asia and Europe. This was followed by a slump in prices and the end of the massive capital investment by Chevron and Woodside led consortia, which is set to increase again in line with rising prices for LNG since 2016. Historical prices for LNG<sup>10</sup> are shown below to place current price levels and trends in perspective.

<sup>9</sup> IBRD Commodity Prices Pink Sheet December 2018

<sup>10</sup> World Bank Commodity Prices Pink Sheet and Blue Gold Research

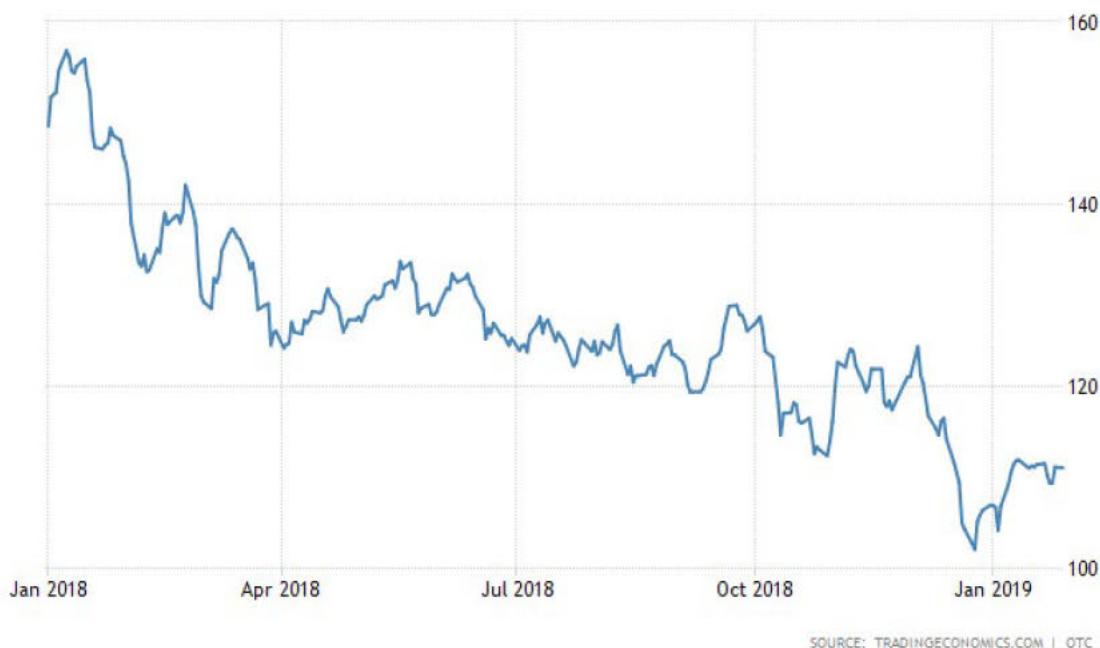


Figure 2: LNG Historical Prices (Europe, USA, and Japan 2012 to November 2018 (US \$ mmbtu<sup>11</sup>)



Lithium is the most recent commodity to attract investment in the Pilbara. Lithium mining and processing in WA started quite recently at a time of very rapid price increases. Although investment is on the rise price risks are apparent from the graph below<sup>12</sup>.

