

Submission Number: 25
Date Received: 14/02/2014



Supporting Economic Prosperity in Northern Australia via the creation of a Pilbara Special Economic Zone

A submission from the Pilbara Regional Council



PILBARA
REGIONAL
COUNCIL

Contents

| | |
|---|-----------|
| OVERVIEW..... | 1 |
| WHAT IS A SPECIAL ECONOMIC ZONE? | 2 |
| THE PILBARA..... | 3 |
| SPECIAL ECONOMIC ZONE PROJECT NEED..... | 5 |
| SPECIAL ECONOMIC ZONE FRAMEWORK..... | 6 |
| SPECIAL ECONOMIC ZONES GLOBALLY..... | 8 |
| THE PROFILE OF A PILBARA SPECIAL ECONOMIC ZONE | 9 |
| SUCCESS FACTORS FOR A SPECIAL ECONOMIC ZONE | 11 |
| INVESTMENT INCENTIVES..... | 18 |
| SUCCESS OF SPECIAL ECONOMIC ZONES IN OTHER REGIONS | 22 |
| WHERE TO FROM HERE? | 26 |
| REFERENCES..... | 27 |
| APPENDIX A: ECONOMIC PROFILE OF THE PILBARA..... | 30 |

This submission to the House of Representatives Joint Select Committee on Northern Australia has been prepared by the Chief Executive Officer of the Pilbara Regional Council, with submission authorised by the Shire President on behalf of Council.

14 February 2014

Overview

This proposal is to for a Special Economic Zone (SEZ) in the Pilbara region in Western Australia. The key purpose of the SEZ is to develop a sustainable, diversified economy in one of the most economically and strategically significant regions in Australia.

Many Australian and international businesses wish to take advantage of the opportunities available in the Pilbara. However, the isolation and cost structure of the region has constrained investment and employment outside of the direct resources sector.

For the Pilbara, the acute concentration of activity within the resources sector has led to a high growth, but a volatile and vulnerable economy. Economic development and diversification through an SEZ framework will ease ongoing cost pressures, insulate the region against the commodity cycle, and provide greater lifestyle options and amenity.

For Australia this will lead to a more stable and competitive resources sector. One that is better able to coexist with the broader economy during the up-cycle, and is able to sustain output and operations during the down-cycle.

The SEZ will utilise targeted company, employee, and development incentives to attract investment, resident population, and industry development in a range of sectors which will leverage the region's existing minerals industry and export infrastructure.

Key components of the SEZ include:

- Establishment of a "one-stop-shop" for streamlined development approvals within the SEZ.
- Access to temporary "incubator" office space for start-up businesses.
- Increased zone offset incentives reflecting the higher costs of permanent residency in the Pilbara region.
- An extended regional migration agreement to improve labour access for a broader range of investments and industries.
- A range of business taxation and other incentives targeting the critical barriers to investment in the Pilbara region.

The outcomes of the SEZ will be to strengthen and diversify the Pilbara region, stabilising growth over the commodity cycle and providing broad, ongoing employment and lifestyle opportunities for regional Western Australia.

What is a Special Economic Zone?

A Special Economic Zone is a geographical region designed to export goods and provide employment. SEZs are usually exempt from certain national laws regarding taxes, quotas, foreign direct investment (FDI) restrictions, labour laws and other limiting laws in order to increase the competitiveness of the SEZ.

SEZs are called different names including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), industrial parks or Industrial Estates (IE), free ports, free economic zones, and urban enterprise zones.

SEZs are used extensively across the world as a means to unlock the economic potential of regions.

SEZs are typically associated with developing economies who promote SEZs as areas with better safety and property protection and less restrictive labour and trade arrangements in order to attract (particularly foreign) investment.

However, alternative forms of SEZ are increasingly being applied in developed countries (see

Table 1). Urban enterprise zones utilise tax concessions, infrastructure incentives, and reduced regulations to stimulate employment and improve economic diversity in regions faced with unique economic challenges and circumstances. Prime examples include United States Federal Empowerment Zones, and the United Kingdom's and France's Enterprise Zones. The Pilbara has unique economic challenges.

Table 1: Developed Country Special Economic Zones

| Country | Existing SEZ |
|----------------|---|
| Canada | 1 FTZ |
| Denmark | 10 FTZs |
| Finland | 2 FTZs |
| France | 2 FTZs, 85 Enterprise Zones |
| Germany | 8 FTZs |
| Greece | 3 FTZs |
| Iceland | 2 FTZs |
| Ireland | 1 EPZ, 1 FTZ |
| Italy | 4 FTZs |
| Japan | 22 Foreign Access Zones |
| Malta | 1 FTZ, 10 Industrial Zones |
| Portugal | 2 FTZs |
| Spain | 4 FTZs, 1 Freeport |
| Sweden | 4 FTZs |
| Switzerland | 4 FTZs |
| United Kingdom | 7 FTZs, 24 Enterprise Zones |
| United States | 266 Foreign Trade Zones, 30 Federal Empowerment Zones |

Source: FAIS (2008), HM Government (2014), United States Department of Housing and Urban Development (2014)

The Pilbara

“a unique economy, founded on an abundance of natural iron ore”

Australia has a strategic role in the continued prosperity and growth of the expanding economies of China, India and South-East Asia.

The Pilbara region plays a core role in this expansion, providing 45% of global iron ore exports. The region contributes 90% of Australia’s iron ore exports and produces 85% of Australia’s Liquefied Natural Gas (LNG).

The Pilbara currently contributes 17.5% of WA’s economic activity and 2.8% of Australia’s economic activity. Regional gross regional product (GRP) per capita is more than 6 times the state level and more than 10 times the national level at \$690,000 per capita.

“...the Pilbara is not a short term quarry. It will sustain major wealth generation for Australians for hundreds of years.”

