



House of Representatives
Joint Select Committee on Northern Australia
The Development of Northern Australia

Submission by
Port Hedland Chamber of Commerce Inc

INTRODUCTION

The Port Hedland Chamber of Commerce Inc (PHCCI) is the peak body representing business and industry in Port Hedland and surrounding region in Western Australia. We are a member based organisation with members drawn from a range of industry sectors. Our membership includes businesses of all sizes, from large resource companies to small businesses and sole traders.

PHCCI strongly supports the Inquiry into the Development of Northern Australia and is pleased to respond to the request for submissions. The PHCCI is a driving force towards the growth and success of local commerce and we are constantly working to strengthen the economic development of the Port Hedland region.

Rapid economic development over the last 15 years positions Port Hedland as a future Northern Australia city and it is therefore an integral component of the Northern Australia development strategy. It has grown to become a major contributor to the country's economic success and prosperity on the back of an internationally significant resource industry. It attracts prominent resource companies and functions as a major service centre for mining operations across the broader Pilbara region.

Like many other mining areas of regional Australia, Port Hedland has experienced the pressures of significant development over the last 15 years and the negative challenges that come with rapid economic growth. The Port Hedland economy is, however, transitioning as labour demand shifts from construction to production occupations. This transition will create numerous opportunities that will only be fully realised if policy frameworks recognise and respond to the region's unique characteristics and localised challenges.

The PHCCI's submission is primarily concerned with issues relating to the development of the Port Hedland region. Although this submission identifies key initiatives that are relevant to the challenges and advantages of Port Hedland, many of these initiatives may also be well-suited to address impediments to economic growth in other regional areas in Northern Australia.

The primary concern for PHCCI is the sustainability of small businesses in the region. The small business sector plays a significant role in Port Hedland, however, small business owners incur excessive costs in order to attract and retain staff (such as accommodation provision and other financial incentives). The Inquiry should give substantial consideration to exploring small business taxation or financial incentives in order to alleviate the significant financial burden of attracting and retaining staff in Port Hedland.

The Inquiry should also examine a number of existing policies that no longer achieve their intended objectives, in addition to exploring several new policies to encourage the growth and success of local commerce. Particular recommendations for the Inquiry include:

- Define roles and responsibilities between Commonwealth and State Governments, and reduce fragmentation of current arrangements, in order to more efficiently and effectively use limited public and private resources in Northern Australia;
- Review the zone tax offset so that it adequately reflects the disadvantages accruing to residents in regional areas of Northern Australia;

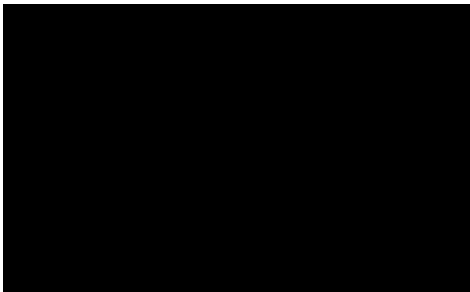
- Review the fringe benefits tax to reduce compliance costs for local commerce in regional Australia;
- Explore regulatory and taxation incentives that encourage education providers to locate and expand services in Port Hedland and the surrounding region;
- Examine ways for the temporary skilled migration program to recognise the unique needs of regional labour markets;
- Reinstate fuel tax credits for off-road uses;
- Finalise and implement bilateral environmental assessment and approvals agreement with the Western Australian State Government;
- Explore ways to better navigate complex native title processes in order to ensure equitable outcomes are reached in a timely manner without causing any disadvantage financially or culturally to indigenous groups; and
- Significantly upgrade the defence capability of the region to reflect the growing economic significance of the northwest region.

The aforementioned recommendations are not an exhaustive list. There are a variety of policy initiatives that are key priorities for the PHCCI and were not included as part of this submission given the Chamber did not believe they were within the remit of the Inquiry. Nonetheless, they are important issues and therefore the PHCCI has endeavoured to detail some of the key issues affecting local commerce as part of this submission in one of the preceding sections.