Figure 3: Lithium Prices 2014 to early 2018



<sup>11</sup> IBRD Commodity Prices and Blue-Gold Research

<sup>12</sup> <https://tradingeconomics.com/commodity/lithium>



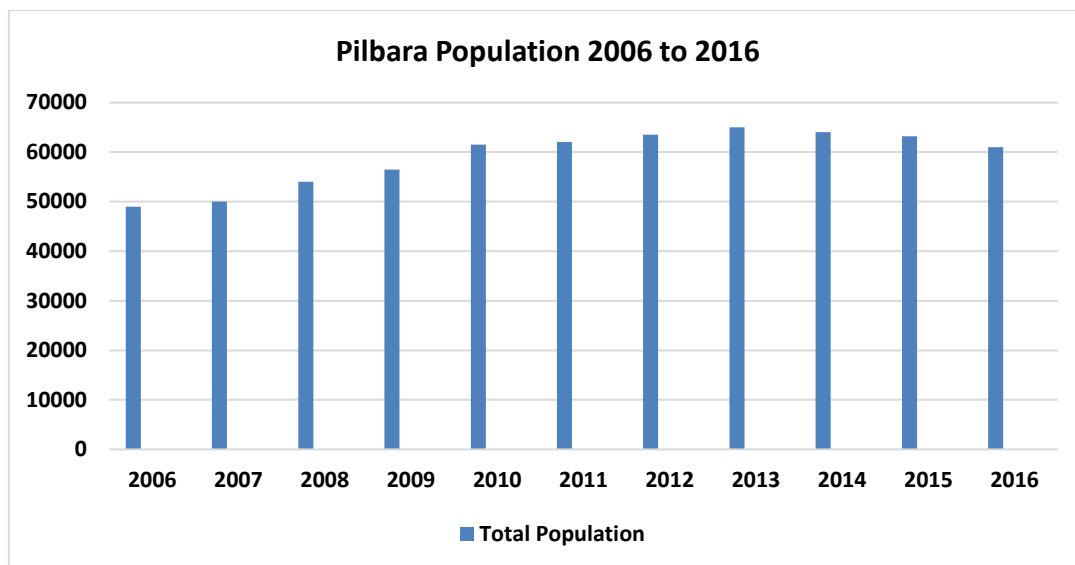
## 6 Impact of the 2013 - 2018 Resource Sector Downturn in the Pilbara

The **impact of the economic downturn was extreme** in the Pilbara, resulting in a major deterioration in the business climate and the viability of individual businesses and the socio-economic status of much of the population. Examples of the impact are provided below to illustrate its severity and the need for future risk proofing of the SME sector.

### 6.1 Population

As predicted in several RDA Pilbara reports, over the last few years, the resident population of the Pilbara decreased as the economy slowed down after 2013. The total population of the Pilbara was about 61,400 in 2016<sup>13</sup>, compared to 64,000 between 2012 and 2014, as shown in the Figure below. A smaller population decreases the amount of local labour available and increases pressure on employers when the economy once again starts to expand. A smaller population also means a smaller local market and under-utilisation of community facilities funded during the boom period by government agencies and private enterprise.

Figure 4: Population of the Pilbara<sup>14</sup>



### 6.2 Employment, Incomes and Expenditure

During the downturn unemployment in the Pilbara rose from a very low base in 2011/12 to a high of 4.5% in 2016. In WA as a whole, the resources sector and supporting workforce<sup>15</sup> declined from its peak of around 120,000 in 2013 to some 115,000 in 2015/16. The reason for the decrease in both the resident workforce and the FIFO workforce was that a **very much smaller workforce** is required for the **production and maintenance phase** of the resources industries than during the construction phase. The economic slowdown in 2009-15 hit many regional areas in WA and they experienced an 8% decline in median expenditure. In the Pilbara, this was mainly due to decreased household incomes. For example, in Karratha incomes declined by some 20% between

<sup>13</sup> Australia Bureau of Statistics – 2016 Census

<sup>14</sup> Pilbara Development Commission

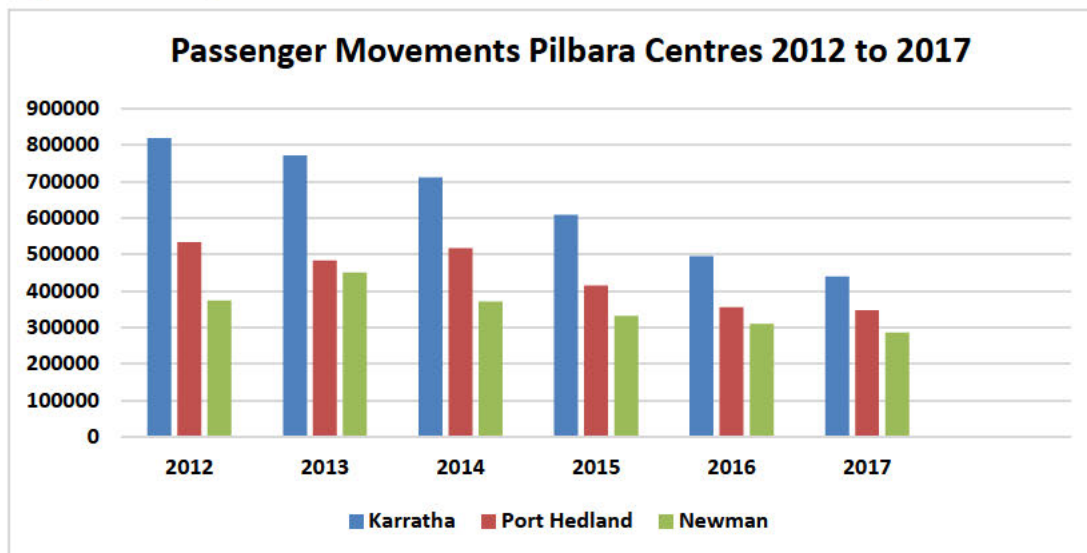
<sup>15</sup> KPMG-The Chamber of Minerals and Energy – Western Australia Resources Sector Outlook 2018 to 2028- April 2018

