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The impact of the global financial crisis on regional Australia

Townsville Enterprise submission to the House of Representative Standing Committee on Infrastructure, Transport, Regional Development and Local Government.

April 2009

Terms of Reference

The Standing Committee is to inquire into the impact of the current global financial crisis on regional Australia and the role of the Commonwealth Government in ensuring that regional Australia is equipped to respond, with particular focus on:

- the encouragement of economic development and employment; and
- the development of sustainable essential services and social infrastructure designed to enhance the liveability of regional Australia.

About Townsville Enterprise

Townsville Enterprise has been the peak economic development and destination marketing organisation in North Queensland for over 17 years. The organisation takes in the councils of Townsville, Burdekin, Charters Towers and Hinchinbrook, representing a population of over 214,000. The organisation is funded by principal sponsors Townsville City Council and Tourism Queensland. Major sponsors are the Port of Townsville, Townsville Airport and Ergon Energy and there are over 300 private and public sector supporters. The role of Townsville Enterprise is to identify and work to resolve issues and blockages that hinder the sustainable economic development of our region.

Townsville Enterprise is an apolitical, not-for-profit organisation dedicated to the sustainable development of North Queensland.

Summary

North Queensland has a diverse economy, with large Government and Construction sectors. The minerals commodities dominated sectors of Mining and Manufacturing (with Manufacturing dominated by minerals processing) make up around 30% of our Gross Regional Product. Consequently, the Global Financial Crisis which has created a drop in demand for the commodities exported from our region has hit our economy hard, revealing how intrinsic the commodities sector has become to North Queensland's overall economic health.

Townsville has seen the direct impact of the drop in commodities prices with the closure of the Ravensthorpe nickel processing operations at BHP's Yabulu Nickel Refinery - resulting in the loss of 350 jobs. The city also has a large mining services sector which is closely linked to the mines in the North West Minerals Province. We are seeing a significant impact on this sector following the winding down of operations and, in some cases, closure of mines in the Province on the Small to Medium Enterprises (SMEs).

In summary, there have been some very public closures and losses of jobs in industries tied to the commodities including:

- OZ Minerals - 135 jobs shed and production reduced
- Eloise mine near Julia Creek - 150 jobs shed
- Kagara Zinc at Mount Garnet has cancelled contracts with a number of service providers
- Xstrata Handlebar Hill Zinc - 149 jobs shed
- BHP Yabulu Nickel Refinery - 350 jobs lost (some have moved to other positions within BHP)

Townsville Enterprise's modelling using REMPLAN¹ shows that the loss of jobs from the mining and minerals processing sectors has large impacts on the wider economy. Jobs from the mining and minerals processing sectors are generally high paying and the loss of wages and salaries flowing into the economy has significant consumption impacts.

Townsville Enterprise's modelling estimates that for every one job lost in the mining sector, on average, another one is lost in the wider economy. In terms of minerals processing the impact is even greater where there are almost two additional jobs lost for every minerals processing job lost.

ABARE forecasts for commodity prices and production do not brighten the immediate picture for our region. Consequently we are likely to see further job losses and there are now serious concerns about the long term future of our minerals processing industries and in particular about the Yabulu Nickel Refinery and the 750 remaining jobs.

In addition, the region is seeing a significant slowdown in the once booming construction industry, in part driven by the difficulties facing developers in obtaining credit for projects. Building applications have dropped by around half since the same period in 2008 and large projects have been delayed. The slow down in the construction sectors removes options for redeployment of labour in the region

¹ REMPLAN™ 3.0 Economic Modelling and Planning System Version 3.2.47. Developed by Compelling Economics

North Queensland is hurting. Job losses in the Mining, Manufacturing and Construction sectors are reverberating through the economy and the options for redeployment have diminished. A long term concern is the loss of valuable skills and capabilities from the region as jobs are shed. Prior to the current downturn the region suffered from a severe shortage of skilled workers. The risk for the region now is that redundant skilled workers will leave the region placing us in a far worse position when economic conditions improve.

The Commonwealth Government can undertake positive actions to ease the pain for North Queensland through a number of measures:

1. Invest in key infrastructure for increasing our export trade.
2. Invest in key urban infrastructure for revitalising our city.
3. Support emerging industries.
4. Support skills and business retention strategies.
5. Encourage and support the development of export markets.
6. Make changes to Government purchasing policies that openly encourage local companies to be included.
7. Support Townsville's existing minerals processing companies during this economic downturn.

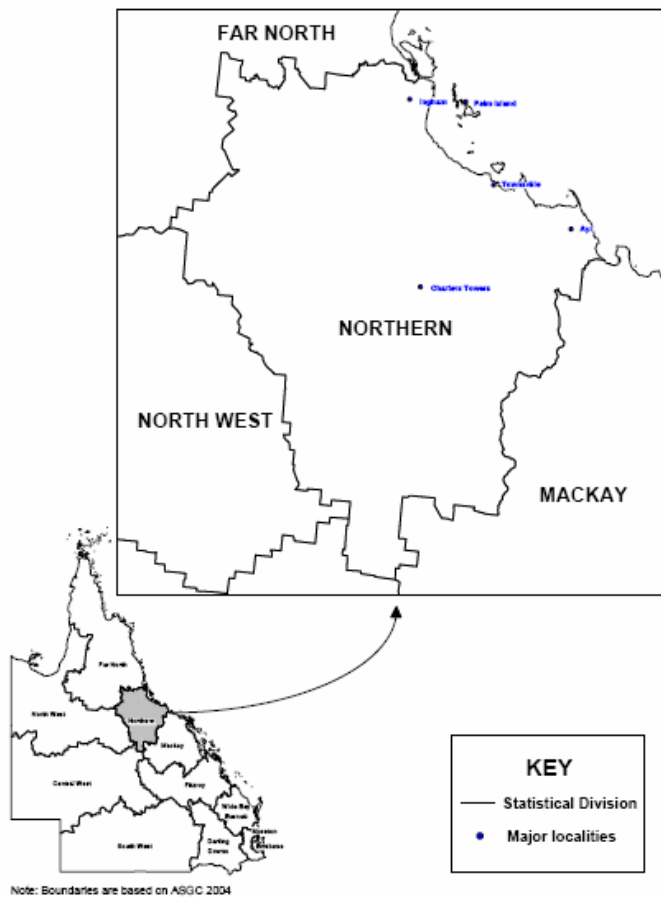
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Introduction to North Queensland

The North Queensland region (Figure 1) encompasses the Northern Statistical Division which cover the four local government areas: Townsville, Burdekin, Charters Towers and Hinchinbrook with a total area of 80,059.2 square kilometers, or 4.6% of the total area of Queensland. North Queensland’s population of 212,000 is growing fast with an average 2.2% growth between 2006 and 2007. The largest city in North Queensland, Townsville, is home to around 170,000 people and has seen the greatest increase in population, with much of that growth driven by inward migration responding to the previously numerous job opportunities on offer. The city has room for expansion of its population and it is estimated that the population will reach over 225,000 by 2026²

