



# **INQUIRY – DEVELOPMENT OF NORTHERN AUSTRALIA**

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## TABLE OF CONTENTS

1. INTRODUCTION.....	3
2. HUMAN CAPITAL.....	4
3. SUSTAINABLE COMMUNITIES (ECONOMICALLY, ENVIRONMENTALLY AND SOCIALLY) AND POPULATION GROWTH.....	7
4. ACCESS TO INTERNATIONAL, NATIONAL AND REGIONAL MARKETS.....	9
5. CONCLUSION .....	10

# 1. INTRODUCTION

The discussion criteria in this submission are guided by both the terms of reference as dictated by the Committee and the Regional Development Guide, published by the Department of Infrastructure and Regional Development in June 2013. The Guide highlights five determinants for the provision of long-term foundations as:

- Human Capital
- Sustainable Communities
- Access to International, National and Regional Markets
- Comparative Advantage and Business Competitiveness
- Effective Cross-Sectoral and Intergovernmental Partnerships and Integrated Regional Planning

It is my experience, and opinion, that the present and future potential of the Pilbara Region is, and will continue to be, severely compromised by short-comings identified within the first two determinants and my focus here is on addressing the priorities that can be undertaken to alleviate some of the most severe impediments to economic and social growth.

## 2. HUMAN CAPITAL

Possibly the most consistently overlooked component of economic development in the Pilbara Region is the quality and availability of a locally-based, skilled, workforce. It is a given that a world-wide shortage exists in many of the industries that are the most active in our region and that we are competing for a highly skilled workforce that can pick and choose where it works. Business growth and economic investment is being compromised by lack of suitably qualified personnel and the employee 'poaching' culture which is embedded in the resources sector. The main issues that go to create this scarcity of well-educated, skilled workforce are:-

- Remoteness of location
- High cost of living
- Lack of social amenity
- Harsh environment and extreme climate conditions
- Cost of travel
- Impact of Fly-in, Fly-out. It is a regularly overlooked impact that for every FIFO worker there is often an educated, skilled worker that does not come to the region, the FIFO's spouse or partner. It is these partners that should be the human capital lifeblood of the regions SME's....and they are simply not here

Action items that could alleviate some of the above:-

- **Attractive personal taxation incentives.** Even with the higher salaries paid in the Pilbara it is extremely costly to live here and the fly-in, fly-out option handicaps, both economically and socially, the ongoing growth of the Pilbara region. The creation of a Special Economic Zone (SEZ) and the reduction in the personal taxation rate of residents within it would act as a much needed incentive to attract and retain people in the region. **The key to the issue here is the general lack of mobility of the workforce in relocating to the Pilbara without significantly higher than average wages, and this has been the norm in this region since it was originally developed.** Most Australian's rightly enjoy the lifestyle and amenity afforded by Australian capital cities. There is little compelling reason to move one's family from a 1st world, world-class city and relocate to what must in comparison seem like 3rd world conditions lacking access to quality education, healthcare and leisure options. Clearly this is why so many workers prefer the FIFO model where it is available. The use of preferential taxation has been seen successful across the globe to attract a workforce to remote underserved regions, often by the resources and construction sectors.

The most likely argument against this suggestion (and any further tax related deductions suggested below) will be that it represents a subsidy from the rest of the Australian tax payer base to those within any SEZ. To this I would respond that we need to focus on the longer term gain of more rapidly and fully developed industry in the North. Middle East nations did not always have an oil and gas industry, or cities such as Dubai. They attracted a global workforce and capital to their hot, isolated and underserved countries (a very similar challenge to the Pilbara) through generous taxation treatment. Few could now say that these nations disadvantaged themselves economically in doing so by not collecting some personal income taxes; the benefit in the industries they created paid them back for their foresight many times over. (Please note I am not suggesting a 0% tax rate as per the UAE but simply a rate lower than the standard Australian rates to act as an incentive).