2011/12 and 2016. Moreover, anecdotal evidence suggests that spending in almost all categories declined significantly with **turnover of some retailers falling by up to 40%** in the period 2013 to late 2018, creating severe stresses in the business community and an accompanying rise in business failures.

### 6.3 Air Passenger Movements

Passenger movements closely reflect developments in the economy of the Pilbara. These declined significantly in all centres from 2012 to December 2017, reflecting the impact of the downturn. At the same time related industries, including hospitality, hotels, retail, logistics, transport and car hire deteriorated markedly, with SMEs providing these services experiencing substantial falls in turnover. The occupancy rate of hotels declined from near 100% at times, to very low levels, maintenance costs became unaffordable and confidence in the industry fell sharply.

Figure 5: Passenger Movements Karratha, Port Hedland, Newman 2012 to 2017

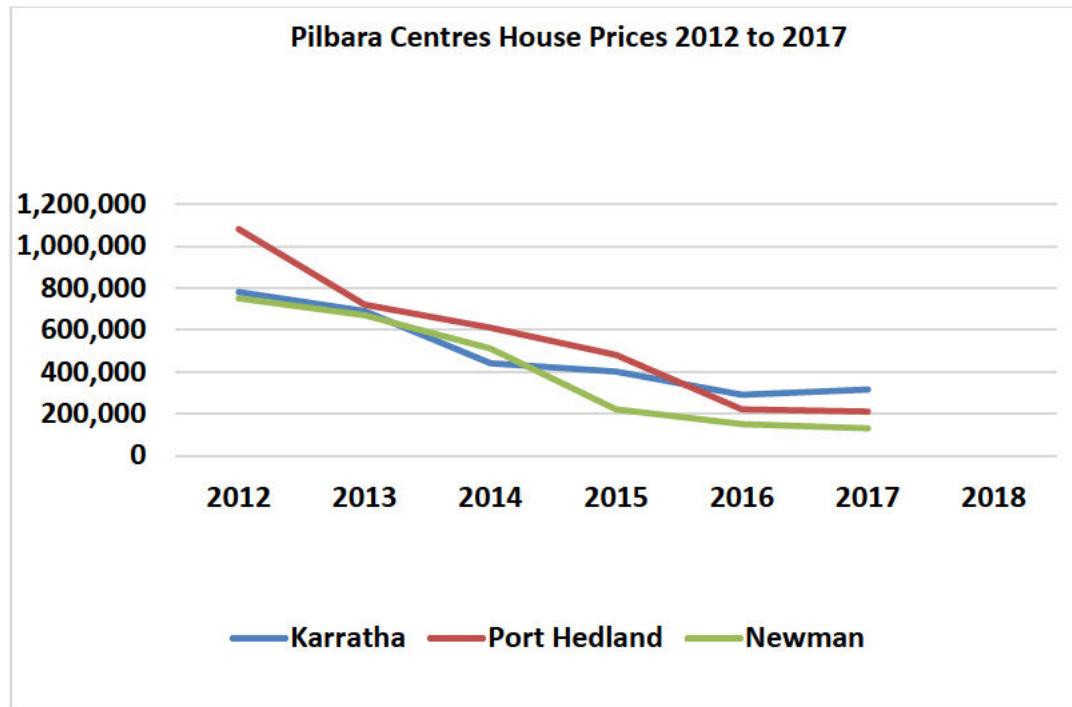


### 6.4 Property<sup>16</sup>

In the residential market, between 2012 and 2017, there was a fundamental change in the demand supply balance, with significant decreases in demand and increases in stock levels. The sharp decline in dwelling purchase prices and rental costs was unrelenting. The median sale price for homes fell by up to 70%. Rental prices fell by similar orders of magnitude. The overall impact of the downturn on the property market was very severe. It destroyed wealth, decreased the availability of bank loans for small business owners, as the value of security decreased, and it also accentuated the lower levels of expenditure by households. The impact on businesses in real estate, insurance and banking was substantial.