Figure 1: North Queensland region (Northern Statistical Division)



² Source: State and Statistical Divisions: Queensland Government, Queensland Government Population Projections (2006 edition). LGA: Department of Local Government and Planning, Queensland’s Future Population (2006 edition)

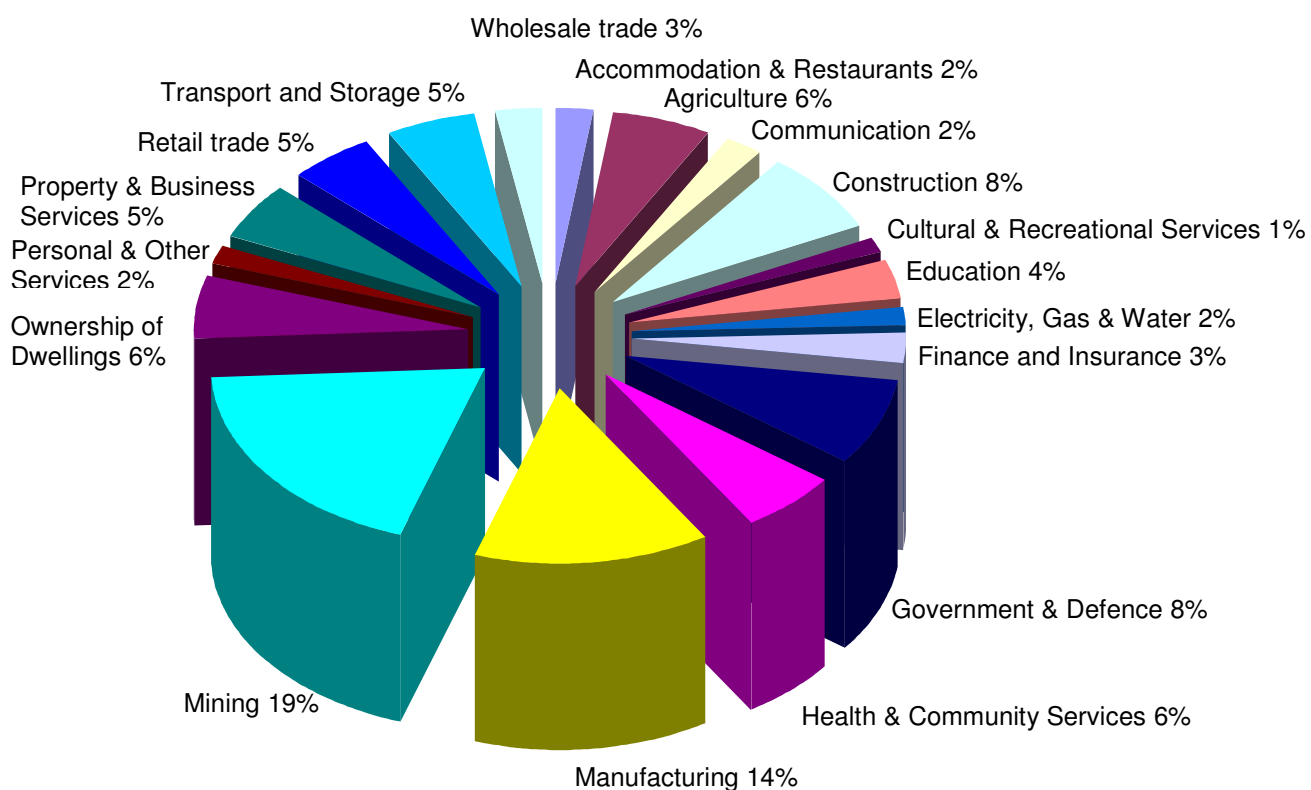
Gross Regional Product 2006-2007

The Northern Statistical Division's Gross Regional Product (GRP) at Factor Cost, increased by 7.8% in 2006-07 to \$11.871billion, accounting for 6.8 % of Queensland's Gross State Product (GSP) at Factor Cost³.

GRP by sector (Figure 2) saw mining as the dominant industry in the Northern Statistical Division in 2006-07, accounting for 19% of total GRP at Factor Cost. Other major industries were Manufacturing (14%), Government Administration & Defence (8%) and Construction (7.5%). The sectors experiencing the largest growth were mining, manufacturing, construction and transport and storage. Significant growth occurred in the smaller sectors of health and community services and cultural and recreational services.

The North Queensland economy has seen a sustained period of strong economic growth averaging at 9.9% per annum for the last five years.

Figure 2: GRP by sector 2006-2007



³ Source: AECeconomics

Minerals processing in North Queensland

Townsville hosts three major minerals processing facilities Xstrata Copper Refinery, BHP Billiton QNI Yabulu Refinery and Sun Metals Zinc Refinery. These major minerals processing facilities contribute significantly to the region's export earnings and have provided stability to the regional economy by providing long term employment and expenditure.

The most recently established refinery, Sun Metals Zinc Refinery, was built in 1998 at a cost of \$670 million and represents state of the art technology in zinc refining. The refinery uses more than 400,000 tonnes of zinc concentrates each year and produces approximately 220,000 tonnes of value-added zinc metal with around 70% of that production exported.

Sun Metals employs 330 staff, 20% of which are trainees undertaking government accredited and supported courses. Additionally, more than 1,500 jobs have been created indirectly to service the refinery in areas ranging from road, rail and sea transport to the mining and processing of concentrates, technical support and the supply of various goods and services.

BHP Billiton QNI Yabulu Refinery, commissioned in 1974, processes ore from New Caledonia, Indonesia, the Philippines and North Queensland to produce high quality nickel and cobalt products. The refinery's annual processing capacity exceeds 3.6 million wet tonnes of lateritic ore which produces 76,000 tonnes of nickel and 3,200 tonnes of cobalt. Yabulu's products are exported to more than 16 countries worldwide and the plant currently employs around 800 staff and contractors (down from 1,100).

The recent \$450 million expansion of the Yabulu Refinery to process ore from BHP's Ravensthorpe mine in WA more than doubled production output and was predicted to extend the life of the refinery by 25 years. BHP recently shut down this part of the refinery and shed 350 jobs and they have mothballed the Ravensthorpe mine in response to the crash in world nickel prices. The original refinery continues to process ore primarily from New Caledonia while BHP assesses its ongoing viability.

Xstrata's Townsville Copper Refinery started life in 1959. This refinery is now one of the world's leading electrolytic copper refineries, producing 99.995 % pure LME Grade A copper cathode. With its local staff of around 170, the refinery treats copper anode from Mount Isa and has recently completed an expansion to give it an annual capacity of 300,000 tonnes of refined copper.