Thank you for the opportunity to provide these comments.

The PHCCI is able to expand on the issues raised in this submission as part of the stakeholder consultation that the Inquiry will be undertaking.

Yours sincerely,



Andrew Ziems

President
Port Hedland Chamber of Commerce

REGION OVERVIEW

For the purpose of this submission, the Port Hedland region is approximated by the boundaries of the Town of Port Hedland. It is located approximately 1,647km drive north of Perth in the Pilbara region of Western Australia and encompasses two major urban settlements being Port Hedland and South Hedland.

Port Hedland is one of two major population centres in the Pilbara (the other being Karratha) and had a total residential population of 16,178 as at June 2012¹. This population is predominantly accommodated in the East and West Ends of Port Hedland and in South Hedland. The residential population of the region has experienced strong sustained growth in recent years, with the flat population growth rates earlier in the decade giving way to average annual growth rates of 3.1% per annum post 2008.

However, unlike most areas of Australia, residential population estimates are not the most accurate indicator of the local population of Port Hedland. According to estimates in *Pilbara's Port City Growth Plan* (Growth Plan), Port Hedland was home in 2010 to approximately 3,000 Fly-In/Fly-Out workers and an additional 1,700 short-term visitors; and this has likely increased in line with significant growth in mining construction over the last few years. The addition of these cohorts to the residential population numbers provides an estimate of the total “service population” of the region.

Strong economic growth and high levels of investment are expected to drive growth in the residential and service population of Port Hedland over the next 20 to 30 years. In response to these expected growth drivers, the Western Australian Government established the Pilbara Cities Vision, which promotes the growth of Port Hedland to 50,000 people in 2035.

The PHCCI believes population growth is essential to sustain the long term economic activity in the Pilbara. The State Government is heavily involved in partnering with the private sector to encourage an increased permanent workforce in the long term, however, current estimates indicate that settlements across the Port Hedland region are not on track to reach the population growth objectives of Pilbara Cities.

The mining industry leads the way for economic growth and employment for the Port Hedland economy and this flows through to other associated industries, such as the construction, manufacturing, accommodation and food services and real estate sectors.

Port Hedland plays a key role as the international gateway for much of this mineral wealth, exporting 286 million tonnes of cargo in 2012/13². The region is strongly leveraged to the mining sector, with almost three quarters of production value (73% of the total \$3.3b GRP) resulting from activity in the mining industry³. Additionally, economic activity in the construction and transport sectors is strongly linked to the mining industry, through the dominance of

¹ ABS (2013), Regional Population Growth, Cat No 3218.0, Australian Bureau of Statistics, Canberra

² Port Hedland Port Authority, Trade and Throughput Statistics

³ AECgroup (2011), City Growth Plan Socio-Economic Profile, AECgroup, Perth

civil engineering projects, mineral resource exports through the Port Hedland Port and the prominence of business related visitors through the Port Hedland International Airport.

The mining industry is the largest contributor to employment (25.3% as of 2011) for Port Hedland's economy. This employment dependency is even higher when the supply chain effects of mining investment on construction, manufacturing, accommodation and food services, and real estate sectors are also considered.

The region is also home to a growing small and medium enterprise sector, however, the success of many of these businesses is reliant on a strong and growing resource sector. There were over 800 registered businesses in Port Hedland in 2012, of which more than 90% had less than 20 employees⁴.

This transformation from predominantly resource construction to resource production is already underway and is having a profound impact on shaping the Port Hedland region. In the short term, iron ore production in the broader Pilbara region is expected to increase from approximately 581mtpa in 2013 (half of which is exported through Port Hedland) to approximately 709 mtpa in 2014⁵. This represents a 22.1% increase, reflecting increases in both mining operations and enabling infrastructure capacity. The forecasted growth is due to expansion projects by large operators and projects in the region entering the production phase.