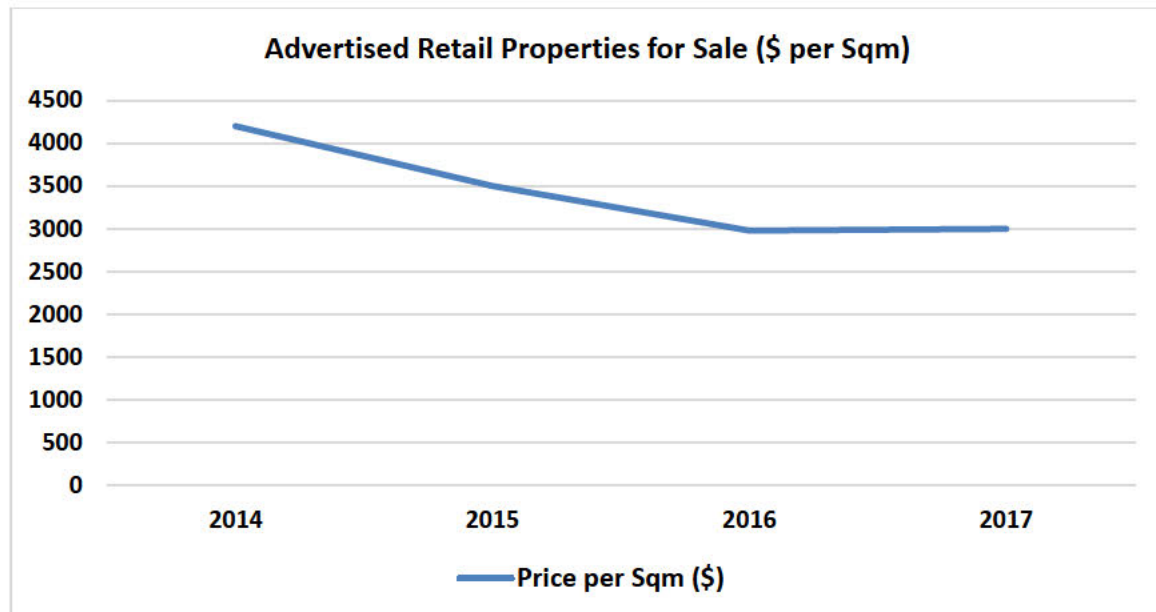
<sup>16</sup> Data Sources: Pilbara Development Commission - December 2017 SNAPSHOT - REIWA and ABS

**Figure 6: Dwellings Sales Median Value (\$): Karratha, Port Hedland, Newman**

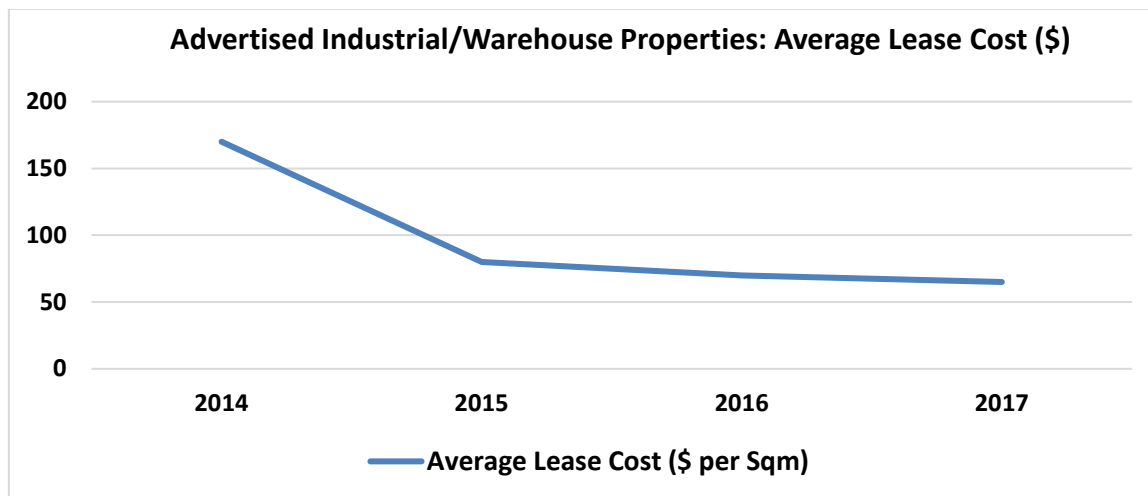


Similarly, the rental and sales market for office, commercial and industrial/warehouse precincts decreased significantly. For example, rental prices fell by some 30%. Land values also sank.

