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Ms Jane Vincent
Secretary
Trade Sub-Committee
Joint Standing Committee on Foreign
Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Ms Vincent

Inquiry: "Enterprising Australia – planning, preparing and profiting from trade and investment".

I refer to the inquiry into *Enterprising Australia – planning, preparing and profiting from trade and investment*, conducted by the Joint Standing Committee on Foreign Affairs, Defence and Trade through its Trade Sub-Committee.

I am pleased to submit the attached Supplementary Information to the Western Australian Submission for the Sub-Committee's consideration, which you received in March of this year.

Should you have any further queries, please contact Mr Bala Murali, Principal Policy Officer, Federal and Constitutional Affairs Division, on 08-9222 9516 or e-mail: bmurali@mpc.wa.gov.au.

Thank you for the opportunity to further comment on this matter.

Yours sincerely

A handwritten signature in cursive script that reads "Petrice Judge".

Petrice Judge (Mrs)
**Assistant Director General
Federal and Constitutional Affairs**

22 May 2001
Att.



Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Enterprising Australia – planning, preparing and profiting from trade and investment Supplementary information to the Western Australian Submission

BACKGROUND

The Inquiry's terms of reference are relevant to Western Australia's resources sector given the sector's major role in trade and the significance of its investment. The following facts emphasise this point:

- On the global stage, Western Australia commands a significant share of world production for a number of commodities. For example, 43% of the world's diamonds, 18% of the world's alumina, 14% of the world's iron ore, 12% of the world's nickel and 9% of the world's LNG are produced in the State.
- In 2000, Western Australia's mineral and energy sector exports were valued in excess of \$17 billion and accounted for more than 22% of Australia's total commodity exports.
- On a State basis, the resources sector contributes over 64% of WA's exports, contributing to a growing State trade surplus and sustained economic growth.
- WA's extensive energy reserves are a particularly significant competitive advantage. WA is the major oil and gas producer in Australia and has more than three quarters of Australia's identified natural gas resources.

The following comments will focus on particular aspects of the terms of reference that are of significance to the resources sector. These are:

- The role of the Department of Resources Development (DRD) as a development agency.
- Incentives and impediments to a more internationally competitive resources sector. Comments focus on key issues that the State has previously indicated are hindering the sector's trade and investment performance.
- The role of the workforce in the resources sector and the inter-relationship between the resources sector and the 'new economy'.

ROLE OF DEVELOPMENT AGENCIES-

Working in accordance with Government policy, DRD facilitates the successful promotion, planning and implementation of major projects in Western Australia so as to ensure:

- an adequate return to investors; and
- better fulfilment of the State's economic, social and environmental objectives.

DRD is, therefore, the State's primary development agency for the resources sector. Being a small agency, it is focussed on helping companies make successful investments in Western Australia's resources sector and ensuring returns to the community. This combines expertise in policy development, infrastructure planning, investment attraction and project facilitation to provide a service which is based on a deep understanding of the resources sector and the needs of the community.

In a global economy where the investment attraction efforts of other nations are becoming more sophisticated and aggressive and the world investment marketplace more complex, DRD ensures that Western Australia is established as an attractive place to invest and that the global business world is aware of the opportunities and advantages of investing in Western Australia.

IMPEDIMENTS TO TRADE AND INVESTMENT

DRD considers that, notwithstanding the global nature of the resources sector, there is much that governments can do to enhance Australia's competitive position in the area of trade and investment. The need for co-ordinated and co-operative State and Commonwealth government action to promote investment is a particular overriding requirement.

Priority areas for action include:

Greenhouse

One of the most important considerations for resource projects seeking to establish in Australia is the government's policy on greenhouse. The current uncertainty in the investment environment, both within Australia and internationally concerning greenhouse gas abatement obligations and proposed policy responses, leaves many investors unsure as to the future operating environments for their projects. In view of this uncertainty, governments must provide policy direction to encourage investment, thereby ensuring that investor interest in value adding projects in Australia is not eroded.

The Commonwealth Government's approach to greenhouse as outlined in the Liquefied Natural Gas (LNG) Action Agenda provides greater investment certainty and has been welcomed by the resources sector. Under the Agenda, the Commonwealth Government pledges that future greenhouse gas abatement policies and measures will promote cost effective actions that minimise the burden for business and the community, so that Australian industry, including the LNG industry, can remain competitive. Further, compliance with the Kyoto Protocol is to be achieved at least cost to the national economy and recognises the need for equity by ensuring that any undue burden of adjustment potentially borne by a sector or region is taken into account.

If, however, the Commonwealth Government relents on the above commitments without recognition of WA's particular circumstances, then the achievement of the Kyoto target in Australia may curtail the current rate of industrial growth in Australia. It could also lead to increased global greenhouse gas emissions as future industrial development shifts to non-Annex I nations not subject to greenhouse abatement under the Kyoto Protocol.

Any move to control greenhouse gas emissions that involves unduly restricting expansion or development of new projects would have a major impact on the Western Australian and Australian economies. Western Australia believes that the Commonwealth should not impose any greenhouse reduction policies which reduce our relative international competitiveness.

