

10 August 2018

The Hon Barnaby Joyce MP
Chair
House of Representatives Standing Committee on Industry, Innovation Science and Resources
Parliament House
CANBERRA ACT 2600

Dear Mr Joyce

I am writing in regard to the Committee's current inquiry into how the mining sector can support businesses in regional economies.

The Regional Australia Institute (RAI) is in regular contact with regional leaders around Australia, and this topic remains one of keen interest to many, not just those in the Australia's big mining regions. State Governments too were looking closely at this issue during the last mining construction boom, and are still looking at ways in which they can secure the biggest local long term benefits from mining projects.

The RAI was established in 2012, and one of our early research projects in 2013 looked into this topic in some detail. I have attached a copy of our Regional Policy Briefing on the most effective local strategies that enable regions to capture long term benefits from resource investments. The Policy Briefing was written near the end of the last mining construction boom, but its recommendations and examples are still highly relevant.

The main success factors we identified that help businesses in regional communities benefit from mining are:

1. Ensuring that local governments and community groups establish local development strategies to maximise the potential benefits of resources projects and manage the inherent risks and uncertainties
2. Platforms for on-going communication between stakeholders to enable the negotiation of mutually beneficial outcomes for all parties - government can play a brokering or facilitating role here to address the market failure.
3. Delineation of clear roles and responsibilities for all stakeholders, including resource companies, local and state governments and members of the local community
4. Establishing funding arrangements (such as Royalties for Regions or similar programs) that provide regional and local communities with funds to understand and respond to issues as they emerge, and
5. Providing a supporting system of Community Benefits Agreements or similar instruments independent of EIA frameworks that ensure certainty for community, companies and governments.



While the capital investment and capacity building boom has passed, in the current climate most jurisdictions across Australia are now looking more closely at mechanisms to get more local benefit from the mining sector. New legislation has been written in Queensland and Western Australia designed to increase local impact by requiring that investors demonstrate local supplier relationships. While this primarily applies to public spending on capital works, the means and intention are there to push for similar requirements in approving private capital works. The aim is to support greater local jobs outcomes, and often local training outcomes and job/training outcomes specifically for indigenous people as well.

The RAI has a current nationally-endorsed research project looking into procurement processes across Australia, and how procurement is being used here and overseas as a tool to promote regional economic development. I would be pleased to provide you and the Committee with a copy of this work when it is finalized later this year.

Best wishes

Jack Archer
Chief Executive Officer

Attachment





BENEFITS OF THE BOOM?

Effective local strategies are the key to regions capturing long term benefits from the resource boom.

Key Points

- Jobs and wealth derived from resources projects flow mainly to connected capital cities and larger regional centres rather than to small towns close to the project. The long-term socio-economic benefits of resource projects for smaller regional communities are not assured simply by the presence of a project.
- Maximising the net socio-economic benefits of resources projects for regional communities should be a clear goal of resource development.
- Capturing a share of indirect and induced economic activity will determine whether a community experiences net benefits from a project.
- Communities that do not have an effective strategy for managing these issues may experience negative outcomes. The consternation over FIFO work patterns is reflective of the wider challenges in the current resources development systems in Australia.
- Governments should consider whether the Environmental Impact Assessment framework provides an appropriate umbrella for socio-economic issues in the future. Its emphasis on external expert driven impact assessment and compliance focussed regimes is at odds with the locally negotiated outcomes and strategies needed to achieve net socio-economic benefits for local communities.

POLICY ISSUE

The mining boom has brought rapid new development into regional areas. The extent to which regional communities benefit and how these benefits can be maximized is not well understood.

ABOUT THE RESEARCH

This policy briefing is based on emerging evidence from a range of academic work analysing the practical impacts of the resources boom in regional Australia.

Policy Implications

The approach for involving local communities in the resources development process needs considered review. An effective project should be profitable for the resources company, provide jobs and wealth for the nation and create opportunity for sustainable local development.

Effective local action is the most important driver of success in capturing local benefits from resources projects. It is not clear to what extent current development processes enable or confound this effective local action.

An alternative approach, separate to environmental approvals and focused on local engagement and agreements targeting net social benefits should be considered based on local and international evidence.