Linkages with North West Minerals Province

Industry in Townsville is intimately linked to the North West Minerals Province (NWMP). The region's zinc and copper refineries rely on ore from the Province and the Sun Metals Refinery exports acid to phosphate mines in the Province.

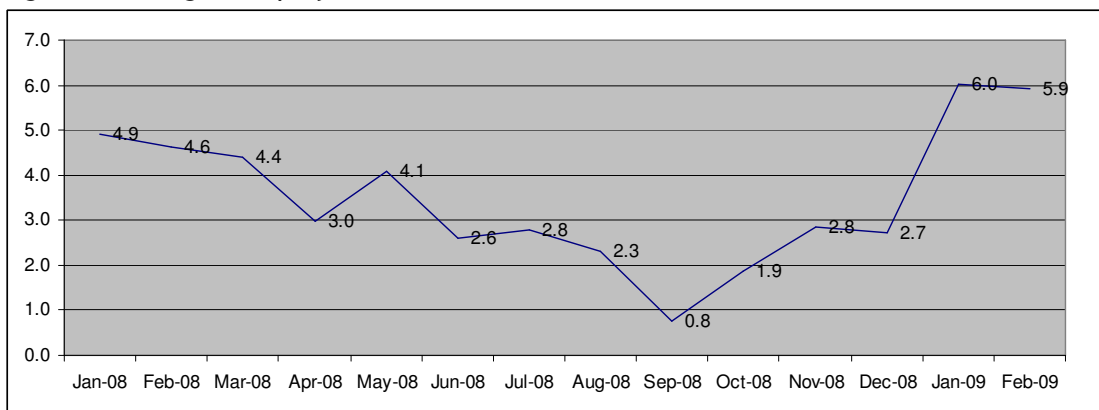
Port of Townsville is the gateway for exports from the Province. A host of new projects and expansions of mines in the NWMP will be the main source of expected growth in trade through the port in years to come. However at present, the slump in production in the North West and at Yabulu has caused through trade through to slump dramatically.

Indicators of the impact of the Global Financial Crisis on North Queensland

Rising unemployment

Over the past five years North Queensland has suffered from a shortage of labour - particularly skilled labour. Unemployment, whilst erratic, has been low during over this period. However recent ABS figures reveal a sharp increase in the unemployment rate (Figure 3), reflecting the impact of the downturn in commodity prices.

Figure 3: Rising unemployment



Source: Australian Bureau of Statistics, 6291.0.5.001 Labour Force Australia. Table 16, Labour Force Status by Regions and Sex, January 2009.

Falling commodity prices⁴

After increasing to US\$33,300 a tonne in early March 2008, nickel prices declined by 70% to around US\$9000 a tonne in December. The price crash was caused by a global reduction in demand for stainless steel, and therefore for nickel. The immediate outlook for nickel remains gloomy. In 2008-09, refined nickel production in Australia is forecast to fall by more than 8%, to 111,000 tonnes. Despite the forecast for higher output for the remaining three-quarters of 2008-09, refined production for the year as a whole is forecast to decline. Prices are expected to average lower in 2009, reflecting the full effects of weak consumption and a relatively small decline in production. Overall, Australia's export earnings for nickel are expected to decline by 55% in 2009, to around \$1.9 billion.

In 2009, the copper price is forecast to average around US\$3,300 a tonne, 53% lower than in 2008, because of significantly weaker global demand. Mine closures as a result of the falling copper price have so far been limited to Barminto's Eloise (16,000 tonnes), Matrix Metals' Leichhardt mine (9,000 tonnes) and CopperCo's Lady Annie project (20,000 tonnes). Declining prices have not significantly reduced Australian copper mine production as the costs of production for most large producers remain below current prices. In 2008-09, Australia's export earnings from copper are forecast to decline by 25% to around \$5 billion. The

⁴ Source: Australian Bureau of Agricultural and Resource Economics, Australian Commodities - December Quarter, Vol 15, Number 4

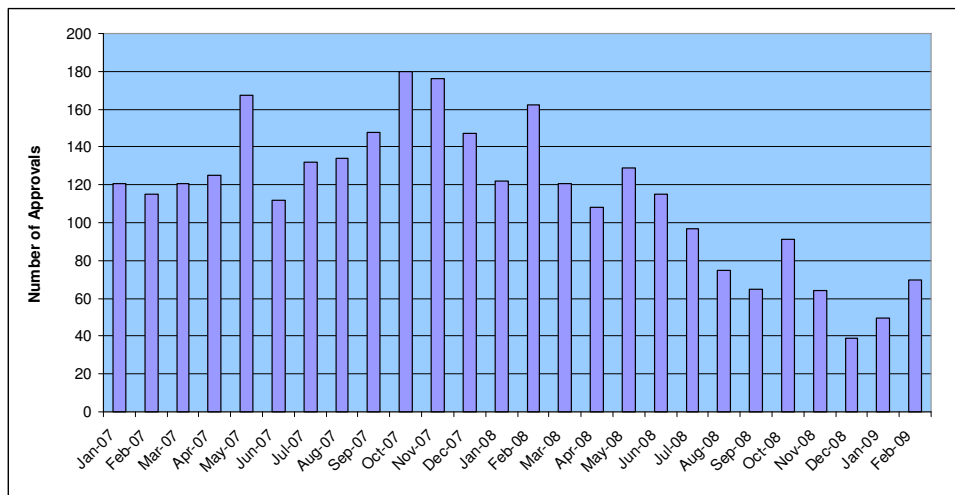
forecasted sharply lower prices are expected to more than offset the effect on export earnings of an expected increase in export volumes and an assumed depreciation of the Australian dollar.

A combination of zinc supply growth, following several years of rising prices, and weakening demand triggered by the global financial crisis caused zinc prices to plummet in 2008. In 2009, zinc prices are forecast to average US\$1,300, down a further 31% relative to the 2008 average spot price. Australian zinc mine production is forecast to decline by 9% to 1.43 million tonnes in 2008-09. Seven Australian producers have announced production cuts amounting to more than 300,000 tonnes of zinc. The most recent announcements were Xstrata cutting production at McArthur River by 32,000 tonnes and OZ Minerals' decision to cut production at Century by 20,000 tonnes in 2009. In 2008-09, a sharp decline in production is expected to lead to a fall in export volumes. Lower export volumes combined with lower average zinc prices are forecast to result in export earnings declining by 38% to \$2.1 billion.

Property and Construction

Recent figures reveal that for the months of January and February 2009 the total number of new dwelling approvals in Townsville fell to a level almost 60% lower than that lodged 12 months previously in January and February 2008 (Figure 4). Residential construction accounts for approximately 30% of the total construction sector. The trend points to the lowest approval levels in Townsville since 2000.