Andrew Forrest Chairman FMG, The Pilbara Plan (2008)

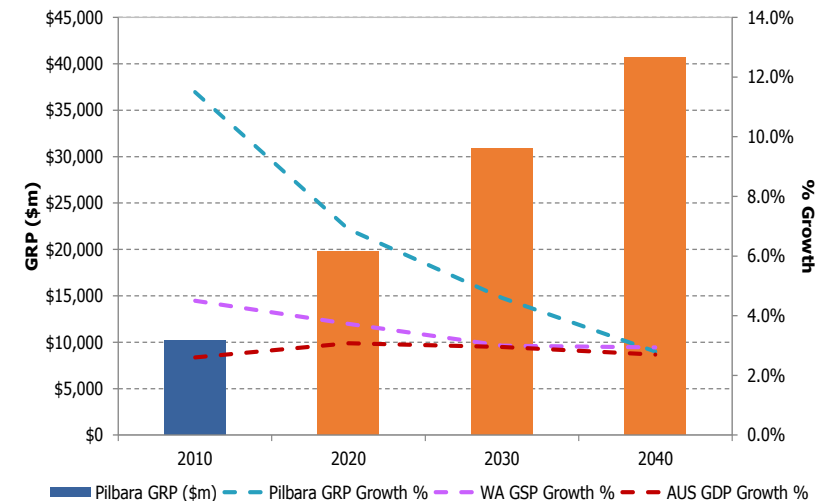
Growth in the region is expected to continue to be driven by emerging market demand. GRP is forecast to increase 4.75% per annum to 2040 (compared to 3.2% for WA and 2.9% for Australia as a whole).

Figure 1: Pilbara Region Economic Contribution



Source: AECgroup

Figure 2: Pilbara Forecast GRP (2010-2040)



Note: Deloitte Access Economics Forecasts based on the Karratha (Roebourne) and Port Hedland regions only.

Source: Deloitte Access Economics (2011), AECgroup

In 2011, the total value of Pilbara minerals and petroleum exports was \$86 billion, which made up 81% of total mineral and petroleum exports from WA and represented 5.7% of Australia's GDP.

Reflective of this production the Pilbara economy is strongly dominated by the mining sector, providing 86% of GRP equating to \$34.3 billion dollars, 40.6% of total jobs and contributes 94% of the Total Value Add for the Pilbara region.

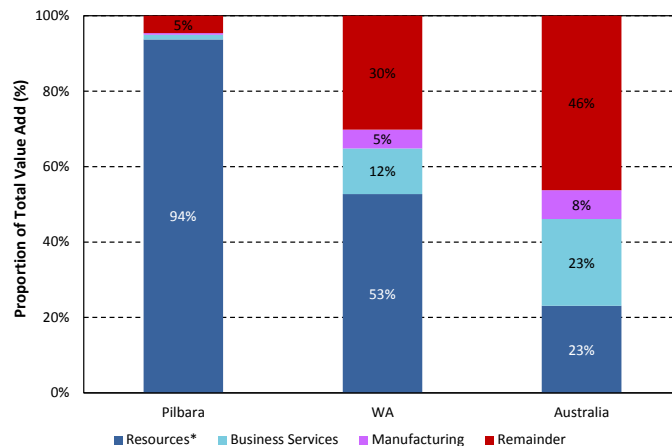
The lack of economic diversity within the Pilbara economy is extreme, with minimal business services and manufacturing sectors. This over and under specialisation in economic activity requires an SEZ framework which will accelerate the Pilbara's economic development and diversify its economic base.

The Pilbara already enjoys close trade relationships with Asia (accounting for around 90% of WA merchandise exports over the year ending November 2013). The establishment of a Pilbara SEZ would drive economic development and growth of the Pilbara's industrial base, reducing the economy's reliance on resource extraction by supporting the development of downstream mining activities and other high value-adding industries.

"The long term sustainability of the Pilbara Region will be dependent on local employment in a diversified economy. Even though the resources sector is likely to underpin the region's productivity there is a need to develop a local economy that is not totally reliant on commodity process."

Regional Development Australia (2012a)

Figure 3: Proportion of Total Value Add (2011-12)



Source:

AECgroup

To support population and industry growth, the region has invested (leveraging a range of public and private partnerships) in a range of community and social assets to support regional growth. The missing link in order to unleash the true potential of the Pilbara region is a policy framework to stimulate investment and attract a permanent population with the skill sets to sustain economic development over the commodity cycle.

Special Economic Zone Need

“unlocking the potential of the Pilbara”

The strength and bias of the Pilbara resource sector and related industries has resulted in a significant lack of economic diversification. This had made the Pilbara Region one of the strongest economies in Australia but also one of the most concentrated.

The scale of resources activity has created significant business opportunities for upstream and downstream industries. Furthermore, broad population growth and high disposable incomes offer numerous opportunities for broader industry sectors.

However, the isolation of the region and the dominance and cyclical nature of the resource sector have thus far constrained and crowded out broader investment. High establishment and operating costs (see Figure 4) combined with volatile economic conditions continue to hold back broad based economic development in the Pilbara.

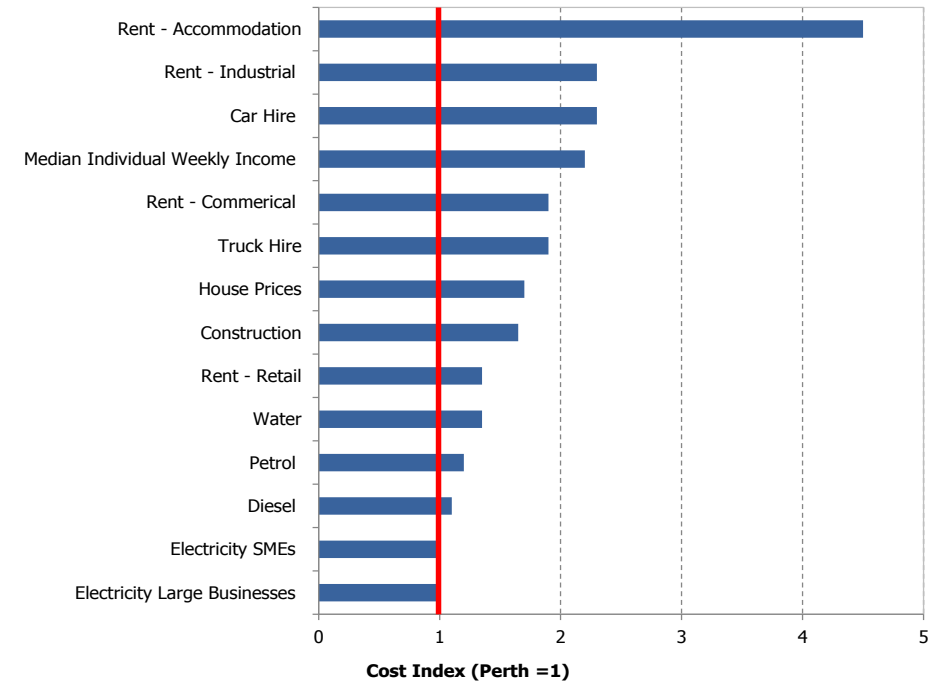
For the region to become a sustainable diversified economy, new and alternative industries must be established off the back of the region’s competitive advantages.