Resources companies have a crucial role in creating net socio-economic benefits for the regional communities and can lead better outcomes on these issues through better local engagement and workforce management. A good process will minimize community opposition and ensure communities can manage the pressures of rapid development and in some cases the cumulative results of multiple projects.

In the export phase of the boom featuring an increasingly cost competitive environment, effective community strategies will become even more important to achieving commercial success and potential state royalty streams.

Context

Large-scale resource development in regional Australia should create opportunities for new local employment and economic activity, while also contributing to national wealth and jobs and increased economic activity in other towns and cities.

However, given the diverse interests of the stakeholders of resource developments, these potential benefits will not automatically flow to a region by virtue of a project existing nearby.

Local communities and businesses must have a realistic strategy for capturing the benefits of development and responding effectively to the risks and challenges associated with rapid development.

Resource companies and state governments have important supporting roles to play in this process but cannot realistically be expected to be the sole drivers of regional development.

In the second half of the current boom, it is important that we learn from recent experience and the increasing evidence now available from a range of projects around the country.

Findings

Maximising the Flow of Resource Project Benefits

To understand how regions can best position themselves to capture the benefits of resource projects, it is important to identify the types of economic activity generated by resource developments and the beneficiaries of such activity.

Three types of benefits flow from resource projects:

- direct benefits (the revenue from sale of the resource)
- indirect benefits (such as increases in employment and supplies of goods and services to the project), and

- induced benefits (such as spending by mine employees or upstream service providers).ⁱ

The direct benefits of a resources boom are typically captured by the resource company. A portion of this is also returned to state governments as royalties.

The majority of the indirect benefits flow to large regional centres and major cities which act as a source of labour and specialist service providers.

Unless a regional community has an existing and available skilled workforce or sophisticated businesses that can meet the needs of a project, the indirect benefits of a resource project may be less than expected, with most labour, goods and services generally being sourced from outside of the region.

For example, research in Western Australia indicates that for every ten jobs created by a resource development, two will be sourced from the host region, seven from adjacent regional cities and one from elsewhere.ⁱⁱ

As a result of the direction of these flows, it may be the induced benefits that provide the most important long-term opportunities for regional growth and development.

This is often contrary to the initial expectations of regional communities.

Maximising Indirect and Induced Benefits

The indirect benefits that a region will receive are highly dependent on the (project specific) infrastructure and services required by the resource development.

For example, the significant expenditure by the Argyle Diamond Mine on electricity in the East Kimberley region has helped underwrite the provision of power generation and distribution infrastructure throughout the entire region (especially in the township of Kununurra), with

positive economic implications for consumers and industry more generally.ⁱⁱⁱ

In instances where infrastructural investments by mines do not benefit the host region, engaging with the mine directly and indirectly through local (entrepreneurial) action is critical to optimize the benefits available.

Given the increased flow of people and capital in the regions with nearby resource developments, a wide range of opportunities exist for local businesses to develop new goods and services to respond to new sources of demand.

One opportunity for local businesses is to provide innovative or specialized services designed for the 'niche' resource extraction market. One example of such engagement includes a Karratha based business, 'REFAP' (Real Employment for Aboriginal People) which specialises in labour hire, postal and courier services and in cleaning and maintaining processing plants. The company was recognized in 2012 as the region's best small business.^{iv}

In many cases, however, local businesses can engage with the resource extraction market simply by diversifying their existing product lines, pricing competitively and marketing their products directly to the resources company and their employees.^v

In addition, as resources projects prepare to transition from their construction phase to their operational phase, opportunities arise for regions to play a greater role in assisting resource companies to reduce their costs and operate at their most efficient levels.

Sourcing labour from regional labour pools and using local services is one strategy which can be negotiated to maximise the flow of indirect benefits to regional communities.

Negotiating Direct Benefits

Direct benefits can also play an important role for regional communities but these are often

overstated and can be the subject of undue focus by local communities in the initial stages of development.

There is no guarantee that direct benefits will be accrued by a region unless it is negotiated with the company or state government. In this way, effective communication and leadership at the local government level is paramount.