Figure 4: Townsville City Monthly Dwelling Approvals 2007-2009



Source: Townsville City Council

Since the beginning of 2009, Townsville has also witnessed the suspension and termination of several major development projects. These include the Resort Corp's \$500 million Saltwater project - a mixed residential and retail precinct adjacent to Jupiters Casino and in February 2009, the Stockland Trust suspended its proposed redevelopment of its Aitkenvale shopping centre, in response to declining market conditions. In addition, there is uncertainty over the date of commencement of major projects such as the Townsville Ocean Terminal, with project proponents experiencing difficulties in obtaining capital.

Predicted impacts of continued economic downturn

While the region is already experiencing a significant economic downturn and suffering large job losses, a continued depression in world commodity prices will potentially have catastrophic effects on the North and North West Queensland economies. The surge in jobs growth over the past few years fuelled a rapidly expanding economy, a significant increase in North Queensland's population and strong growth in the mining services sector. Current economic conditions have effectively pulled the rug out from this growth.

While mining and minerals processing has long been a staple of the North Queensland economy there are two areas of concern. Firstly rising commodity prices triggered an increase in new mining projects throughout the region, stimulating the creation of new direct and indirect jobs. These new projects are largely considered at risk and some companies have gone into receivership, such as CopperCo. Secondly the commodity crisis has threatened long standing operations such as BHP's Yabulu Nickel Refinery and large mines such as Century Zinc and Cannington have shed contracting staff.

Table 1: Job losses from mines in the North West Minerals Province

| Mine | Owner | Number of jobs shed |
|----------------------------|------------------------------|---------------------|
| Century | OzMin | 135 |
| Aditya Birla - Mt Gordon | Birla Mt Gordon Pty Ltd | 100 |
| Lady Annie - exploration | CopperCo | 30 |
| Ivanhoe - exploration | Ivanhoe Mines | 25 |
| Eloise | Barmenco Investments Pty Ltd | 150 |
| Handlebar Hill | Xstrata | 149 |
| BHP Yabulu Nickel Refinery | BHP Billiton | 350 |

Job losses aren't the only impact of the downturn in mining activities in the North West. The drop in export product has had significant impacts on the transport sector, with the Port of Townsville having its slowest trading months in many years.

In order to assess the impact of job losses to date and the impact of losses of jobs we consider at risk, Townsville Enterprise has used the REMPLAN Regional Economic Model for North and North West Queensland. The results of our modeling are presented in the next section.

The impact of the loss of 750 jobs at Yabulu Nickel Refinery on the North Queensland

The REMPLAN⁵ model estimates the impact of changes in job numbers, either from new jobs created through new projects, or losses of jobs from the closure of projects, in 109 sectors of the North Queensland regional economy.

BHP's Yabulu Nickel Refinery is part of the Basic Metals and Products sector. World nickel prices have been particularly hard hit by the Global Financial Crisis. In response, BHP has closed its Ravensthorpe Mine in Western Australia and closed down the section of its Yabulu refinery operations that processed the Ravensthorpe product, shedding 350 jobs.

Information from Queensland's Department of Employment, Economic development and Innovation suggests that many who lost their jobs have been able to find alternative employment. However, it is doubtful whether the same will occur with successive redundancies. Currently the opportunities for new employment have diminished with the unspecified delay of the Northern Missing Link rail project (linking the North Goonyella and Newlands rail systems in the northern Bowen Basin coalfields) and the associated impact that will have on planned projects at Abbott Point, the recent suspension of the \$500 million Saltwater project and other major construction projects in the region.

The loss of further jobs will hit the North Queensland region hard as they are generally high paying jobs and therefore have significant indirect effects on the economy. The modelling presented represents a worst case scenario from the closure of Yabulu and the loss of 750 jobs from the Basic Metals and Products sector. The purpose of this analysis is to identify the magnitude of impact of major job losses associated with Yabulu's closure on the North Queensland regional economy.

The estimated flow on impact from the worst case scenario, which assumes that the 750 employees and their families leave the North Queensland region, would result in total of 2,396 jobs lost (Table 2) and an overall decrease in Gross Regional Product⁶ (GRP) of 4.2% (Table 3). The best case scenario, where those people losing their jobs go into training or onto unemployment benefits, can be estimated by the addition of the direct and industrial effects which total a loss of 1,697 jobs and \$368.7 million in lost value added (Table 2), the equivalent of a 3.5% drop in GRP per annum.

⁵ All figures, data and commentary presented in this software are based on data sourced from the Australia Bureau of Statistics (ABS), most of which relates to the 2001 and 2006 Censuses. Using ABS datasets and an input / output methodology industrial economic data estimates for defined geographic regions are generated.

The software also incorporates a region-specific economic impact modeling feature that was first developed at La Trobe University, with continued development from December 2006 by Compelling Economics Pty Ltd. This feature generates estimates of indirect or flow-on impacts from a direct change to an economy.

This software is provided in good faith with every effort made to provide accurate data and apply comprehensive knowledge. However, Compelling Economics Pty Ltd and La Trobe University do not guarantee the accuracy of data nor the conclusions drawn from this information.

⁶ GRP is the total value of final goods and services produced in the region over the period of one year. As can be seen from the table, this includes exports but subtracts imports. GRP can be measured by adding up all forms of final expenditure consumption by households, consumption by governments, additions or increases to assets (minus disposals) exports (minus imports). This calculation does not include intermediate expenditure as this would lead to double counting (the wheat and flour in a loaf of bread).

Table 2: Summary of the economic impact (worst case) in terms of output, employment, wages and salaries and value added from the loss of 750 jobs from the Basic Metals and Products sector

