



Economic futures for Northern Australia

Northern Australia, from the Kimberley to Cape York, has reached an important juncture in its economic development.

Across much of this area resource exploration and development is running at a frenzied pace while simultaneously natural and cultural heritage values are being recognised through such processes as National Heritage (Kimberley) and World Heritage (Cape York) assessment.

The challenge we face is how to chart a sustainable path between resource exploitation and recognition of the incredible natural and cultural values of the region – while still delivering economic opportunities for communities in Northern Australia.

In Australia it has long been assumed that economic development in remote areas is best delivered through large scale, multi-billion dollar resource extraction projects.¹ Extensive government support for these industries reflects this sentiment. Indeed, to date, this has been the pattern chosen by federal and state governments.

But is this an effective model? Do large resource projects in fact deliver the economic benefits to remote communities in Northern Australia they promise? Is there another possible path that will maintain the natural integrity of the region while delivering quality jobs and economic opportunities for Northern Australia?

The Kimberley – at a crossroad

¹ See for example the Chamber of Minerals and Energy (CME) of Western Australia website: “The sector has the potential to influence quality of life and development outcomes in its key producing and operating regions. CME members are the primary producers of value and employment in regional and remote Western Australia” accessed at http://www.cmewa.com/In_the_Regions

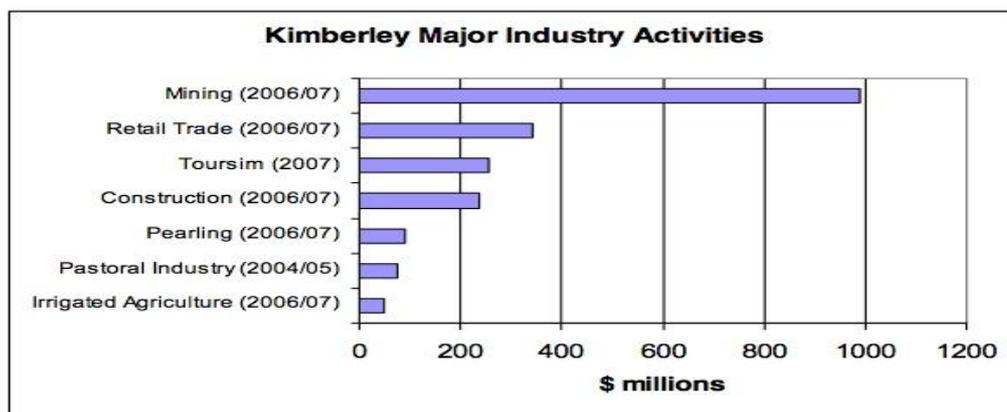
The Kimberley region, in the far north of Western Australia, contains the four local government areas of Broome, Derby-West Kimberley, Wyndham-East Kimberley and Halls Creek. It includes the key towns of Kununurra, Derby and Broome.

The entire Kimberley region has a population of 33,158 (2007), with approximately 50 per cent identifying as Indigenous Australians. Broome, the largest town, houses nearly half the population of the region, with 15,000 people.²

In terms of economic output, the region's major contributing industries are mining and tourism.

From the perspective of Gross Regional Product (GRP - the market value of all final goods and services), the economy is dominated by mining, which is valued at just under \$1 billion of a total GRP of \$1,780 million in 2007/08.³

Figure 1: Major industries in the Kimberley by gross value of production⁴



Source: Department of Local Government and Regional Development

While mining is the largest industry and contributor to GRP, more useful measures of economic contribution to the local economy are the actual dollars and jobs that remain in the region. When looking at the economic output of industries (rather than GRP), tourism is not far behind mining, with a total output of \$637 million.⁵

When employment in various industry sectors in the Kimberley is considered, a very different picture emerges. The four biggest industries by employment are health care and social assistance, public administration and safety, education and training, and retail trade. Following closely behind retail trade are accommodation and food, and construction.