In most cases direct benefits will be derived from one off investments in infrastructure. While they provide an immediate tangible benefit for the community, like any regional infrastructure investment, in isolation they may have a limited long-term impact^{vi}. However, if they are an important part of a wider strategy for the community, then longer-term benefits may flow.

The Inherent Risks of Rapid Development

Irrespective of the type of action regions take to maximise the benefits of a local resource development, there are a number of common risks that need to be managed in order to reduce or avoid the potential downsides of rapid economic development. These include:

- decision uncertainty
- crowding out of traditional regional economic activity
- severe volatility of the housing market
- the socio-economic impact of population increase (including FIFO/DIDO workers and service providers)
- sourcing local services providers to meet increased demand.^{vii}

Decision Uncertainty

The beginning of a development is a challenging period. Local communities have little or no influence on the approval or timing of a development. This creates significant uncertainty for communities about if and when changes will come.

When a decision to go ahead is made, development can proceed very rapidly. This transition is difficult for communities to

respond to and there is pressure on local leaders to negotiate long-term agreements.

There are no easy solutions to this issue. Project decisions must be commercial and until approval processes are finished there can be no certainty that a project will go ahead.

Ensuring that regions have access to sources of independent advice on key decisions is important.

Having strong processes in place for engagement between resource companies, government and local communities is also essential.

Crowding Out

Crowding out occurs when economic resources previously available for other industries in a region move to the higher returns offered by a resource development.

For example, in many towns motels and temporary accommodation previously utilised by tourists often become unavailable or exorbitantly priced. Workers in agriculture may move to the mine for higher wages. Shops that previously serviced the community may not be able to afford high rents.

In the short term this change can increase the value of local economic activity but in the long-term the region may lose the industries which it previously relied upon. If the resource development ceases or demand drops after the construction phase, this can undermine the long-term success of the community.

The nature and extent of this issue will vary significantly between regional communities depending on their existing economy and the needs of the development.

Housing Market and Integrating a New Workforce

Towns with nearby resource developments frequently experience significant volatility in

their housing markets as expanding workforces cause a rapid increase in demand.^{viii}

This volatility is often exacerbated by an inability to bring new housing on stream quickly and speculative investment in property from outside of the community.

The consequences of housing market volatility are significant for communities. Residents who are unable afford high rents or house prices are likely to be displaced, having to move to another community or becoming homeless.

Use of a temporary workforce through Fly-In, Fly-Out (FIFO) or Drive-In, Drive-Out (DIDO) is a common way in which new workforces are rapidly brought on stream to support developments, particularly during the construction phase. The recent inquiry to the use of mobile workforces by the House of Representatives (HOR Inquiry) found such practices have been damaging to regional communities, particularly established resource communities.

The negative impacts of local workforce increases and temporary workforces could be mediated through negotiations between resource companies and regional communities and stronger planning by regional communities to maximise the benefits of a resources project presence.

In most instances, regional communities are not realistically able provide or house the labour necessary for a project, making temporary workforces essential to a development's success.

Given that the labour needs of a project will vary over its lifecycle, FIFO workforces can also be highly valuable both in mitigating risks to communities from rapid fluctuations in workforces.

A gradual introduction of permanent workers over time reduces pressure on housing

availability and affordability. It can also protect low income earners from potential dislocation .

The HOR Inquiry also noted the benefits FIFO workforces can have in improving the delivery of health services in rural and remote areas.

As a result, if managed well, FIFO work forces could help ensure that the labour distribution and service availability in regional communities remains balanced in the face of rapid workforce expansion.

Unfortunately the findings of the HOR Inquiry emphasise that to date FIFO work forces have not been well managed. Serious social and economic consequences have ensued from this for many regional communities.

To secure long-term benefits for the region, regional communities must form strong relationships with the resource companies to work together to negotiate how the workforce can be integrated into the community and support a region's long-term development strategies. Resource companies must also be willing to engage in this process.

Increasing Service Provision

Housing is not the only social infrastructure experiencing excessive demand in regions with resource developments.

Rapid population growth in these communities requires swift responses from the private and public sectors to ensure that health, education and social services providers are not overwhelmed by increased demand. This response has often lagged development.

The HOR Inquiry emphasised the lack of information that sits at the heart of service shortages experienced in many regional areas.