Table 2: Regional Competitive Advantages and Constraints

| Competitive Advantages | Regional Constraints |
|---|---|
| <ul style="list-style-type: none"> • An industrial backbone (iron ore, other minerals, oil, and gas) • Abundant land • Renewable energy potential • Proximity to Asian markets • Existing transport network infrastructure (rail, road and ports) • Growing population base | <ul style="list-style-type: none"> • Skilled labour supply • High establishment and operating costs • Volatile, cyclical economy • Lack of critical population mass • Lack of local services |

Source: AECgroup

Figure 4: Pilbara Region Cost Factor Index (Perth = 1)



Note; Pilbara region estimate based on the median outcome for Karratha, Port Hedland, Onslow, and Newman.
Source: RDA (2013)

Establishing an appropriate investment environment through the proposed SEZ framework will provide private sector investors with the confidence, commercial viability, physical infrastructure, labour, and population base to capitalise on the broad economic potential of the Pilbara region.

Special Economic Zone Framework

Around the world, Special Economic Zones have been used to unlock the potential of regions. By attracting investment that diversifies and increases employment SEZs enable the development of new technologies, strengthen the economic base and increase entrepreneurial and technical capacities.

Australia is one of the few developed economies not to have enthusiastically embraced this approach.

The Northern Australia proposal covering the areas of Australia north of the Tropic of Capricorn spanning Western Australia, Northern Territory and Queensland was initially put forward by the Australians for Northern Development & Economic Vision (ANDEV, 2014). The proposal stated that the capitalisation of opportunities would require a strong policy platform for the sustainable long term development of Northern Australia.

Many of the suggested mechanisms (not badged as a SEZ framework) were included in the Coalition's Policy Document "2030 Vision for Developing Northern Australia" (2013).

Northern Australia White Paper Policy Option #4:

"Looking to build on existing key urban zones – such as Darwin, Cairns, Townsville and Karratha – with the aim of substantially increasing the population in these areas. To this end, the efficacy and targeting of current relocation incentives and personal and business tax incentives could be reviewed."

The Coalition's 2030 Vision for Developing Northern Australia (2013)

The promotion of SEZs within Australia is not a new idea. The Pilbara Report (2012) recommended the creation of a SEZ to reduce costs and increase investments in the non-resources sector.

"SEZs are territories with more liberal economic legislation

in comparison with general economic laws of the country. Due to the new economic environment created, investors can benefit not only from the wide range of business opportunities, but also from tax and investment incentives, access to highly qualified labour force, as well as natural and energy resources. An SEZ across the Pilbara will ensure the necessary infrastructure and services for manufacturing and industry, attract additional diversified investment, diversify and increase employment, incentivise the development of new technologies, diversify the economic base, and enhance entrepreneurial and technical capacities.

The overarching purpose of an SEZ for the Pilbara is to maximise economic growth and contribute to the social sustainability of the region, thus, assisting with the achievement of the Pilbara Cities Vision."

Regional Development Australia (2012b)

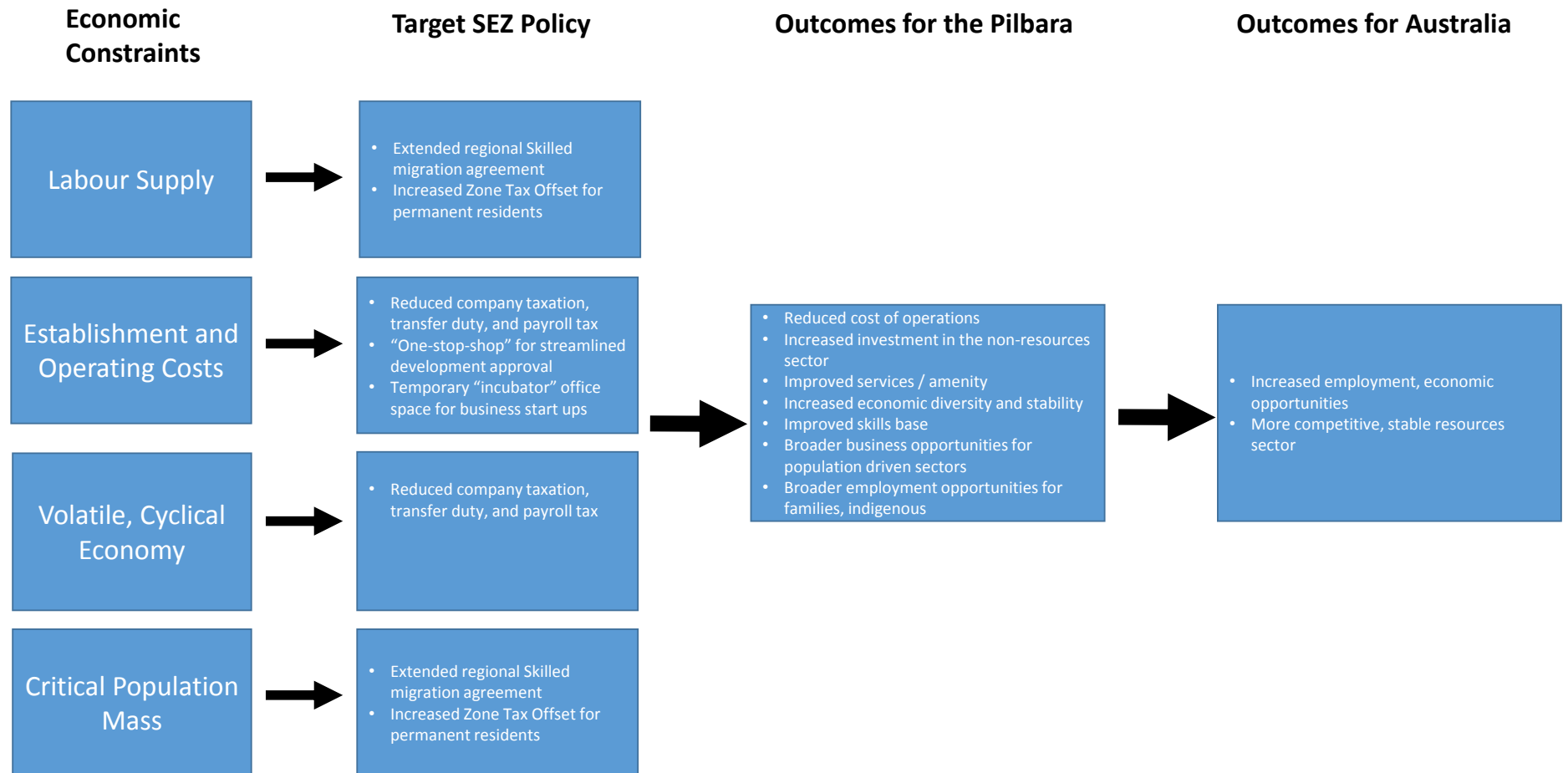
Utilising a SEZ framework enables policy to be tailored to the specific and unique needs of the Pilbara region without implementing policies which are inappropriate for the broader WA and Australian economies.