- **Cost of Air Travel** - Ref: The Western Australian State Aviation Strategy (Draft August 2013).

A significant factor currently impacting the cost of doing business in the Pilbara is the disproportionately high costs of air travel into and out of the region. On any given day the 2hr flight from Perth to Port Hedland can cost as much as, or significantly more than, the 5hr transcontinental Perth-Sydney flight. The cost per kilometre for flights in WA are quoted (at ref) to be typically 30-50% higher than eastern seaboard routes. The reference found that the most obvious answer as to why this may be, economies of scale afforded by high traffic routes, did not in fact appear to be the causal factor. It evidenced a Brisbane-Mt Isa flight costing, (a journey similar in nature and distance, yet of half the annual volume then to the Perth-Port Hedland route) in which the Pilbara route expense was some 90% higher. It was the conclusion of the reference that the disparity in pricing was the effect of higher margins accruing to the airlines due to the non-price sensitive nature of the resources business customer.

Consumers who are price sensitive are all those who do not have their airfares paid for by resources companies. This is a clear impact of economic 'crowding out' and it has very real impacts on all aspects of life in the Pilbara from the quality of life for individuals to the mobility of labour and the overall costs of doing business and therefore productivity of SME's.

The most obvious retort to the above point is that this is simply the free market and the effect of supply and demand. This argument does not hold true. Firstly the market for air travel is not really a free market; it is a duopoly where the incumbents are protected from competition by high barriers to entry and Australian cabotage laws. As it stands I believe

either or both of the following situations must exist when looking at pricing policies of the two major airlines into the Pilbara;

- Qantas and Virgin are extracting economic rents from their duopoly position and market dominance. If this is the case I strongly suggest that the ACCC be better engaged to monitor the Pilbara pricing policies of the major airlines. The consumer is near powerless in this arrangement so the ACCC must use its mandate to 'regulate national markets where there is limited competition'.
- Qantas and Virgin are using excessive margins on Pilbara routes to effectively cross subsidize travellers on other routes on their network. This is equally an unpalatable scenario. By adding so significantly to the cost of accessing the Pilbara and increasing the feeling of isolation for those that live here the major airlines are doing this nation a significant disservice. As this is a region of strategic economic importance to Australia I believe it would be entirely appropriate for the State and Federal Governments and their various institutions to become actively involved in the management of this issue.

### **3. SUSTAINABLE COMMUNITIES (ECONOMICALLY, ENVIRONMENTALLY AND SOCIALLY) AND POPULATION GROWTH**

The Pilbara Development Commission has indicated, in its 2014/2017 Strategic Plan that approx. \$1.4billion has been spent in the Pilbara over the past four years. It has to be acknowledged that this is basically 'catch-up' funding for a region that was so underfunded in critical infra-structure and social amenity as to be a disgrace to the State of WA, and that there is some significant way to go before the local communities are able to attract the Human Capital necessary for the creation of a sustainable community. As identified above, and it is the writer's opinion, that without personal taxation advantages the WA State Governments stated aim of a population of 50,000 in Karratha and Port Hedland will remain unrealised, with the impost of costly and unnecessary spending on population in the short/medium term, and local Government agencies servicing unacceptable levels of debt.

Some critical issues impacting on the viability, socially and economically, of the region are

- Size and nature of fly-in/fly-out working populations – impacts on everything from retail, through to schools, hotels, doctors surgeries, social clubs etc
- Hostile economic/social environment affecting small business in the region.
- Mining Sector indifference to supporting local small business
- Lack of support facilities for ageing populations – people do not plan to stay later than middle age in the region therefore lack of emotional/financial investment in region
- Increasing extreme climatic conditions – heat and cyclones add to the challenge of creating sustainable attractive communities
- Historically high and the continuing escalating costs of maintaining property in the region for owner-occupier. i.e. power for essential cooling, property insurance, high maintenance costs making it unaffordable for the average family, regardless of acquisition cost