² KDC (2009), *The Kimberley: An Economic Profile*. Kimberley Development Commission, March, 2009

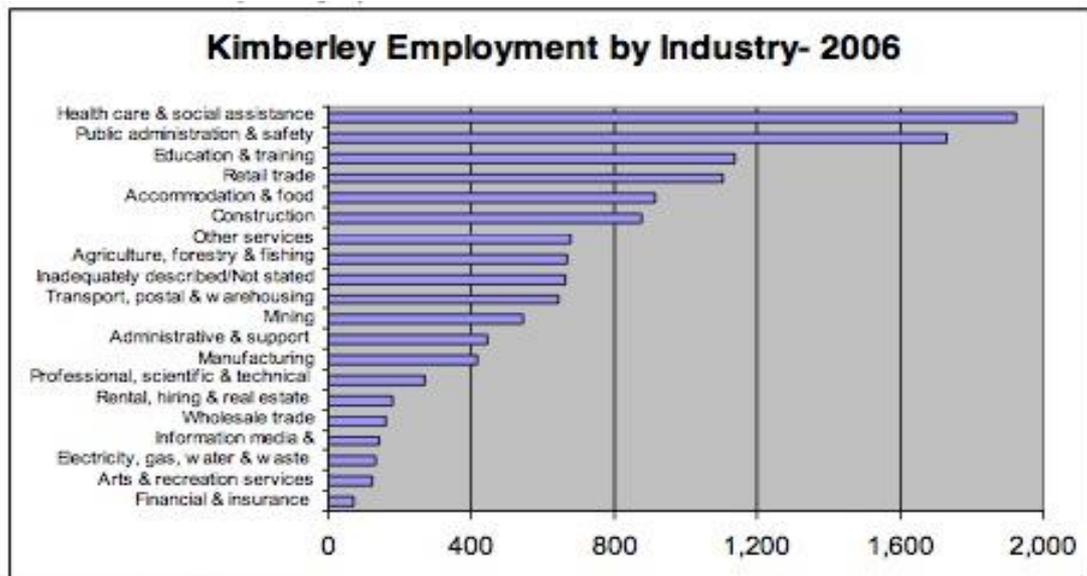
³ *ibid* KDC (2009)

⁴ *ibid* KDC (2009)

⁵ Kadar Pearson and Partners (2009), *Tourism Impact Assessment – Kimberley LNG*, prepared for Tourism Western Australia in partnership with WA Department of State Development

The mining industry is the eleventh largest employer in the region, providing around 500 jobs⁶. It is less significant as an employer than the transport, postal and warehousing sectors.

Figure 2: Major industries in the Kimberley by employment⁷



Source: 2006 ABS Census

Mining in the Kimberley is owned and controlled almost entirely by national and international companies, so the profits don't stay in the region. And the workforce is largely fly-in fly-out workers, not local employees. This all adds up to significant leakage of economic value straight out of a region.

More useful to local economic development is money that stays in the region and is spent in the region, thereby having a stronger multiplier and wealth creation impact in the Kimberley.

In contrast to the money made from mining, the turnover of retail trade and tourism expenditure in the region results in better local wealth generation, as both industries depend more heavily on local business activity. Retail trade turnover in 2005/06 was around \$350 million.⁸

Around 346,000 tourists visit the Kimberley each year (against a resident population of 33,000) with their total economic activity contributing \$637 million to the regional economy.⁹

⁶ Op cit KDC (2009)

⁷ Ibid KDC (2009)

⁸ Department of Local Government and Regional Development (2007), *Indicators of Regional Development in Western Australia*. Supplementary Report, 2007.

⁹ Op cit Kadar Pearson and Partners (2009)

When this figure is combined with the income generated by other major service based, non-mining industries, it is clear these sectors generate more for the local economy than mining. However, as this economic activity occurs through multiple small to medium-sized businesses across the entire region, rather than through a few major resource projects, this strong and diverse economy remains largely invisible to decision makers in Perth and Canberra.