**Figure 7: Advertised Retail Properties for sale 2014 to 2017 (\$ per Sqm)**



**Figure 8: Advertised Retail Properties for sale 2014 to 2017**



## 6.5 Construction

The high cost of construction coupled with much lower demand during the downturn hit the construction industry hard and the level of activity fell sharply. The construction industry ratio of construction costs in the Pilbara centres in comparison to Perth is over 1.6 and will be difficult to reduce given the need for cyclone rating, transport, costs of materials and professional and technical service costs.

## 7 Impact of Economic Crisis on SMES

### 7.1 Overview

After six years of exceptional growth from 2008 to 2013, due to the construction phase of the resources boom, the economy of the Pilbara and its population have been severely impacted by the downturn that started to materialise in 2012, with an accelerating negative impact until late 2018.

### 7.2 Factors influencing the Viability of SMES

Significant socio-economic progress in the Pilbara is reliant mainly on private enterprise investment, maintenance, production and employment, over time, in the resources sector. The provisions of the Bill would have a material impact on the prospects for assisting SMEs to withstand economic crises and continue to operate in a viable manner. To fully understand the magnitude of such an impact it is necessary to understand the factors influencing the viability of the SME sector in the Pilbara.

#### 7.2.1 The Features of the SME Sector - Diminishing Numbers

In 2010/11 at the height of the last boom the Pilbara had 2,343 active businesses and 255 businesses per \$1 billion of GRP, which was the lowest in WA by a substantial margin. According to the Pilbara Development Commission<sup>17</sup> this number fell to 2,182 businesses in 2018, with 96% having less than 20 employees. There are four SMEs per 100 people in the Pilbara, which is more

<sup>17</sup> <https://www.pdc.wa.gov.au/our-focus/strategicinitiatives/small-business>

than 25% less than the 6.8 per hundred people in regional WA as a whole<sup>18</sup>. Similarly a limited number of start-ups have begun operations in the Pilbara in recent years.

#### ***Decreasing numbers of Businesses in the Pilbara***

*Other key indications of decreasing numbers of businesses during the downturn are apparent from the following data:*

- *Port Hedland had a net loss of 47 businesses between 2015 and 2017 with the biggest losses in construction, administration & support services;*
- *Karratha had a net loss of 137 businesses in the same period with the biggest losses in construction, transport, postal & warehousing; and*
- *Using slightly different metrics the ABS also records a significant decline in the number of businesses in Karratha and Port Hedland over the same period. In June 2015 there were 1,046 registered businesses in Karratha, but this fell to 920 in June 2017. For Port Hedland the figures were 770 in June 2015 and 722 in June 2017.*

Developing a diverse and competitive SME sector has long been recognised as a necessity to broaden and diversify the economy of the region. Growth of the Pilbara's SME sector has the potential to foster greater innovation and collaboration, increase regional competitiveness and provide new and diversified employment opportunities, making it a key part of realising the region's vision for 2050.

The predominance of local businesses in the construction, rental, real estate, warehousing and logistics industries is closely aligned with the strength of the regions mining sector. Meanwhile, businesses in other sectors such as education, retail and professional services are underrepresented across the Pilbara compared to regions of comparable size. Moreover, the SME sector suffers from the high cost of doing business in the Pilbara, isolation, and a small internal market.

#### ***7.2.2 High Cost Structure<sup>19</sup>***

The capital costs of setting up a business in the Pilbara are high, as are operating costs. SMEs have to compete with large resources companies for labour and other inputs and distance and geography add further to costs. Moreover, the operating cost of business in the Pilbara centres is very much higher than a comparable business in Perth. This is illustrated by the data in the table below for a small services type business.