Operational employment needs are different to mining construction labour needs, with expectations of a greater need for technical experts rather than tradespeople and unskilled labour. This transition is leading to increased unemployment in the region. Unemployment in the region was 7.3% as of December, 2013, which is up from a low of 3.1% in 2012⁶.

⁴ ABS (2013), Counts of Australian Businesses, Australian Bureau of Statistics, Canberra

⁵ Bureau of Resources and Energy Economics (2013), Resources and Energy December Quarter 2013

⁶ Department of Employment (2014), Small Area Labour Markets Publication

ISSUES AND OPPORTUNITIES

The remote nature of Port Hedland, its highly transient workforce and a significant and growing demand for workers combine to create a unique set of challenges and opportunities for the region.

Reliance on the mining sector

Being a major global exporter of commodities, mining is the region's largest employer by far. Given the significant growth and development of the region over the past five years, Port Hedland's next largest employers are construction and transport, followed by postal and warehousing. Population service industries feature as the remaining key sectors in the region with only a very small proportion of employment generated by professional and business types of services, electricity, gas, waste and water services, manufacturing or technical service areas. This highlights the dependency of the Port Hedland economy upon the mining sector and its associated industries and the relative vulnerability of the economy to the health of this sector for the generation of jobs and economic activity.

The future risk is that any disturbance to mining, iron ore export or to one of the mining companies would jeopardise the entire economy of the area. Moreover, Port Hedland is highly sensitive to global macro-economic shocks, such as the GFC. This was seen when unemployment rates rose during the onset of the GFC and subsequently fell when world economic conditions improved. Once again, the recent uptick in unemployment reflects the impact of fewer new resource projects and the reliance of the economy on a single industry.

Whilst the PHCCI supports a growing and healthy mining sector, there is a need to increase resilience to potential future changes through further de-risking of industrial operations and increased diversification of the local economy. Key opportunities include, but are not limited to:

- Food security and fibre production;
- Local fabrication and industry support for onshore/offshore industries;
- Defence operations and services;
- Tourism accommodation; and
- Alternative energy generation.

High wage economy

All industries are impacted indirectly by the mining sector in terms of labour force cost. Personal and household incomes in 2011 were more than double the state and national averages. In 2011, the weekly average individual incomes in Port Hedland were approximately \$1,420, which was significantly higher than the state average (\$660)⁷. It was the same for household income, with weekly household income in Port Hedland being \$2,800, which was almost twice of WA (\$1,415).

⁷ ABS (2012) Census of Population and Housing 2011, Australian Bureau of Statistics, Canberra.

The low competitiveness of salaries that can be offered by population servicing sectors is a critical issue for the sustainability of the region. Residents are reluctant to consider opportunities in sectors that are unable to offer salaries that are as attractive for employees.

High living and housing costs

One of the most important issues affecting growth in Port Hedland is the cost of living. It is difficult to attract employees that are willing to permanently settle in the region due to the high living and housing costs. The recent growth in population (resident and transient workers) and economic activity, coupled with a general undersupply of residential properties, has had a significant effect in driving up property and rental prices in Port Hedland. Rapidly expanding mining operations in the region saw median rents in both Port Hedland markets and in Newman double over the five years to 2012, exceeding \$2,000 per week. As speculators and investors joined a growing line of property purchasers, the median house price in Port Hedland increased an average of 15.1% p.a. over the five years to 2012.

State Government led initiatives have unashamedly endeavoured to stabilise the property market through more land releases and infrastructure investment and subsequently median rents and house prices have declined significantly over the past two years in Port Hedland, however, costs still remain prohibitive.

Port Hedland is remote from metropolitan Perth and cannot trade on any difference in relative house prices to attract residents. This situation is further exacerbated by the fact Port Hedland has significantly higher living costs than Perth, making the fostering of inward migration to the area very difficult.

While access to employment is the key driver of migration to Port Hedland, more affordable housing and living options are required to enable effective relocation to the municipality.