Core aims of the Pilbara SEZ are to:

- Build the Pilbara's capacity to support next wave of growth.
- Develop broad and viable employment options for resource employee's partners and families, and the local indigenous population.
- Keep a greater share of the wealth produced by the Pilbara within the region and within Australia.
- Develop an efficient regional cost structure.
- Spike a local mining services cluster which will enable long term efficiencies.

The conceptual framework for using the Pilbara SEZ to overcome the region’s key economic constraints is provided in Figure 5.

Figure 5: Pilbara SEZ Framework



Source: AECgroup

Special Economic Zones Globally

There has been an explosion of SEZs in developing countries since 1975 with the most rapid expansion taking place in the last 20 years. In 2006, 130 countries operated 3,500 zones and employed roughly 66 million people around the globe, with China alone employing 60 percent of all workers (Boyenge, 2007).

Around the world...

SEZs have had a very significant contribution to national employment in China. Between 2006 and 2007, total employment of China's SEZ grew from **2% of national employment** to more than **4%**. In 2006, all SEZ's accounted for a combined **11.1 percent of China's total GDP** and **29.8 percent of exports** (China Knowledge Online 2009). The greatest number of jobs from SEZ have been created in China, with some **30 million employed** in the SEZ sector (ILO, 2014).

Amongst zones that have been in operation for five or more years, the median zone in **Asian countries** has **10,500 employees**, while in **Latin America** the median zone has just over **3,500 employees** (Jenkins *et al* 1998).

In Bangladesh, total **SEZ employment** grew from mere **624 in 1983** when the first zone was established in Chittagong, to over **144,000 by 2003–4** (Aggarwal 2006).

Mauritius (Africa) introduced its SEZ programme in 1970, **reducing official unemployment from 23 per cent** in 1979 to **2 per cent in the early 1990s** (before it increased in recent years to 8 per cent in 2000) as the country's SEZs generated **88,000 new jobs**.

In Central America, Costa Rica, Nicaragua and Honduras have established successful zones. Between **1991 and 1996, employment** in Costa Rica zones **increased more than 7 per cent per annum**. Employment in Honduras zones increased more than **40 per cent per year** between **1990 and 1996**. SEZ employment accounted for almost **20 per cent of industrial** employment in 1995 in **Nicaragua** (Jenkins *et al* 1998).

Through SEZ, the Dominican Republic created more than **100,000 manufacturing jobs and shifted away from reliance on agriculture**. At its peak, the SEZ's contributed 7.5 percent of total GDP and were responsible for 90 percent of the country's exports.

The rapid growth of Export Processing Zones (a type of SEZ) programs around the world over the last two decades, and their success in contributing to export-led growth in regions like East Asia, is due in part to an unprecedented globalization of trade and investment that took place since the 1970s and accelerated during the 1990s and 2000s, which saw trade grow 85 percent faster than GDP between 1983 and 2008.

Table 2: SEZ Exports as a Percentage of Total Exports

| Country | 2000 | 2006 | Change (%) |
|------------------|------|------|------------|
| Madagascar | 38% | 80% | 42 |
| Maldives | 13% | 48% | 35 |
| Colombia | 9% | 40% | 31 |
| Bangladesh | 60% | 76% | 16 |
| Kenya | 80% | 87% | 7 |
| Sri Lanka | 33% | 38% | 5 |
| Costa Rica | 50% | 52% | 2 |
| Cameroon | 32% | 33% | 1 |
| Malaysia | 83% | 83% | 0 |
| Gabon | 80% | 80% | 0 |
| Macao SAR, China | 80% | 80% | 0 |
| Zimbabwe | 80% | 80% | 0 |
| Vietnam | 80% | 80% | 0 |
| Dominican Rep. | 80% | 80% | 0 |
| Morocco | 61% | 61% | 0 |
| Haiti | 50% | 50% | 0 |
| Philippines | 87% | 60% | -27 |
| Tunisia | 80% | 52% | -28 |
| Mexico | 80% | 47% | -33 |
| Mauritius | 77% | 42% | -35 |

Source: Boyenge (2003, 2007)

Profile of a Pilbara Special Economic Zone

It is envisioned that the Pilbara SEZ will encompass the Pilbara region in it's entirely, encompassing the local government areas of:

- Ashburton.
- East Pilbara.
- Roebourne.
- Port Hedland.