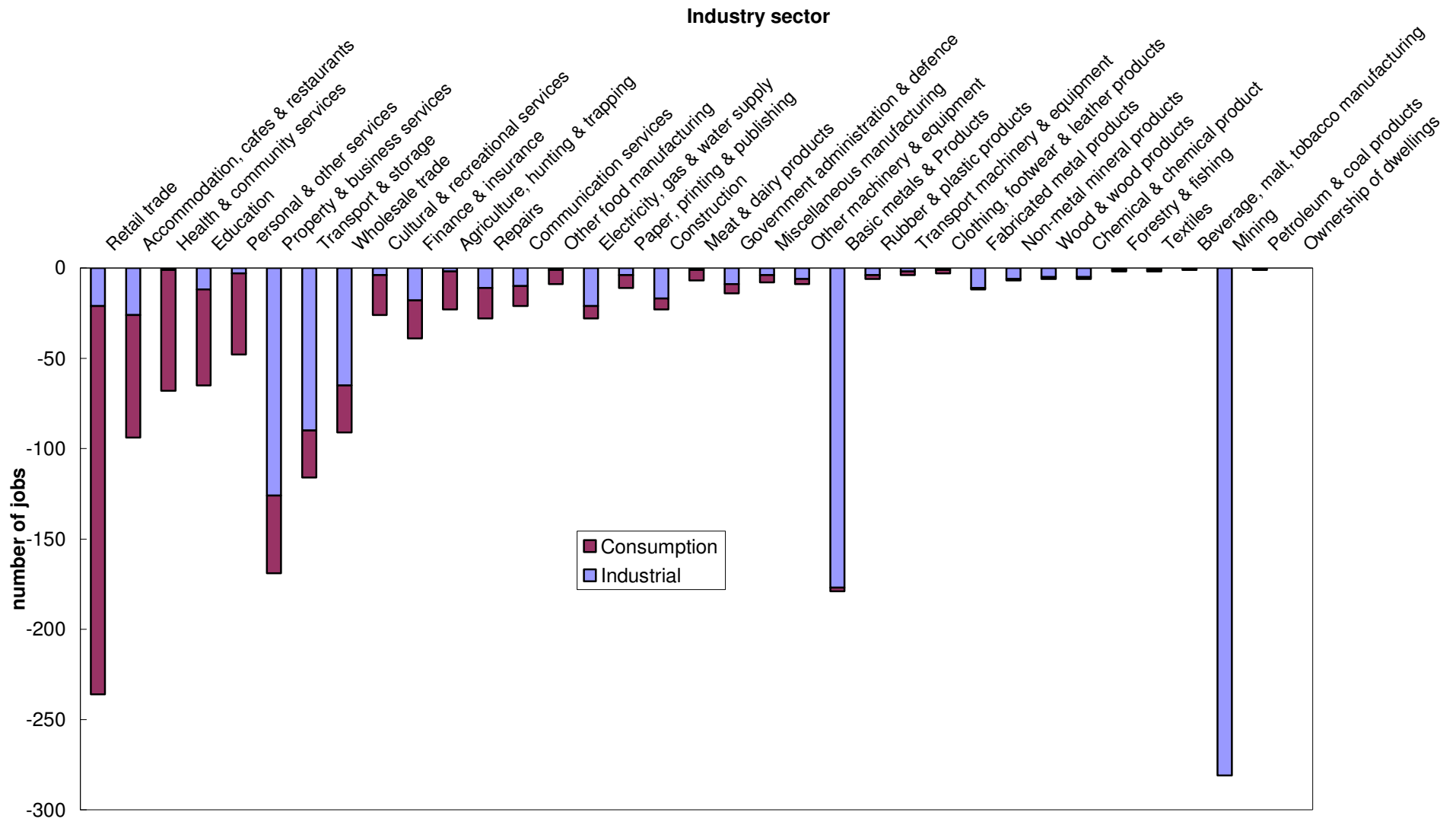
| Impact Summary | Direct Effect | Industrial Effect | Consumption Effect | Total Effect | Type 1 Multiplier | Type 2 Multiplier |
|--------------------------|---------------|-------------------|--------------------|--------------|-------------------|-------------------|
| Output (\$M) | -\$632 | -\$597 | -\$141 | -\$1,370 | 1.944 | 2.167 |
| Employment (Jobs) | -750 | -947 | -699 | -2,396 | 2.263 | 3.195 |
| Wages and Salaries (\$M) | -\$71 | -\$82 | -\$40 | -\$193 | 2.166 | 2.725 |
| Value-added (\$M) | -\$142 | -\$226 | -\$66 | -\$435 | 2.591 | 3.057 |

Table 3: The economic impact on GRP from the loss of 750 jobs from the Basic Metals and Products sector

| GRP Expenditure Method | Before \$M | Impact \$M | Change % |
|---|--------------|--------------|----------|
| Household Consumption | \$7,763.276 | \$7,684.405 | -1.02 % |
| Government Consumption | \$2,421.221 | \$2,405.435 | -0.65 % |
| Private Gross Fixed Capital Expenditure | \$3,006.018 | \$2,964.574 | -1.38 % |
| Public Gross Fixed Capital Expenditure | \$511.903 | \$507.226 | -0.91 % |
| plus Exports | \$6,716.101 | \$6,067.068 | -9.66 % |
| minus Domestic Imports | -\$8,293.585 | -\$8,128.165 | -1.99 % |
| minus Overseas Imports | -\$1,775.317 | -\$1,649.709 | -7.08 % |
| Gross Regional Product | \$10,349.618 | \$9,914.648 | -4.20 % |
| Per Capita GRP (\$'000) | \$53.160 | \$50.926 | -4.20 % |

The sectors of the North Queensland economy most impacted by the industrial impacts of the loss of 750 jobs from the Basic Metals and Products sector include that sector, the Mining sector, Property and Business and Transport and Storage sectors (Figure 5). In terms of consumption impacts from the loss of 750 jobs, the hardest hit sectors of the economy would be Retail, Accommodation, Cafes and Restaurants, Health and Community Services and Education (Figure 5).

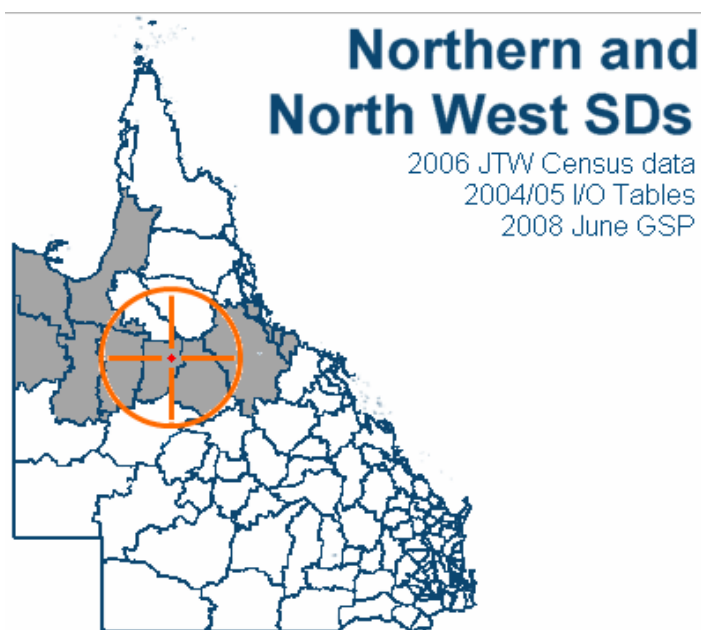
Figure 5: Industrial and Consumption impacts of 750 job losses in the Basic Metals and Products sector by industry sector



The impact of mine closures in the North West Minerals Province on North and North West Queensland

Many firms servicing the mining sector are located in North Queensland while most hard rock mines are located in the North West Minerals Province. In order to understand the full impact of mine closures on the whole region, it is necessary to model the impacts across both regions (Figure 6).