Shortage of industrial, commercial and retail properties

Port Hedland is a high cost development location, with construction costs approximately 60% higher than that of metropolitan Perth⁸. This impacts the viability of traditional construction methods and therefore overall development feasibility for property development. This development cost impost is further exacerbated by high land costs. For example, vacant residential land sells at between twice and three times that of metropolitan Perth averages⁹. This is due to a combination of a historical lack of availability of unencumbered and unconstrained freehold land and underlying servicing costs.

Many established areas within Port Hedland are constrained by current lack of additional infrastructure capacity (namely water, waste water and power), while newer greenfield locations are underserviced and require significant investment. This servicing cost undermines the viability of new developments, and even redevelopment and brownfield opportunities in established areas.

Although State Government and private sector enterprises have added considerable industrial, commercial and retail land and floorspace to the Port Hedland market in recent years, demand for floor space is expected to grow significantly over the next 20 years, in response to strong population growth, increased residential settlement and

⁸ Rawlinsons (2012), Rawlinsons Construction Handbook, Rawlinsons, Sydney.

⁹ WAPC (2012), Pilbara House and Land Supply Update, Western Australian Planning Commission, Perth.

growing incomes. There is an urgent need to address the retail undersupply of cafes, restaurants, takeaways, groceries and shop retail offerings in Port Hedland. The undersupply of commercial space also needs to be corrected.

Infrastructure capacity and provision

Infrastructure capacity is a critical issue for Port Hedland and many other regions in Northern Australia. A sufficient network of roads, rail, frequent air services and a large dynamic port are integral to the future development of Port Hedland and the demands of an expanding population and workforce. Other key infrastructure requirements include public transport options, broadband and mobile service coverage, health and education service delivery.

The Port Hedland Port provides a critical link to the export of Australian goods and services. The Port is the largest bulk commodity port by throughput, with approximately 288 million tonnes in 2012/13, primarily comprised of iron ore¹⁰. Several opportunities to expand the port capacity and facilities have been put on hold but are likely to be required in the near future.

Social and community infrastructure needs are as important as physical infrastructure requirements. Investments in community infrastructure and programs improve the amenity, community cohesion and services that encourage workers to reside in the region. Investments in areas such as urban amenity, health and education service delivery, and child care services encourage the retention of an appropriately skilled workforce.

Efficient and timely infrastructure provision is critical to ensuring and encouraging economic development in Port Hedland. Private investment is an important and substantial source of funding for infrastructure and governments should provide the regulatory environment that encourages private sector infrastructure investment. Governments nonetheless have a crucial responsibility to directly provide key infrastructure that enables wider economic benefits to be captured; benefits that are not necessarily considered as part of commercial investment decisions.

Export diversification

The vast majority of exports through Port Hedland Port are iron ore, largely shipped to Chinese markets. Significant investment has seen export volumes lift substantially in recent years and there is an opportunity to leverage off the existing infrastructure at the port to diversify the export base. Diversification of the Port Hedland economy is crucial to the Town's economic resilience and growth. In this regard, the PHCCI believes the port is ideally located to become a key gas and oil export hub servicing the north western region of WA. While we note the various impediments to the development of a significant gas processing and export hub in Broome and subsequent decision on James Price Point, unlike Broome the town of Port Hedland is already well established as an industrialised export centre and we believe may offer the solution for such a facility at the benefit the broader Australian economy and of course, preservation of significant environmental areas like the Kimberly region. Obviously, such opportunities would require State and Commonwealth investigation, funding and support.

Workforce participation

Increased participation in the workforce, particularly among the under-employed and disengaged, mature-aged workers, indigenous peoples and other under-represented groups is a critical issue for sustainable economic

¹⁰ Port Hedland Port Authority

development. The region, in 2011, had generally high participation rates among most under-represented groups compared to national averages, but these gains are likely to reverse when the economy transitions and labour needs change (and they are likely to have reversed slightly in line with the increase in the region's unemployment). Workforce planning to increase participation of under-represented groups needs to be cognisant of the significant barriers to participation in the region, including education, health, housing, isolation, transport and cultural concerns.