Incentives apply equally across the zone. However, key areas across the SEZ will be targeted for "one-stop-shop" development approval streamlining. This will allow for pre-approval for defined activity types and reduce the complexity of approval processing.

Likewise incubator temporary office space incentives will be offered based on strategic location and existing industry clusters.

Figure 1.6: Pilbara SEZ



Source: Pilbara Regional Council (Undated), AECgroup

Target Sectors

The objective of the Pilbara SEZ will be to create a competitive operating environment that will assist in the attraction and retention of national and international businesses to the Pilbara region. Ultimately new business and investment will contribute to the diversification of the economic base towards a robust and stable Pilbara economy.

The focus of a Pilbara SEZ is not on the future development of the resource extraction sector but diversification of industry.

Expanding on the region's core supply chain will provide the scale and commercial viability to generate the levels of investment required to drive economic development.

However, the SEZ will target investment from a broad range of industry sectors aimed at increasing the diversity, stability, and liveability of the Pilbara region.

Table 3: SEZ Target Industries

| Resource Supply Chain Targets | Industry Diversification Targets |
|--|--|
| <ul style="list-style-type: none"> • Equipment hire • Equipment servicing • Repair and maintenance facilities • Conveyor systems • Minerals processing • Transport and logistics | <ul style="list-style-type: none"> • Tourism and hospitality • Distribution and retail • Professional and social services • Education and training • Information technology |

Source: AECgroup

The Pilbara has evolved into the economic powerhouse of Australia and is on the threshold of another period of expansion."

Pilbara Development Commission (2013)

Investment Incentives

With the establishment of the Pilbara Special Economic Zone the SEZ would be seeking implementation of a number of tax and other investment incentives aimed at increasing the competitive advantage of the Pilbara as an attractive region to invest by businesses.

Potential investment incentives considered appropriate for the Pilbara SEZ include:

- Reduction in Company Tax to 20% for approved companies based and operating within the Pilbara SEZ.
- Removal of Fringe Benefits Tax on housing subsidies paid to a permanent residential workforce within the Pilbara SEZ.
- Streamlined “one-stop-shop” development approval processing within the Pilbara SEZ.
- Provision of subsidised temporary office space for business start-ups in key locations within the SEZ.
- Increase in the Personal Income Tax Zone Offset to \$5,000-\$8,000 for permanent residents within the Pilbara SEZ.
- Extension of the regional skilled labour migration agreement to encompass a broader range of industries, including:
 - Manufacturing.
 - Hospitality.

- Public administration.
- Education and training.
- Professional and semi-skilled service sectors.
- Removal of Payroll Tax for employment of permanent residents within the Pilbara SEZ.
- Removal of Transfer Duty on land acquired for approved new plant or residential dwelling construction within the Pilbara SEZ.
- 50% reduction in Land Tax for approved land productively utilised within the Pilbara SEZ.

SEZ Management

A SEZ Authority developed with responsibility for the development and operations of the SEZ and to monitor performance of firms in relation to various regulatory provisions.

It will establish vertically integrated funding for assisting both domestic and international investment, as well as an Infrastructure Fund to develop the balance of lands and utilities.

The SEZ Authority needs adequate autonomy to control all aspects of administration, financing, regulation compliance and policy making, intrinsic to the SEZ.

Success Factors for a Special Economic Zone

“the Pilbara is ready...”

The criteria for the development of a successful SEZ program are considered to be:

- **Industry Enablers:** Provision of infrastructure and services to promote connection.
- **Business Enablers:** Provision of a regulatory environment that promotes efficient business transactions.
- **Investment Incentives:** Provision of an economic environment that promotes investment by the private sector.

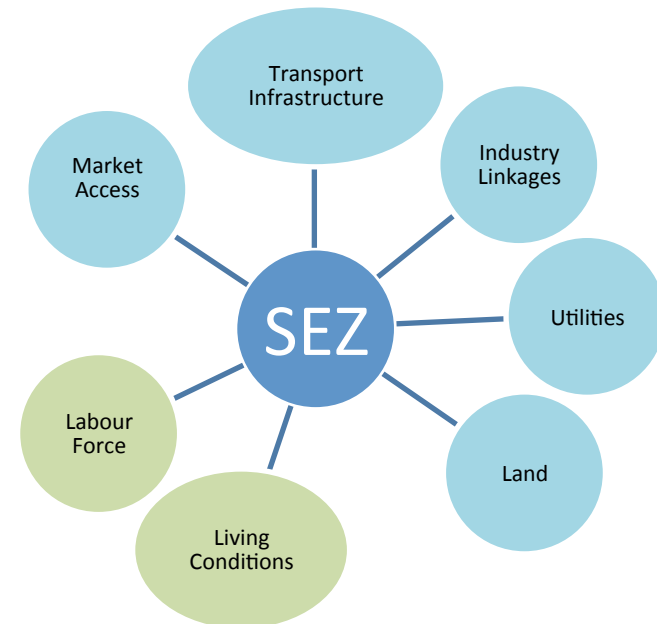
Over the last 5 years, the Pilbara region has been on a journey of preparedness for the future. State and local agencies have been working across the key focus areas of infrastructure coordination, land availability and development, community projects and engagement to build the platform for future growth. This has resulted in positioning of the region to enable industry investment and diversification within an SEZ environment.

Industry Enablers

Industry enablers as outlined in Figure 7 consist of the underlying supporting infrastructure that support the establishment of a business.

Economic diversification is dependent on the attraction of a workforce with appropriate skills, which in turn, is limited by available living environments (housing) and community services.