Figure 6: Map showing combined North and North West Queensland statistical divisions



The results of REMPLAN modeling on impact of the known 590 jobs lost in the North West Minerals Province (Table 1) on North and North West Queensland is summarised in Table 4. The loss of 590 jobs, should these positions completely leave the economy, would have a multiplier effect of almost 2 and the economic impact will be an estimated drop in GRP of 2.42% (Table 5). This analysis highlights the magnitude of the impact on the economy as more mining jobs are shed in the region.

Table 4: Summary of the economic impact of 590 job losses in the mining sector in North West Queensland

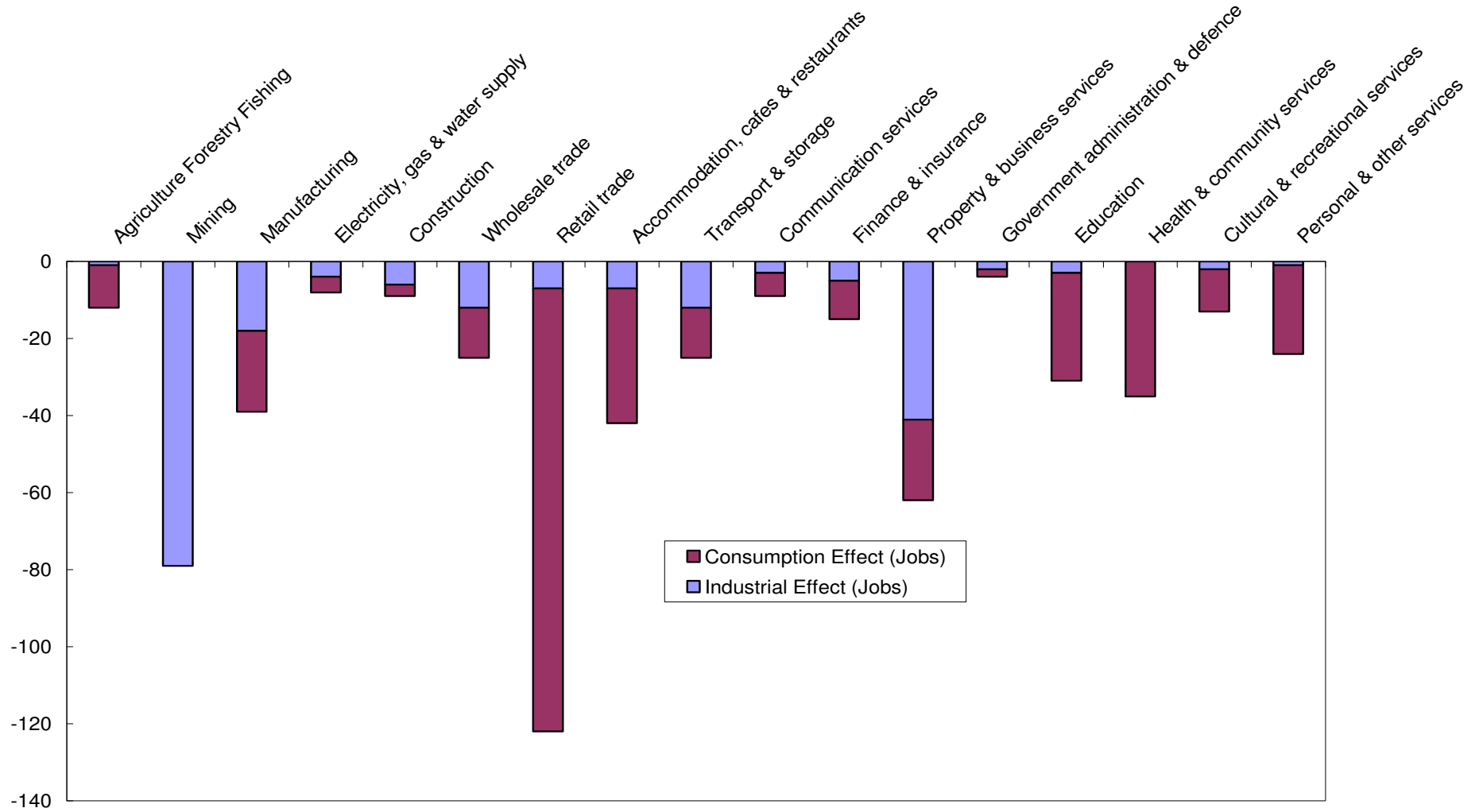
| Impact Summary | Direct Effect | Industrial Effect | Consumption Effect | Total Effect | Type 1 Multiplier | Type 2 Multiplier |
|--------------------------|---------------|-------------------|--------------------|--------------|-------------------|-------------------|
| Output (\$M) | -\$566 | -\$109 | -\$70 | -\$745 | 1.19 | 1.32 |
| Employment (Jobs) | -590.00 | -203.00 | -351.00 | -1144.00 | 1.34 | 1.94 |
| Wages and Salaries (\$M) | -\$60 | -\$20 | -\$20 | -\$100 | 1.34 | 1.67 |
| Value-added (\$M) | -\$250.1 | -\$46.2 | -\$33.1 | -\$329.5 | 1.19 | 1.32 |

Table 5: Summary of the economic impact of 590 job losses in the mining sector in North West Queensland on combined North and North West region GRP.

| GRP Expenditure Method | Before \$M | Impact \$M | Change % |
|---|--------------|--------------|----------|
| Household Consumption | \$9,076.29 | \$9,045.45 | -0.34% |
| Government Consumption | \$2,830.73 | \$2,823.67 | -0.25% |
| Private Gross Fixed Capital Expenditure | \$3,493.68 | \$3,484.64 | -0.26% |
| Public Gross Fixed Capital Expenditure | \$598.48 | \$597.17 | -0.22% |
| Gross Regional Expenses | \$15,999.17 | \$15,950.92 | -0.30% |
| plus Exports | \$11,619.43 | \$11,128.62 | -4.22% |
| minus Domestic Imports | -\$11,315.66 | -\$11,111.02 | -1.81% |
| minus Overseas Imports | -\$2,699.72 | -\$2,620.68 | -2.93% |
| balancing item | \$0.00 | -\$74.10 | |
| Gross Regional Product | \$13,603.22 | \$13,273.75 | -2.42% |
| Population | 227,617 | | |
| Per Capita GRP (\$'000) | \$59.76 | \$58.32 | -2.42% |

The sectors of the North and North West Queensland economies most affected by the industrial impacts of the loss of 590 jobs from the Mining sector include that sector, Property and Business Services, Manufacturing, Wholesale trade and Transport and Storage (Figure 8). In terms of consumption impact, the hardest hit sectors of the economy would be Retail, Accommodation, Cafes and Restaurants, Health and Community Services and Education (Figure 8).

Figure 8: Industrial and Consumption impacts of 590 job losses in the Mining sector of the combined North and North West Queensland regions by industry sector



Recommendations for the Commonwealth Government to assist North Queensland to survive the Global Financial Crisis.