Policy changes that could alleviate some of the above:-

- **FBT** - The exempting of the provision of employer funded housing and motor vehicles from Fringe Benefits Tax would act as an incentive to both employers and employees to choose local placement over FIFO. Again, it is important that we encourage higher population densities, which in turn supports social and economic activities and amenities
- **GST** - Consideration should be given to exempting building inputs within the previously suggested Special Economic Zone. This would have the immediate effect of reducing the cost of

building, from infrastructure to housing down by 10% in what is a notoriously expensive part of the country to build in. This would encourage capital into the Region, and I don't doubt that the Australian tax payer would subsequently be adequately compensated by the benefits flowing from the increased economic activity it would generate

- **INSURANCE** - A significant and rapidly rising cost of living expense in the North is the cost of insurance. This trend is only set to worsen as climate change sees more frequent extreme weather events occur. This region has seen an increase of up to 500% in Strata Insurance over the past 4/5 years and individual premiums of over \$10,000 per annum are becoming the new norm. Federal Gov needs to work with the Insurance Industry to create solutions to this unsustainable situation, and acknowledge that this is not "price-gouging" by the sector but indicative of a fundamental shift in the region's risk profile. Otherwise, it is difficult to imagine what economic modelling can be undertaken to, in the future, provide affordability in housing density.



#### **4. ACCESS TO INTERNATIONAL, NATIONAL AND REGIONAL MARKETS**

The Pilbara region is well-placed to access the Asia-Pacific and the location of towns like Port Hedland should be an added attraction increasing investment in developing trading links, other than for minerals, with our neighbours. However, it is difficult to envisage any advantage at present in pursuing any new trade agreements, or investing in any new industries, without addressing the impediments to growth identified in Human Capital and Sustainable Communities. Should that be achievable then most effective activity would be the encouragement of overseas investment in critical infrastructure in the region, and the creation of economic zones allowing business distinct advantages in relocating to the region and investing in new industries to service increasing demand for resources from the emerging super-powers of Asia. Without significant changes to the 'formula' taxation and the 'cost benefit analysis' regimes that impact so negatively on the region it is difficult to imagine a scenario that would overcome the impediments of extra-ordinary high labour costs. For the duration of the mining investment period of the past 8/9 years labour costs escalated out of control in the Pilbara, to the detriment of both mining and non-mining business's in the region. Indeed, clearly the decision by BHP Billiton last year to postpone indefinitely the development of an outer harbor in Port Hedland was as much an indictment on the construction costs associated with it due to the lack of human capital and sustainable communities in the Pilbara to support it than it was a reflection of the outlook on the global price of the commodity. The same can be said of Woodside's decision to pursue Floating LNG technology in the Browse gas fields over onshore processing (a decision which means the key benefit of the construction aspect of which now likely goes to Korea over Australia). Pilbara resources is one industry that Australia can potently sustain a comparative competitive advantage over other global producers and boost this nation's wealth through international trade; but only if the projects are built that will take our products to market. Australia is not 'in danger' of losing the next round of capability expansion investment in the Pilbara, we have already lost much of it. Any efforts we can make to reverse this trend and encourage people into the region to support this industry will only benefit us all in the long term.

## 5. CONCLUSION

The basic premise of this submission is that most effective action the Federal Government can undertake to ensure that the Pilbara region is developed, for the sake of the local communities and that all of Australia accrues the full benefits available once that happens, is to assist in creating the policies that will make living and working here attractive enough that people will want to come and live here. While the provision of amenity through the West Australian Government's Royalties for Regions program is a well-intentioned step in the right direction, and has gone some way to providing the basic services demanded by any population in the 21 century this is not the long-term answer to ensuring that enough incentive exists to overcome the tyrannies of location, expense and climate. For that to happen we require a reward system in place that guarantees the Pilbara will be a destination of choice for a young, keen and highly-skilled workforce.