Figure 7: Industry Enablers



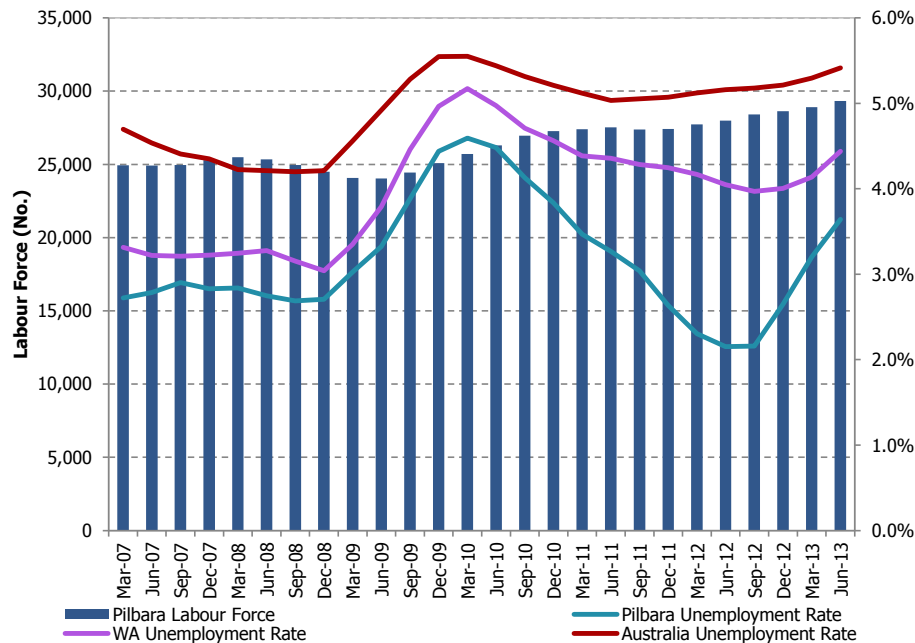
Source: AECgroup

Labour Force

In June 2013 the Pilbara region registered a labour force of 29,328 persons and an unemployment rate of 3.6% (compared to 4.4% for WA and 5.4% for Australia as a whole).

Despite rises in unemployment around the commodity cycle, the region has remained at close to full employment over the post-global financial crisis (GFC) period.

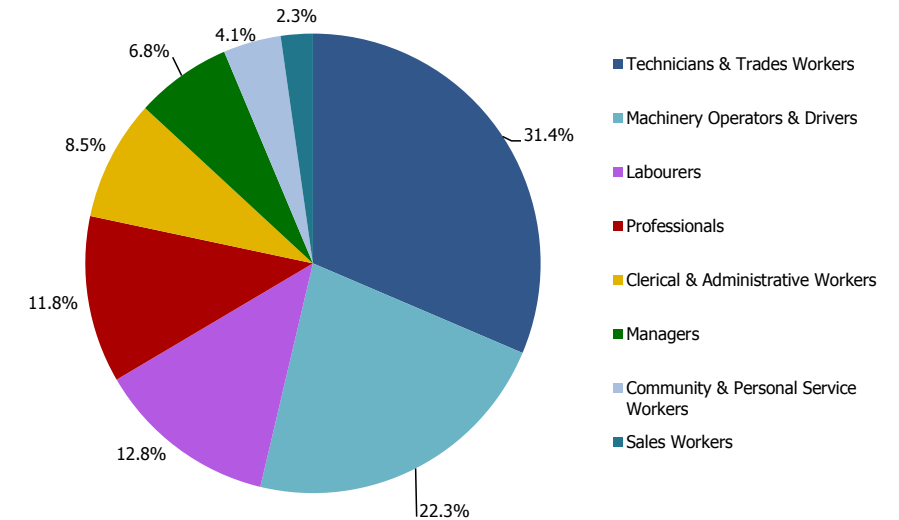
Figure 8: Pilbara Labour Force and Unemployment



Source: DEEWR (2013)

The regional workforce is heavily skewed towards trade and semi-skilled labour, with technicians & trade workers and machinery operators & drivers accounting for nearly 54% of occupations in the region.

Figure 9: Pilbara Region Employment by Occupation (PoW, 2011)

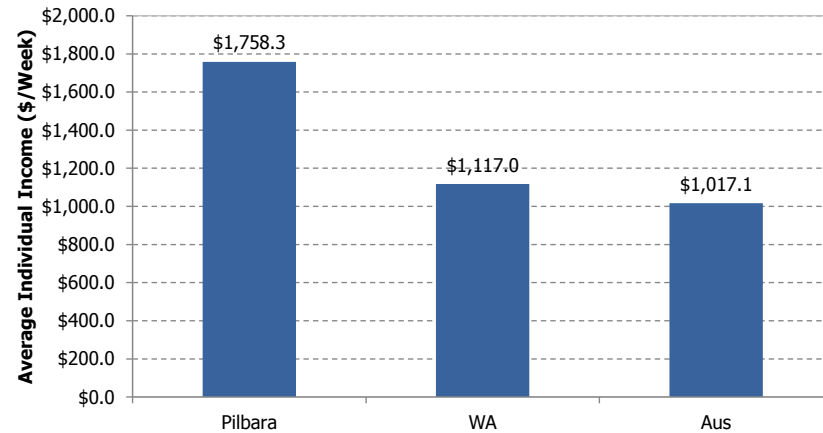


Source: ABS (2012)

Securing an available and appropriately skilled labour force has been one of the major constraints to broader economic development in the Pilbara region.

Industries outside of resources have struggled to compete with the high wages offered by the resources sector, with average incomes in the Pilbara 1.7 times the national average (see Figure 10). The shift to FIFO and DIDO operations within the resources sector has also reduced the availability of labour through partners and mature aged children.

Figure 10: Average Weekly Individual Income (PoW, 2011)



Source: ABS (2012)

The Pilbara region is prepared for the increase in resident workforce. By 2035, it is planned for the region to have a resident population of more than 140,000. The Pilbara Cities vision is for the cities of Karratha and Port Hedland to each have a population of 50,000. The town of Newman will become a sub-regional centre with a population of 15,000 in addition to the major towns of Tom Price, Onslow and Wickham.