Five of the top seven industries by value in this region depend in whole or in part on the unique and special natural environment of the region. So whilst mining is the largest contributor to GRP, over time this could result in eroding the economic contribution of the other critical and significance sectors of the regional economy. This fact should be recognised and considered in future planning for this region and other regions across Northern Australia.

Looking even closer at the socioeconomics of the region, statistics paint a grim picture for Aboriginal people in the Kimberley, who continue to live with some of the poorest health and social status in the nation. West Australian Indigenous males' life expectancy is estimated to be 20 years less than non-Indigenous males.¹⁰ On issues such as employment, education, income and home ownership, Kimberley Aboriginal people also lag behind the general community.¹¹

In light of this data, it is therefore critical that the future economic development options for the Kimberley and other parts of Northern Australia are carefully and comprehensively considered, with the core objective that such development brings the best long term outcomes for the local communities of the region.

What could industrialisation bring to the Kimberley? A case study

Embracing big resource projects has been held up as a golden opportunity for the Kimberley. The most high profile potential development being considered is the Browse Basin Liquid Natural Gas (LNG) processing facility proposed for James Price Point, north of Broome.

Western Australian Premier Colin Barnett has been reported as saying that if there is no gas development in the Kimberley, "there will be no gas-related economic development in the Kimberley and there will be no economic benefit for the Aboriginal people of the Kimberley. I don't want to see any of those things happen."¹²

¹⁰ Taylor J (2008), *Indigenous labour supply constraints in the West Kimberley*, Centre for Aboriginal Economic Policy Research, Working Paper No. 39/2008, Australian National University

¹¹ ABS (2006), Community Profiles Census Data, as quoted in The Chamber of Minerals and Energy of Western Australia (2010), *Position Paper: Policies, planning and partnerships for responsible resources development in the Kimberley*.

¹² ABC Kimberley, "Kimberley Gas Development Essential: Barnett", 13 Nov 2008, accessed at <http://www.abc.net.au/news/stories/2008/11/13/2418503.htm?site=kimberley>

The jobs associated with this one large scale gas project (6000 during construction) and investment numbers (\$30 billion+ budget) look significant at first glance, but an analysis of experience from previous resource projects suggests only a fraction of these jobs and economic activity are likely to remain in the local economy after the initial construction phase.

The recent draft Strategic Assessment Report for the gas hub gives some insight into these issues:¹³

Data	Value
Construction time frame	4-6 years
Construction jobs	6000
Operational jobs (low)	400
Operational jobs (high)	600
Estimated percentage of Fly-In Fly-Out (FIFO) jobs construction	85%
Estimated percentage of FIFO jobs operational	75%
Estimated local construction jobs	900
Estimated local operational jobs (low)	100
Estimated local operational jobs (high)	150
Employment multiplier	1.5
Estimated local <u>indirect</u> construction jobs	1350
Estimated local <u>indirect</u> operational jobs (low)	150
Estimated local <u>indirect</u> operational jobs (high)	225

These results indicate that during construction, there is an opportunity for a number of jobs to be created in the local communities (up to 900), but during the longer term operational phase of this project, unless significant additional effort is put towards training locals for skilled gas jobs, there are likely to be only about 150 job opportunities for Kimberley residents. At best this would still leave gas jobs as one of the smallest employers in the region.

The minimal jobs creation opportunities combine with potential negative impacts on the main town in the region, Broome. Experience in resource rich regions (such as the Pilbara) shows house rental values rapidly inflate to levels that price locals out of the market and towns become dominated by thousands of gas workers, significantly changing the balance of communities.