POLICY PRIORITIES

The application of appropriate policy frameworks is critical to support the development of Northern Australia. The central task is to ensure policy frameworks recognise and respond to the Northern Australia's unique characteristics and localised challenges.

The future prosperity of Port Hedland and Northern Australia requires:

- A skilled workforce to ensure the growth and success of local commerce.
- An efficient and predictable regulatory environment to minimise unnecessary cost burdens and reduce the constraints to the growth of existing and entry of new businesses.
- An open trade and investment strategy that enables the region to leverage off its comparative advantages.
- The timely supply of critical infrastructure to support economic activity.
- Appropriate taxation arrangements that recognise the risks and challenges facing to the Port Hedland region.

The PHCCI recognises that there is no panacea. What is required is a broad array of measures that foster the necessary conditions for business in Port Hedland to grow sustainably. The Chamber broadly details several key policy areas that the Inquiry should recognise and attribute importance to.

Small business incentives

Small business owners face numerous challenges in Australia and there should be a continual push across all levels of government to reduce the regulatory and taxation burden on small business owners. However, the unique development that Port Hedland has undergone has put significant pressure on small business owners' cost structures. Small businesses in Port Hedland provide accommodation and other financial incentives in order to attract and retain staff. This cost structure is unsustainable.

The PHCCI believes the Inquiry should give substantial consideration to exploring small business taxation or financial incentives in order to alleviate the significant financial burden of attracting and retaining staff in Port Hedland and regional areas. Regional business allowances and tax offset measures such as GST rebates would:

- Provide long-term investment certainty; and
- Encourage entrepreneurship and innovation.

Volatility in the mining sector and the short-term nature of the known mining and infrastructure investment pipeline invariably undermines the levels of investment certainty in Port Hedland. Such certainty is important, particularly when promoting long-term sustainable investment in non-resource business opportunities.

The level of entrepreneurship of local residents and new migrants and their capacity to identify and leverage potential business opportunities is a critical component of sustainable economic development. Communities that possess and promote strong entrepreneurship and business acumen among their residents generally have higher rates of business formation and growth and are less vulnerable to external economic shocks.

The key challenge to continued sustainable growth in Port Hedland is the need to foster a healthy economic environment in which the smaller end of town can prosper. Whilst at a high level, investment in the region has been prominent, the local challenges for small businesses are exacerbated by significant financial and employment pressure. These factors support the need for small business support and assistance in Port Hedland.

Governance arrangements

Much of what is needed to deal with the complex economic development issues in the region is beyond the powers of the Commonwealth and will require a cooperative approach between all levels of government and private enterprise. Better coordination and more robust governance arrangements should form a key part of the White Paper. There is a requirement for defining roles and responsibilities, and reduce fragmentation of current arrangements, in order to more efficiently and effectively use limited public and private resources.

Zone tax offset

Port Hedland residents face a comparatively higher financial and social burden than residents of many other populous regions of Australia. This is due to isolation and the high cost of living in Port Hedland. To recognise these disadvantages faced by residents of Port Hedland and many other similar regions of Australia, income tax law provides for a zone tax offset (or rebate). In its current form, the offset is ineffective.

The PHCCI believes that the current level of the offset does not adequately compensate resident taxpayers for the additional costs they face. The Chamber recommends that the zone tax offset be reviewed to reflect that residents pay more for accommodation, food and other services. Residents also have less access to appropriate health and education facilities as those in metropolitan areas. The effects of inflation have rendered the dollar amount of the offset inadequate to compensate the higher costs of living.

The Inquiry should explore options that better target the offset so that it meets the disadvantages accruing to permanent residents in Port Hedland and other remote areas.