The Pilbara SEZ will counter the region's labour shortage through an extended regional labour migrant agreement and an increased zone tax offset for permanent residents.

Living Conditions (Including Housing and Community Services)

The current and forecast growth in residential population will require additional housing and community services. This need has been recognised by the region as outlined in the Future Development of the Pilbara presentation by the PDC and Pilbara Cities (June 2013).

Using multipliers provided by Dr Don Burnside, Principle Natural Resources Scientist URS, a resident population increase of 40,000 needs the following additional resources:

- 582 child care places
- 83 child care workers
- 2730 primary school places
- 195 primary school staff
- 496 secondary school places
- 62 secondary school staff
- 131 police
- 34 doctors
- 373 nurses

An increase of 40,000 people means that 6,747 houses are need for families, 12,013 for single and couples equating to 18,760 dwellings in total by 2020.

Pilbara Development Commission (2013).

State and local agencies have delivered a number of projects that improve the social conditions such as:

- Nickol Bay Hospital Project: \$10 million of Royalties for Regions funding.
- Medical Practitioner Housing Project (Port Hedland): Construction of 9 to 10 dwellings to house GP's working locally in Port Hedland.
- Karratha Education, Leisure and Training Precinct (KELT): \$20.3 million to assist with funding the building of a community and sporting precinct, together with the second stage of the Karratha Senior High School project.
- South Hedland Senior High School Upgrade: A \$17.35 million project funded by \$13.35 million from the Royalties to Regions fund.
- JD Hardie Centre (South Hedland Youth Precinct): The JD Hardie Centre redevelopment created an expanded and multifunctional youth precinct.
- Wangankara Stadium: A \$34.1 million project funded by \$11.1 million from the Royalties to Regions fund. Transport Infrastructure.

The region is developing social infrastructure to support a growing population.

The Pilbara SEZ will address the cost and regulatory barriers enabling private sector services to the region to grow.

Transport Infrastructure

The Pilbara transport network has been developed to support the extraction and export of product from resource developments. The core road network connects the major coastal towns and inland towns, supported by local and site road networks. The region has a large number of private rail networks operated by the resource sector. The network is focused on the export of iron ore from the inland mines to the region's ports: Port Hedland (East Pilbara), Dampier, Cape Lambert and Anketell (West Pilbara) Marine. These ports provide the link to international markets, and are dominated by the export trade of commodities such as iron ore, liquid natural gas and solar salt.

The Pilbara is serviced by four public airports (Karratha, Port Hedland, Newman, and Paraburdoo), and numerous other airstrips operated by the resource sector and private operators. Existing infrastructure is in place to provide support for imports and exports.

The Pilbara SEZ will enable this infrastructure to be utilised to its full potential by a broad range of industry sectors.

Land

Although a vast area, access to commercial land within the Pilbara has previously been restrained or underdeveloped.

The state and local government agencies have commenced improving access to land and promote revitalisation of existing commercial centres.

Key projects are:

- South Hedland Town Centre Revitalisation: \$23 million redevelopment plan to provide 600 townhouses and apartments, and additional commercial and retail space.
- Karratha CBD Redevelopment: Partnership with Landcorp to redevelop the Karratha CBD with funding support of \$131 million from Royalties for Regions.
- Lazy Lands: Infill program to support land release in town centres based on repackaging land for residential purposes.

The Pilbara SEZ will address regulatory barriers enabling private sector access to land to support development of industry clusters.

Utilities

Adequate and efficient infrastructure for water, waste water, energy, waste is critical for growth.

The Pilbara Planning and Infrastructure Framework (Planning WA, 2012) has mapped the current and future provision requirements, and identified the priority infrastructure projects which will enable the Pilbara to support ongoing industry growth.

The Pilbara SEZ will prompt further investment in infrastructure to be utilised to its full potential by a broad range of industry sectors.

Table 4: Pilbara Infrastructure Priorities to 2015

| Infrastructure | Priorities |
|--------------------|---|
| Water | <ul style="list-style-type: none"> Investigate the potential for expansion of Bungaroo borefield or development of other nearby groundwater resources Investigate construction of a desalination plant to service Karratha City (Karratha/Dampier) Encourage strategies that promote responsible consumption of water by industry and consumers Upgrade existing water sources- Yule and de Grey borefields- to service Port Hedland Identify a new water source - Cane River borefields, Lower Robe aquifer or an alternative - to service Onslow Identify water re-use options and opportunities Use fit-for-purpose options for dust suppression Improve planning for water services across the region |
| Waste Water | <ul style="list-style-type: none"> Upgrade Karratha Waste Water Treatment Plant Upgrade Port Hedland deep sewerage scheme Decommission the Port Hedland Wastewater Treatment Plant and augment capacity at the South Hedland Wastewater Treatment Plant Identify opportunities for reuse of treated waste water Provide waste water services to the region's aboriginal communities |
| Energy | <ul style="list-style-type: none"> Provide new power transmission at Port Hedland Provide new power generation and transmission at Karratha Expand power generation at Onslow Investigate renewable energy options |
| Waste Management | <ul style="list-style-type: none"> Develop a system of townsite transfer stations Investigate recycling options in service hubs Continue to monitor and identify new or upgrade existing waste management facilities Promote implementation of improved waste management practices in aboriginal communities |
| Telecommunications | <ul style="list-style-type: none"> Augment mobile phone coverage - telecommunication companies Roll out of National Broadband Network in the Pilbara |

Source: Planning WA (2012)