¹³ Based on data provided by; i) Department of State Development (2010). *Browse LNG Precinct: Social and Economic Benefits – Factsheet 04*. ii) Department of State Development (2010). *Browse Liquefied Natural Gas Precinct: Strategic Assessment Report (Draft) – Part 5*. iii) Curtin Sustainable Tourism Centre (2010). *Kimberley Whale Coast Tourism: Opportunities and Threats*. Report for the Wilderness Society (WA), July 2010.

A recent report indicates that if the gas hub goes ahead, house prices in Broome were likely to escalate to a level where some locals would have difficulty competing, as has occurred in the Pilbara.¹⁴

The Strategic Assessment identifies a key risk that “Indigenous people will be disproportionately exposed to some of the negative risks associated with the development of the Precinct (such as the cost of living) and less set up to take advantage of the opportunities the Precinct offers... The assessment concludes that the development of the Precinct is likely to have a major impact on Aboriginal people.”¹⁵

Rather than being an economic boon, big resource development projects can end up lumping a region with new costs, for little benefit.

It is this reasoning that totally justifies the local traditional owners negotiating hard on a benefits package from the proposed LNG development that would guarantee at least a strong and long lasting stream of income, when little else can be assured.

The Pilbara: A model not to be repeated

The Pilbara is a region of Australia that is generating significant wealth for the state of WA and contributing to Australia’s GDP. But what of the local economic development impacts?

One would think after many years of huge resource industries carving up and shipping out precious resources from this part of Australia that the streets of the Pilbara (and the pockets of local residents) would be lined with gold.

In the Pilbara, the mining industry tops the list of productive industries, with the value of mining, gas and oil estimated to be around \$20 billion.¹⁶

Certainly, for those in the labour force, average wages are well above those of the Kimberley, \$55,000 compared with \$40,000.¹⁷

However, the average Indigenous income in the two regions seems to be stagnant and is consistently lower than average Australian incomes - \$35,000 in the Pilbara and \$34,000 in the Kimberley.¹⁸

¹⁴ ABC Kimberley, “Gas hub will force prices up: expert”, 10 Jan 2011, accessed at <http://www.abc.net.au/news/stories/2011/01/10/3109601.htm?site=kimberley>

¹⁵ Department of State Development (2010). *Browse Liquefied Natural Gas Precinct: Strategic Assessment Report (Draft)* p ES-90

¹⁶ Department of Local Government and Regional Development (2006), *Pilbara Economic Perspective*.

¹⁷ *ibid*

¹⁸ Kimberley Land Council (2010). *Aboriginal Social Impact Report: Kimberley LNG Precinct Strategic Assessment – Indigenous Impacts Report Volume 3*. September, 2010.

A research paper by the Centre for Aboriginal Economic Policy Research (CAEPR) at the Australian National University concludes that little has been done to alleviate socioeconomic disadvantage for Indigenous people in the Pilbara over the last four decades despite the massive wealth creation that has gone on in mining industries.¹⁹

This report by CAEPR shows the indicators of Indigenous social and economic wellbeing are no greater in the developed Pilbara than in the relatively undeveloped Kimberley. Indigenous mortality rates remain at the same levels as the rest of the state. Indigenous household incomes are substantially behind non-Indigenous household incomes (around 50 per cent are below \$700 a week compared with 48 per cent over \$1500 a week for non-Indigenous households) and Indigenous people still spend much fewer years at school.

In short, the socioeconomic status of Indigenous people in the Pilbara – based on indicators including income, housing, morbidity, mortality and education – appears to be little, if at all, better than in regions that have not had massive resource extraction.

This is a damning demonstration that the current model of resource extraction has failed to bring socioeconomic benefits to local Indigenous populations in remote and regional WA.

Is there another future for Northern Australia?

Is there another future possible for the northern regions of Australia, one that respects culture and country and provides quality jobs and real local economic development?

ACF has long argued that Indigenous and remote communities in Northern Australia would benefit from stronger government support for a ‘cultural and conservation economy’.