It is clear that Australia needs to be vigilant in ensuring the right economic environment is provided (i.e. in terms of government regulations and policies) just to retain its current competitive position in the resources sector, let alone to increase the amount of value-added production in Australia.

Taxation and Investment Incentives

The Western Australian Government considers that the Commonwealth Government's decision to remove accelerated depreciation, as a trade off FOT a lower corporate tax rate, has the potential to impede investment in capital intensive value adding projects.

Resources and resource processing projects are typically capital intensive. The Australian and New Zealand Minerals and Energy Council (ANZMEC) submission to the Ralph Review of Business Taxation stated that projects involving large capital expenditures, and long operating lives (around 15 years or more), and with marginal to moderate profitability, are more sensitive to the depreciation rate than to changes in company tax rates. This is explained primarily by the timing impact on the cash flows. The complete removal of accelerated depreciation and the introduction of a 30% company tax rate makes such resource projects worse off than under previous arrangements.

The large capital requirements of major value adding and resources sector projects require appropriate taxation treatment to maintain global competitiveness. The removal of accelerated depreciation has reduced the attractiveness of Australia as a destination for investment in large, long life, capital intensive projects. It has been offset to some extent by the reduction in the corporate tax rate, but the net effect has been negative for new investment in large resources projects.

DRD already has evidence that new projects involving energy production and distribution that act as fundamental drivers for other strategic developments, such as smelters, refineries and petrochemical plants, are unlikely to proceed in the absence of accelerated depreciation.

The Commonwealth Government's decision to expand the strategic investment co-ordination process, including consideration of the option of targeted investment allowances, is limited consolation. This replaces the certainty of a transparent, predictable system of tax provisions with the uncertainty of negotiable, project specific assistance. This could be detrimental to the attraction of mobile overseas investment for resource processing opportunities. Prospective investors consider the loss of accelerated depreciation of particular importance and may not even include Australia on a "shortlist" of feasible investment locations. Further, the strategic investment co-ordination process is under pressure from constraints imposed by the World Trade Organisation restrictions on subsidies to export companies.

In Western Australia's view, current Commonwealth government policy on the taxation treatment of major projects and the provision of investment incentives impedes Australia's ability to effectively compete for value adding projects. Commonwealth Government policy on the taxation treatment of large, capital intensive projects and the provision of investment incentives needs to be reviewed to ensure that it enhances the international competitiveness of Australia as an investment destination for major resource processing projects.

Investment Incentives

The Commonwealth Government's *Investing for Growth* policy document mentions that incentives for industry "could include grants, tax relief or the provision of infrastructure services". Assistance to date appears to have focused on direct financial assistance through grants, although it is understood that the use of grants is under review. To date, the provision of infrastructure services has not been a favoured form of assistance.

Western Australia's preference is for any project assistance to be provided through fiscal measures, as outlined above, or in the form of multi-user infrastructure, rather than through direct financial assistance by any level of government.

Provision of multi-user infrastructure reduces the level of risk borne by taxpayers, while still providing significant direct assistance to individual projects. For example, a government contribution to improving infrastructure in a region will have the effect of improving the overall attractiveness of that region for investment as well as lowering costs for existing businesses. Considerable economic benefits are likely to be generated even if the original project which was the catalyst for the investment fails. This is not the case with direct, project specific financial assistance which is effectively an all or nothing bet on a single project. A further advantage is that the infrastructure is still available for use by other potential investors, whereas direct assistance would be lost with the project.

The Commonwealth should give further consideration to using the taxation system to encourage investment in infrastructure, for example, by way of tax effective infrastructure bonds.

ADEQUACY OF THE WORKFORCE

A well qualified and highly skilled workforce is essential to maintaining an edge in the very competitive international environment in which the resources sector operates.

Western Australia already has a well-established, high quality, school and higher education system with graduates in professional areas such as geology, mining, engineering, and chemistry, as well as the trades, in strong demand within Australia and overseas. Resource processing industries will have their own specialist demands from the education and training system, and the Government will act to ensure these demands are met.

It is essential that all components of the system, including schools, vocational education and training, and the higher education sector, continue to develop relevant courses that are capable of meeting industry's requirements. This will require analysis of future demands and the development of appropriate service delivery strategies.

Higher education in universities will also be important in professional training and research activities that are industry oriented. For example, greater emphasis on research and development initiatives related to the State's resources sector is supported and encouraged with the ultimate objective of positioning Western Australia as the future centre for research and education for mining and petroleum in the Asia-Pacific region.

Throughout these developments a key will be to ensure that Western Australia remains at the forefront of world class developments in services infrastructure. This will ensure that, not only will the resources sector be world competitive, but that the skills of Western Australians will be exported. The export of services, already results in sales in excess of \$1 billion annually and will be a major growth sector in years to come. It also makes a mockery of notions that the resources sector is an 'old economy' sector that provides limited opportunities for growth.