**Table 1: Indicative Cost Comparison Model of an SME Service Business in the Pilbara towns compared to Perth in 2018 in percent difference (based on \$ per annum)**

<b><u>Town</u></b>	<b><u>% above Perth in 2018</u></b>
Karratha	72
Port Hedland	70
Newman	86
Onslow	62

<sup>19</sup> The Cost of Doing Business in the Pilbara 2018. Regional Development Australia Pilbara – prepared by Imani Development

### 7.2.3 *High Cost of Insurance*<sup>20</sup>

The RDA Pilbara Study on Banking and Insurance prepared in 2015 at the **height of the economic downturn** in the region, covered all regions in Australia, with a focus on the Pilbara. The findings and recommendations are particularly relevant to this submission. Subsequently, there have been two further studies on insurance, one by the Northern Australia Insurance Premiums Taskforce and the other by the Australian Consumer and Competition Commission (ACCC). All of these reports clearly illustrate the high insurance costs affecting residential property and business owners in northern Australia in general, and the Pilbara in particular, in centres north of the 26th parallel.

Since 2009/10 insurance costs for both residential property and businesses in the Pilbara have increased rapidly. Costs are very much higher in the Pilbara Centres than in Perth (between 290% and 350%) in the main centres in 2015, with Port Hedland the highest, and with the lowest costs in Newman, presumably reflecting the lesser degree of risk from natural hazards. In a survey conducted for the RDA Pilbara Study over 90% of SMEs indicated that the main constraint to obtaining insurance was high insurance costs, followed by the risk profile of SMEs, due to natural hazards and excessive bureaucracy. Natural hazard disasters have resulted in high claims (particularly cyclone damage), principally in North Queensland and in the Northern Territory, which had an impact on premiums in the Pilbara. In addition, **during the downturn in the Pilbara much lower home values** had a very negative impact on the ability of businesses to insure and therefore to borrow to survive (see following section 7.2.4) and thus their ability to start operations, remain cash flow positive, and expand and diversify.

Moreover, as a result of high insurance costs there is an issue of Non-Insurance of SMEs in regional areas. Twenty six percent (26%) of all small to medium sized enterprises (SMEs) do not have any form of general insurance. Sole traders have the highest rate of non-insurance, with 40% operating their business with no general insurance. Of the SMEs that purchase general insurance, 94% indicated that they were not adequately insured. For the majority of small businesses, profit expectations do not appear to impact on planned insurance coverage, at least in the short term. Fifty percent (50%) of respondents indicated in the survey that they would leave their insurance coverage unchanged despite expected changes in profits over the coming years.

### 7.2.4 *Financial Constraints*

Bank loans are not priced by location, but rather priced on specific characteristics of persons and businesses taking out loans. In this regard, there are insurance and affordability issues in the Pilbara, because of the high cost of insuring assets that can be used as collateral for loans and the higher cost of lending rates for SMEs. There are other barriers to accessing finance, such as high compliance costs. Other issues with gaining access to loans include higher risk assessments by lenders when the economy in the Pilbara weakens and the quality of management. With start-ups with no history of operation, loans are even more difficult to secure.

The quality of the security being offered to support a loan application is also important. In the Pilbara, both in the towns, and the country, home values fell rapidly from 2012<sup>21</sup>. The impact of falling house price values on business lending is that there is less collateral against which to borrow. Although, since late 2018, there have been more positive economic developments commercial banks and other lenders have implemented more stringent lending standards and therefore access to finance has not really improved much.

<sup>20</sup> Study on Banking and Insurance in Regional Australia. Regional Development Australia – 2015. Prepared by Imani Development Austral