The types of industries and jobs that thrive in a cultural and conservation economy are those that grow out of the unique features of the human communities in northern Australia and its relatively low productivity landscapes, and integrate conservation of land with development.

Essential elements of a cultural and conservation economy are:

- ❖ Recognition of Aboriginal culture, rights and title
- ❖ Support of strong, vibrant, sustainable communities
- ❖ Provision of meaningful work, good livelihoods and sustainable enterprises; and

¹⁹ Taylor, J & Scambary, B (2009), *Indigenous people and the Pilbara mining boom: a baseline for regional participation*, Centre for Aboriginal Economic Policy Research, Australian National University.

- ❖ Conservation, management and restoration of country.

A cultural and conservation economy facilitates a growth in jobs in environmental/natural resource management, tourism and visitor services, arts and culture, agriculture and sustainable production, small scale resources, infrastructure provision, emergency services, security (border, bio and armed forces), education and training and health.

Interestingly, it is these types of jobs that currently constitute the clear majority of employment in the Kimberley region.

Rather than seeking a few big ticket projects that contribute to GRP, but leave little benefit for real local economic development, governments should focus much more clearly on those industries that are truly contributing to local economies.

National Heritage Listing

National Heritage listing can form an important catalyst to support the expansion of a cultural and conservation economy. Heritage listing raises the profile of a region by specifically assessing and identifying the extensive cultural and natural values. The recognition provided by National Heritage listing would elevate the Kimberley region to iconic status, alongside the Great Barrier Reef, Kakadu, the Daintree Rainforest and Tasmania's south-west wilderness.

This iconic status increases the attractiveness of a region to domestic and international tourists and makes it more likely the region will be able to attract public (and private) funds to invest in the management and conservation of its values, creating jobs and bringing local economic opportunities.

Reports that have attempted to link heritage listing to tourism increases have struggled to demonstrate a direct causal link. Nonetheless, studies looking at the value of World Heritage listing across Australia have found these locations receive more visitors than unlisted sites and receive a growth in international visitors.²⁰

The recent listing of the Great Ocean Road in Victoria for National Heritage presents a good example. Recognised due to its "extraordinary historic and natural significance" the region is also officially recognized as one of Australia's 12 most iconic landscapes as part of the National Landscapes program. This official recognition "builds on the natural link between tourism and conservation to promote Australia's world-class visitor experiences to deliver environmental, social and economic outcomes for each region."²¹

²⁰ Buckley, R. (2004), *The effects of World Heritage Listing on Tourism to Australian National Parks*

²¹ Burke, T (2011) *Media release: Heritage listing makes Great Ocean Road even greater*, accessed at <http://www.environment.gov.au/minister/burke/2011/mr20110407.html>

A 2008 report to the Department of Environment, Water, Heritage and the Arts quantifies the economic impact of Australia's World Heritage sites.²²

It concludes that on average, each of Australia's World Heritage sites generates:

- \$467 million in annual direct and indirect regional output or business turnover;
- \$209 million in annual direct and indirect regional value added;
- \$141 million in direct and indirect regional household income; and
- 2 860 direct and indirect regional jobs.

Clearly World Heritage sites make a substantial contribution to local economies, especially as the local multipliers for the sector is likely to be substantially higher than for mining. These findings demonstrate the importance of investing in those industries that are most likely to deliver local economic development opportunities, as opposed to supporting projects that offer minimal if any regional development.

There are real economic opportunities in front of us that should be grasped. It is critical we learn from the past.

We must be clear – large resource projects do not contribute strongly to regional economies. Rather they extract wealth from a region and deliver it to state and national coffers and to the shareholders of large private companies, leaving little of benefit behind.

The Australian Conservation Foundation (ACF) is committed to inspiring people to achieve a healthy environment for all Australians.

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²² Gillespie Economics (2008) *Economic Activity of Australia's World Heritage Areas*, Final Report, Report to the Department of the Environment, Water, Heritage and the Arts