Fringe benefits tax

The Fringe Benefits Tax (FBT) law works to provide for exemptions and concessions in some cases where remote area and employee relocation benefits have been provided, which is relevant to Port Hedland businesses. However, the cost incurred by businesses to ensure compliance is significant. The PHCCI recommends the FBT law should be reviewed to reduce compliance burden on businesses in our region. This would encourage business expansion and new ventures in the region.

Labour force training

Potential development of Northern Australia relies on access to a well trained and qualified workforce (both VET trained and university educated). The PHCCI is committed to industry-supported training, however, it is not realistic for small local employers to invest in all the required training. Industry training must be complemented by public education services that are linked to industry's needs.

The Chamber believes the Inquiry should explore regulatory and taxation incentives that encourage education providers to locate and expand services in the Port Hedland region. In contrast to the typical trend in metropolitan centres, there are very few school leavers studying full time at post-school education providers (the region is home to several providers, such as the Pilbara Institute, a Curtin University campus and a UWA Rural Clinical School). However, as Port Hedland transitions into a regional city, there will be a need for greater provision of government-led post school education services.

Skilled migration

The PHCCI's members have a preference for hiring locally as it is more cost effective. However, appropriately skilled labour cannot always be met by local workforces. FIFO and skilled migration have been critical to enabling the region to seize the opportunities of greater demand for resources.

The Chamber supports continued access to skilled migration to fill employment vacancies unable to be filled by the local workforce. The Inquiry should recognise that skilled migration is an important tool for filling areas of identified skills shortages. Access to skilled migration ensures that local commerce operates efficiently and gains from resource development in the region are captured.

The PHCCI believes the temporary skilled migration process needs to recognise the unique needs of regional labour markets. Although there may not be a shortage of certain professions in capital cities, these workers do not necessarily fill positions in remote areas.

Fuel tax credits

A well-designed fuel tax credits scheme is an important component to attracting and retaining local commerce in regional Australia. The purpose of the scheme is to remove fuel tax on business inputs, which is in line with the principle that underpins GST. The PHCCI supports the full reinstatement of fuel tax credits for off-road activities (as is detailed in the carbon tax repeal bill).

Environmental approvals

The PHCCI supports the creation of a single environmental assessment and approval process. Through bilateral agreements between the Commonwealth and Western Australian Government, there is considerable scope to improve environmental assessment and approval processes while maintaining high environmental standards. The development of a bilateral agreement with Western Australia should be a high priority. The implementation of this commitment will provide certainty for industry to expand and invest in new ventures in the Port Hedland region.

Native title

Although there are numerous examples of successful native title negotiations, project proponents have observed delays and substantial costs when navigating through the complexities of native title and indigenous land use agreements. There are often difficult and complex processes where native title has not been determined or extinguished.

The PHCCI believes the Commonwealth and State Governments need to explore ways to better navigate these complex processes in order to ensure equitable outcomes are reached in a timely manner without causing any disadvantage financially or culturally to indigenous groups. This would enable and encourage regional development in Northern Australia.

Economic development zone

The Chamber understands that there are numerous proponents of a regional economic development zone for Northern Australia in order to stimulate economic growth and investment. Economic development zones are used widely around the world, but the outcomes of these zones are not conclusive, with varying degrees of success.

The PHCCI believes this concept should carefully consider the localised challenges that different regions face and not exclude or include individual regions/industries because of arbitrary features. Moreover, considering a regional economic zone would likely require support across different levels of government, there may be more appropriate regulatory and taxation measures, such as those discussed above, payroll tax, workplace relations, stamp duty, and so forth.

Major defence bases and activities

The PHCCI believes there are potential opportunities in the medium term for major defence assets and activities in the Port Hedland region given its strategic location to major Australian resource assets and investments of international significance and proximity to major international shipping routes.

The defence capability of the region needs to be significantly upgraded commensurate to the growth in the economic significance of the region. The North West is home to numerous offshore LNG projects and large supplies of untapped reserves will see several major projects constructed over the next few decades. Moreover, the Port Hedland Port is a strategic, global iron ore export hub and nearby defence support is critical to the long term security of the region.