Regions need information about resident and service populations to plan for the opportunities and demands of a larger temporary or permanent population.

Getting the Development Process Right for Local Communities

The evidence gathered together above indicates that for local communities resources developments have often resulted in unrealised long-term community benefits (or expected benefits) combined with sometimes severe social and economic challenges.

There is no simple, one-size fits all solution to these issues. The challenge in many projects will be recognising the opportunities for regional communities, resource companies and governments during the approval process.

This provides a platform for working cooperatively to resolving diverse interests so that development is profitable for the company and of significant net benefit to local communities and the state/nation as a whole.

Effective local coordination, engagement and negotiation between resource companies, community groups and government is the key. If regions are to take charge of their own development goals, they require stronger planning and approvals processes for individual projects that consider and manage social and economic impacts at local and regional levels.

In addition, regions require stronger coordination mechanisms at the local and regional level that can deal with the cumulative impacts and opportunities of multiple projects (such as regional planning or coordinating bodies).

As noted in the HOR Inquiry, regions hosting local resource developments may benefit from implementation of Community Benefit Plans, as are used in Canada.^{ix} Such plans focus less on compensation and ad-hoc provision of facilities, and more on building community sustainability and economic diversity, including local business and skills development.

The successful implementation of such plans, however, first requires a fresh look into the

policy context of social impact assessments in Australia.

Moving Beyond the EIA Framework

At present, social impact assessments are a requirement of State government environmental impact assessment processes which are linked to Federal environmental approvals processes.

The local outcomes for many projects approved and managed under current arrangements suggest this nested approach fails to provide the platform for strong local outcomes.

This may be a result of the fundamental differences in environmental and socio-economic issues.

Environmental impact assessment (EIA) is rightly driven by the fact that the natural environment will almost always be better off if a resources development does not take place.

However socio-economic issues are more complicated than this. As well as risk and impacts there are potential opportunities for long-term community benefits from development. An independent expert driven, impact mitigation approach which is essential in EIA is at odds with what the evidence says is the key to achieving net socio-economic benefits at the local level.

In particular, undue emphasis on establishing rigid terms and achieving compliance (although these may be important) is likely to be unhelpful for socio-economic issues. Instead, the emphasis should be on developing and supporting productive working relationships between local communities and companies so that opportunities and risks can be identified and mutually beneficial arrangements negotiated.

Basis for a new approach

Improvements to the current system should involve the management of socio-economic issues stepping outside the EIA framework.

There is an opportunity for the socio-economic approval process to chart its own course based on what we know works and what does not from recent experience.

This could be established on a cooperative basis between government, industry and community if based on:

1. ensuring that local governments and community groups establish local development strategies to maximise the potential benefits of resources projects and manage the inherent risks and uncertainties
2. providing platforms for on-going communication between stakeholders to enable the negotiation of mutually beneficial outcomes for all parties
3. delineation of clear roles and responsibilities for all stakeholders, including resource companies, local and state governments and members of the local community
4. establishment of funding arrangements (such as Royalties for Regions or similar programs) that provide regional and local communities with funds to understand and respond to issues as they emerge, and
5. providing a supporting system of Community Benefits Agreements or similar instruments independent of EIA frameworks that ensure certainty for community, companies and governments.

This evolution in approach should not just be seen in the context of local community interest.

More effective community participation in approval processes should lead to greater community support for projects. In return, resource companies can increase the chances of long-term project success by reducing green-tape, workforce costs and avoiding costly delays or project shutdowns.

Research Approach

The Regional Australia Institute conducted independent research to complement the work and recommendations already available that demonstrate the opportunities available for regional communities to maximize the benefits of Australia's current resource boom.

Contacts and Further Information

To discuss this policy briefing or find out more about RAI's research agenda please contact us at info@regionalaustralia.org.au.

Disclaimer

This briefing translates and analyses findings of research to enable an informed public discussion of regional issues in Australia.

It is intended to assist people to think about their perspectives, assumptions and understanding of regional issues.

No responsibility is accepted by Regional Australia Institute Limited, its Board or its funders for the accuracy of the advice provided or for the quality of advice or decisions made by others based on the information presented in this publication.

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