Summary of recommendations

1. Invest in key infrastructure for increasing our export trade
2. Invest in key urban infrastructure
3. Support emerging industries
4. Skills and job retention strategies
5. Encourage development of export markets
6. Make changes to Government purchasing policies that openly encourage local companies to be included
7. Support Townsville's existing minerals processing companies during this economic downturn.

1. Infrastructure investment for export growth

New jobs are required in the North and North West region to ensure valuable skills are retained and our economy is not permanently crippled by the current Global Financial Crisis. Now is the ideal time to combine the need for new jobs with providing critical export infrastructure to service the future increase in world demand for our commodities. Our analysis shows the significant impact of losing jobs from the mining and minerals processing sectors. Infrastructure projects can help absorb some of these jobs.

Mt Isa to Townsville Rail Corridor

There is an urgent need to upgrade this rail line which connects the rich North West Minerals Province to the Port of Townsville. The annual direct and indirect contribution economic activity dependent on freight on the Mt Isa line to the North and North West economy is estimated at \$4.64 billion⁷ and almost 11,000 jobs depend on the line's existence. The condition of the line and its limited capacity to meet future demands is costing the region, the state and the country dearly. The line's closure due to the recent flooding in northern Queensland in January 2009 cost an already beleaguered industry over \$338 million in value added and put jobs in industries dependent on the line at risk.

The line in its current state cannot carry more than 10 million tonnes without substantial upgrades. The Port of Townsville estimates the tonnage carried on the line will total almost 13 million tonnes by 2011-12. This estimate is underpinned by the Legend project which aims to export 5 million tonnes of rock phosphate from its deposits in the Georgina Basin near Mt Isa through the Port of Townsville within the next 3 years. Failure to upgrade the line will limit additional product from the North West getting to market - costing jobs and income. The first upgrade project which must be completed to create the capacity to carry more than 10 million tonnes is the Eastern Access Transport Corridor to the Port of Townsville. Queensland Rail's estimated cost of this project is \$250 million.

⁷ AECGroup

Action is required now if the rail corridor is to be made reliable and have the capacity to carry the expected increase in product from the North West. The timing is right for Queensland Rail to construct the Eastern Access Corridor connection to the Port with the opportunity to augment funding through the Federal Government's Building Australia Fund. Construction needs to commence on this project as soon as possible so that rail capacity is available for when Legend reaches full production and to coincide with the completion of the road section of the Port Access Corridor.

The Northern Missing Link

The \$756 million Northern Missing Link project comprises a 69 kilometre rail link between the North Goonyella and Newlands rail systems in the northern Bowen Basin coalfields, track upgrade works between Newlands and Abbot Point (Brownfield Development) and train turning infrastructure for the Goonyella System. The Northern Missing Link will connect the existing mines of North Goonyella and Newlands and allow coal trains originating in Central Queensland to be directed to the port of Abbot Point, near Bowen, overcoming the severe capacity constraints experienced by the coal industry in the past.

The Northern Missing Link is a key driver for further development at Abbot Point. Without the project, planned increases in capacity at Abbott Point will not proceed. These developments are significant for North Queensland in they will create hundreds of jobs and provide opportunities for businesses struggling from the collapse of mining contracts.

Ports Corporation Queensland (PCQ) estimates that the economic benefit from the X110 expansion and the development of the Multi Cargo Facility will average almost \$1 billion a year for 8 years. The projects would create around 2,700 full-time equivalent jobs and almost 7000 flow-on jobs in the peak construction year 2011-12. Of the jobs created, around 67% would exist in the northern region (Mackay, Bowen and Townsville/Ayr). In terms of immediate benefit, PCQ estimates that 3,461 jobs will be created in 2009-10 and 4,813 in 2010-11.

Townsville Enterprise, Mackay Whitsundays Regional Economic Development Corporation and Bowen Collinsville Enterprises have been working on projects aimed at maximising the benefit to local business from the rail and port projects. A delay in the construction of the Northern Missing Link and the associated developments at Abbott Point means a further delay in gaining the infrastructure necessary to remove transport bottlenecks when the Queensland coal industry recovers. More pressingly, it means an important source of employment, at a time of great need, is removed from the northern Queensland economy.

The Northern Missing Link project must not be delayed further, Federal Government support of the project will provide opportunities for workers and businesses between Mackay and Townsville.

2. Infrastructure investment for urban renewal

Flinders Street Redevelopment

Townsville has seen extensive inner city development over the past 5 years, with billions of dollars invested in residential and commercial property. In stark contrast to this vibrant development, Flinders Street, the city's heart and retail hub, has undergone a dramatic decline, its shoddy condition discouraging further inner city investment and limiting the potential of the region's economy.

Townsville Enterprise Limited, Townsville City Council and the Townsville Chamber of Commerce see the redevelopment of Flinders Street as vital to inner city revitalisation and necessary for new investment and growth in the retail, commercial and entertainment sectors. The redevelopment project will provide a new main-street community hub that will strengthen the liveability of the Townsville region and stimulate urban-precinct commercial and retail activity, regional employment, confidence and investment. It will enhance the promotion of the region and sustain the ongoing growth of defence, tourism and education in North Queensland.

Four new features will define the revitalised Flinders Street precinct:

- Flinders Mall will be converted into a two-way calm traffic street with wide, shaded footpaths, improving shopfront visibility and pedestrian amenity;
- Footpath and street renovation will extend through Flinders Street East, reviving the area's heritage buildings;
- A new waterfront square will be constructed adjacent to Flinders Street and will become the city centre's visitor and entertainment hub; and
- A new bus station will improve public transport between Townsville's suburbs and the CBD.

The redevelopment project will catalyse private investment of \$200 million by Austexx and the Lancini Group in a retail complex in Flinders Street and create over 1,200 jobs with 954 full-time equivalent jobs in construction related sectors and 207 full-time equivalent jobs in North Queensland's retail sector⁸.

It is expected that the redevelopment and associated projects will generate an additional \$231.4 million in Gross Output and an additional \$96.2 million in Gross Regional Product for the Queensland economy. New retail expenditure will generate an additional \$28.3 million per annum in Gross Output and an additional \$12.9 million per annum in Gross Regional Product for North Queensland's economy⁹.

This project would provide a great remedy for recent job losses in the region. Once funding is secured, the project could commence within three months. The total cost of the project is estimated at \$56.6 million; Townsville City Council has committed \$18.9 million to the project's total budget of \$56.6 million. The Queensland State Government has committed to provide \$18.9 million to the project subject to the Commonwealth providing a matching \$18.9 million.