<sup>21</sup> <https://www.pdc.wa.gov.au/our-focus/knowledge-hub-2>



### **Other Key Findings**

- *Within Australia as a whole, various funds are used from many different sources for business start-ups and young businesses. Only one source, personal savings, is used by more than 50% of all start-ups, apart from credit card debt. Only a minority of such businesses uses a major alternative source such as bank funding.*
- *Funding by business angels and venture capital firms is close to non-existent. The similarity in the patterns for nascent and young firms also suggests that there is usually no radical change in the funding pattern from inception through early life. The data suggest that finance and accounting skills, if there are any, are the primary areas of skills shortages of entrepreneurs. Interviews with stakeholders in the Pilbara suggest that “own” capital is a main source of start-up capital for new SME businesses and savings from a successful venture are a primary source of funding for expansion or the purchase of an additional business.*
- *Approval rates for debt funding have been above 80% in Australia. Approval rates are much lower for new ventures; which reflects the relative riskiness of lending to such enterprises. New ventures usually lack collateral and sufficient proven credit history to qualify for a loan. Such firms can also lack sufficient cash flow until their product can be commercialised.*
- *There is evidence to suggest that regional and rural areas in Western Australia are likely to receive a weighting of higher risk, which limits both the total amount of funds which can be lent against property and the loan to value ratio (LVR). In the case of mortgages for property purchases, the percentage deposit required by banks in the Pilbara to secure loans varies in regional towns and is anywhere between 5% and 30%. For example, one of the major banks in the Pilbara requires a 30% deposit compared to 20% in Perth.*
- *Many of the businesses in the small mining towns of the Pilbara are new ventures that face funding issues and in the case of Tom Price and Newman there are only seven financial service organisations available to them, which shows limited choice.*

### **RDA Pilbara Study on Banking and Insurance in the Pilbara (2015) Recommendations**

- To maximise access to loans and to reduce risk SMEs need to be aware of lending criteria and their own risk profiles (in this regard the need for a history of management performance is important).
- Organisations such as the Pilbara Small Business Centres and Chambers of Commerce and Industry are well aware of SME needs and provide support. Utilising available information and training is highlighted. It is recommended that as much support as possible be given to these activities.
- The banking industry needs to engage closely with customers to make sure that opportunities are understood. In this regard services provided to more remote communities are important and need follow up.
- New forms of finance<sup>22</sup> 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

<sup>22</sup> Access to Finance - Growing SMEs in regional Western Australia – Regional Australia Institute – June 2015



regional areas, particularly for business start-ups or for knowledge-based and service-delivery businesses. This needs to be discussed with the business community.

- In view of a still high cost structure in the Pilbara, and an economy that depends heavily on the cyclical resources industry, the importance of diversification of the economy needs to be underlined. Improving market opportunities is of paramount importance and in this regard, both local and export opportunities need to be constantly appraised and expanded.

## 8 Solutions

### 8.1 Existing Programmes

It has been argued in Parliament<sup>23</sup> that there are relevant existing Government programmes<sup>24</sup> to assist the viability of rural industry that raise queries on the need for a new Australia Fund, however, these do not specifically address the needs of businesses or communities in times of crisis.

### 8.2 Proposed Measures

From the perspective of the structure of the Pilbara economy and its cyclical nature the following measures, as presented in documents and transcripts related to the Bill<sup>25</sup>, are strongly supported by RDA Pilbara to reduce the business risks for the SME sector and encourage expansion and diversification:

- Loan money to businesses, act as a guarantor for loans, capitalise or waive interest, purchase existing bank loans, and assume control of relevant property of the business for a specified time.
- In this way, the Fund would be designed to enable businesses to continue operations to earn revenue, employ workers and pay taxes, rather than be prematurely wound up, and support communities affected by natural disasters, or sharp declines in economic activity as a result of significant commodity price falls.
- Provide funds for industry and/or company restructuring and the acquisition of new technologies to make businesses more economically viable and internationally competitive.
- Review existing bankruptcy and insolvency laws with the aim of introducing legislation designed to assist companies to trade through difficult times, rather than be closed down.
- On the basis of an assessment of the industry and/or businesses, to provide emergency and ongoing drought/flood/bushfire relief for the livestock and agricultural industries in the Pilbara.

---

<sup>23</sup> [https://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/Bills\\_Search\\_Results/Result?bld=s1151](https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=s1151)

<sup>24</sup>

The Advanced Manufacturing Fund “provides over \$100 million in new funding to boost innovation, skills and employment in advanced manufacturing to continue the transition to a new economy”.

The Growth Centres Initiative (\$238 million) aims to build capability and stronger industry systems through a collaborative, industry-led approach. The Initiative is helping Australia transition to smart, high value and export focused industries.

The continuous shipbuilding industry program (\$90 billion) released on 16 May 2017 outlines the Government’s vision for the Australian naval shipbuilding enterprise and the significant investment required in coming decades.

The Regional Jobs and Investment Packages (\$222.3 million) supports the Australian Government’s commitment to stimulate economic growth in Australian regions, however Western Australia is not included in the programme.

<sup>25</sup> [https://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/Bills\\_Search\\_Results/Result?bld=s1151](https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=s1151)