⁸ AECGroup, Economic Impact Assessment of the Proposed Flinders Street Redevelopment, 2009

⁹ AECGroup, Economic Impact Assessment of the Proposed Flinders Street Redevelopment, 2009

3. Investing in emerging industry sectors

Renewable energy generation

Australia needs 45,000 GWh of new renewable energy generation to meet the expanded Mandatory Renewable Energy Target (MRET) of 20% renewable energy generation by 2020. North Queensland has the resources to provide much of this new generation without an over reliance on one technology such as wind¹⁰. Further these resources are able to be accessed immediately with existing technologies and are primarily located next to transmission infrastructure.

With so many renewable generation opportunities including bagasse co-generation, wind, hydro and solar thermal, northern Queensland could easily become the renewable energy centre of Australia and provide much of the generation to meet the Government's renewable energy targets.

New renewable energy generation development would address one of northern Queensland's primary constraints when it comes to new investment in energy intensive industry - our high transmission costs. New generation in northern Queensland will reduce both Marginal Loss Factors (MLFs) and transmission use of system charges, effectively lowering electricity costs for existing and new industry.

Northern Queensland: the renewable energy centre of Australia

Northern Queensland is blessed with renewable resources for electricity generation that can be installed now. Our studies show that our region could produce up to 420 MW from sugarcane bagasse co-generation, up to 920 MW of wind and with a new transmission connection between Townsville and Mt Isa, could easily produce 800 MW of solar thermal. These options have been modelled for their impact on Marginal Loss Factors and overall electricity prices and represent win-win opportunities for both generators and loads.

New infrastructure to facilitate new renewable energy generation and new industry

Investment in generation will be stimulated if new base load is located in North Queensland. 200-300 MW of new demand for electricity would become available in the North West Minerals Province with access to cheaper power. Connecting Mt Isa to the National Electricity Grid would provide cheaper power.

Mt Isa can be connected to the National Grid by a new AC line between Cloncurry and Townsville. This infrastructure would secure the region's long term energy future; providing cheaper power to North West Queensland customers and opening up opportunities for solar thermal and geothermal generation in northern Queensland.

Making investment in renewable energy a reality will require support from the Commonwealth and State Governments. The time is right for private investment in renewable energy generation in our region. With easily accessible resources, close to existing transmission, an expanded Mandatory Renewable Energy Target requiring 45,000 GWh of new renewable energy generation by 2020 and a Carbon Pollution Reduction Scheme, the Commonwealth can help make northern Queensland the right place to invest in renewable generation.

¹⁰ Findings of a ROAM Consulting study commissioned by Townsville Enterprise in collaboration with regional development groups in Mackay, Cairns, Mt Isa, Bowen and the Queensland Department of Infrastructure and Planning

4. Skills retention

Promoting the development of industry clusters

The collapse of commodity prices and its impact on many mines in the North West Minerals Province and, to a lesser extent, the Bowen Basin has severely affected the many Small to Medium Enterprises (SMEs) which providing specialised services to mining and mining related industry.

North Queensland must retain these companies and their capabilities so the region has the ability to resume providing these services when commodity prices recover.

Industry cluster organisations can play a key role in working directly with their industry members to enhance their capabilities to win new business (through business development and fostering consortia), to market their members' capabilities to potential clients and to forge close connections with government and private investors to identify opportunities for their members early in the project development process.

The OECD has found that regions that develop strong clusters prosper. They prosper because clusters generate an innovation and technology dynamic that propels growth and investment.

“... there is renewed policy interest in supporting clusters. A number of basic motivations lie behind support for clusters. There is strong quantitative evidence that many industries remain relatively concentrated in specific regions and those firms and research generators in proximity can outperform their counterparts located in less rich environments.

Countries are seeking to strengthen or replicate the success factors that have encouraged the concentration of innovative firms associated with the knowledge economy. They are also looking for instruments that can help maintain employment and promote restructuring and adaptation in other sectors. Furthermore, clusters are a convenient and pragmatic organising principle by which to focus resources and build partnerships.”¹¹

The support of industry clusters at this time is a key strategy in ensuring resilience in the regional economy during the Global Financial Crisis. The Townsville Regional Engineering Cluster (TREC) has the platform to work with its members to bring these benefits of being involved in an industry cluster. However it needs resources to be able to achieve its potential.

Townsville Enterprise supports TREC by providing its administrative needs but the cluster requires additional funding to employ a dedicated project manager to deliver on-ground outcomes for businesses in the northern Queensland region.

Townsville Enterprise and its regional partners see the effective operation of TREC as critical to achieving our goals of building the capability and capacity of the businesses in the region to win new business. We ask the Commonwealth to assist in providing funding to employ a project manager and operations of TREC for three years.

Retaining skilled workers

Prior to the Global Financial Crisis there was a chronic shortage of skilled labour in North Queensland. It is important that in this time when jobs are being lost from the economy that the skilled workers we do have are not lost to the region.

¹¹ Source, OECD, Competitive Regional Clusters, 2007

The Commonwealth can assist by supporting employers to keep trainees and apprentices and providing more training places and incentive to allow those workers made redundant to upgrade their skills.

5. Promote Growth in exports

Townsville, with its deep water port and excellent aircraft connections is ideally located to do business with the Pacific and South East Asia. The region hosts considerable skills in a range of industries including training and education, mining services, environmental services, construction and tropical design.

The Commonwealth could enable the region to broaden its economic base and take advantage of its inherent capabilities by sponsoring trade missions or regional exchanges to form alliances with overseas neighbours to attract investment.

6. Make changes to Government purchasing policies that openly encourage local companies to be included

SMEs find it difficult to be involved in large government funded projects in part due to the process in which the contracts to construct these projects are put out to tender. The 'Design and Build' type tendering system favoured by government effectively shuts out the opportunity for companies that don't have the internal resources to meet these needs out of the tendering process. SME's can indeed become sub-contractors to these larger projects but in many cases are relegated to small contracts with a limited opportunity to expand their capabilities.

The large companies that normally win these contracts generally take the profit margin from the contract out of the region and so limit the economic benefit to the region.

By moving away from a design and build tender process to something more project managed and compartmentalised, the Government can open up the opportunities for smaller locally based businesses to compete for contracts.

7. Support Townsville's existing minerals processing companies during this economic downturn

Our three major minerals processing companies are major employers in the region and as our modelling shows, job losses in these refineries will have a huge impact on the regional economy. Townsville Enterprise would like to see the Australian Government work closely with these companies to ensure that the impacts of the GFC on their operations are minimised so that jobs are retained.

Conclusion

Our region has demonstrated our great potential to contribute to the Australian economy. The region has experienced strong growth and will do so again. The Commonwealth can mitigate the long-term impact of the Global Financial Crisis by providing funding for infrastructure projects to further expand our productive capacity and bring about much needed urban renewal in Townsville.

The Government can also assist local industry by providing support to encourage the development of new industries and to help existing industries to become more resilient by supporting industry clusters.

Townsville Enterprise is keen to offer its full support to the Commonwealth to ensure our region remains strong in this Global Financial Crisis so that we thrive when it finally ends.