Industry Linkages

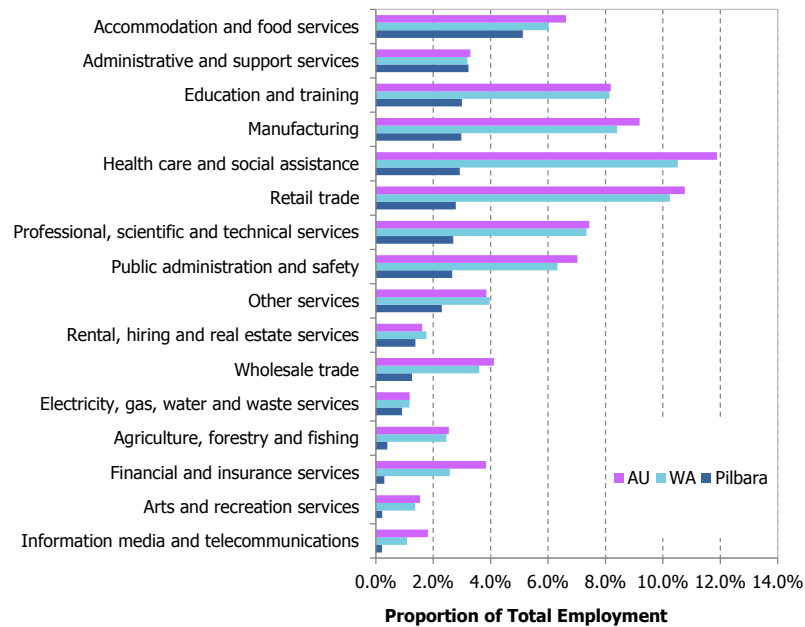
As the Pilbara economy is dominated by the resource sector, the proportion of other industry sectors is well below state and national benchmarks.

Nevertheless there are a number of developing supply chain and supporting industry segments already established which can be built upon through the Pilbara SEZ.

Key sectors of note include:

- **Accommodation and food services:** (5.1% of Pilbara employment): While the sector services the resources industry to a significant extent, accommodation and food services also represents an established and growing tourism industry.
- **Administrative and support services:** (3.2% of Pilbara employment): The Pilbara possesses an established administrative and support sector servicing the resources industry.
- **Education and training:** (3.0% of Pilbara employment): Employment levels are well below state and national levels (approximately 8.0%) indicating unmet demand for education and training services.
- **Manufacturing:** (3.0% of Pilbara employment): Significant opportunities exist to expand the region's manufacturing industry through the Pilbara SEZ.

Figure 11: Employment by Industry Benchmarks (PoW, 2011)



Note: Excludes mining, construction, and transport, postal and warehousing industries.
Source: ABS (2012)

Although underdeveloped, the Pilbara region has a range of supply chain and support industries which the Pilbara SEZ will build and expand upon.

Market Access

Australia and the Pilbara holds a strategic role in the continued economic prosperity and growth of Asia’s key economies as a major supplier of energy and other raw materials.

Figure 12: Pilbara SEZ Strategic Location



Source: AECgroup

As household incomes grow and emerging economies mature these trading partners are also becoming significant markets for higher value agricultural produce, specialised manufactured goods and professional services. The Pilbara is well positioned to interact with the growing Asian economies.

The Pilbara SEZ will enable industry to fully capture the opportunities presented by emerging market demand.

Business Enablers

The World Economic Forum Global Competitiveness Index (GCI) 2013-14 provides significant insight into the Australian business enabling environment.

Australia currently ranks 21st out of 148 countries across all indicators with a score of 5.1 out of 7. Australia's competitive position has remained largely static over the past three years.

Australia's strengths centre around an educated workforce and a stable legal, financial, and macroeconomic environment. Australia's competitive weaknesses are identified as over taxation and regulation, and an inefficient and inflexible labour market (see Table 5).

Table 5: Australian Competitiveness Rankings (Selected Indicators, 2013)

| Business Enabler Strengths | Rank (out of 148) | Business Enabler Weaknesses | Rank (out of 148) |
|---|-------------------|--|-------------------|
| Inflation, annual % change | 1 | Business impact of rules on FDI | 41 |
| Legal rights index | 1 | Trade tariffs (% duty) | 53 |
| No. of days to start a business | 2 | Wastefulness of government spending | 56 |
| Efficacy of corporate boards | 7 | Effect of taxation on incentives to invest | 80 |
| Quality of scientific research institutions | 8 | Total tax rate (% profits) | 109 |
| Prevalence of foreign ownership | 8 | Pay and productivity | 113 |
| Soundness of banks | 9 | Burden of government regulation | 128 |
| Country credit rating | 10 | Flexibility of wage determination | 135 |
| Tertiary education enrolment (gross %) | 11 | Hiring and firing practices | 137 |
| Firm-level technology absorption | 14 | Imports as a percentage of GDP | 140 |

Source: World Economic Forum (2013)

The impact of these competitive weaknesses is particularly acute for the Pilbara due to its isolation and high cost structure.

Outside of the resources sector businesses need a more appropriate investment environment to overcome the costs of isolation and competition with the resources sector.

The SEZ framework will enable the Pilbara region to address core competitive weaknesses. Through broader labour market flexibility and decreased regulatory and tax burdens, the Pilbara region will be able to capitalise on its extensive economic opportunities.

The stable legal, financial, and macroeconomic environment provided by Australia combined with the existing resource wealth of the region will attract world class investment and drive long-term sustainable economic growth.

Investment Incentives

With the establishment of the Pilbara Special Economic Zone the SEZ would be seeking implementation of a number of tax and other investment incentives aimed at increasing the competitive advantage of the Pilbara as an attractive region to invest by businesses.

Potential investment incentives considered appropriate for the Pilbara SEZ include:

- Reduction in Company Taxn to 20% for approved companies based and operating within the Pilbara SEZ.
- Removal of Fringe Benefits Tax on housing subsidies paid to a permanent residential workforce within the Pilbara SEZ.
- Increase in the Personal Income Tax Zone Offset to \$5,000-\$8,000 for permanent residents within the Pilbara SEZ.
- Extension of the regional skilled labour migration agreement to encompass a broader range of industries, including:
 - Manufacturing.
 - Hospitality.
 - Public administration.
 - Education and training.
 - Professional and semi-skilled service sectors.
- Removal of Payroll Tax for employment of permanent residents within the Pilbara SEZ.
- Removal of Transfer Duty on land acquired for approved new plant or residential dwelling construction within the Pilbara SEZ.
- 50% reduction in Land Tax for approved land productively utilised within the Pilbara SEZ.
- Provision of temporary “incubator” office space for start-up businesses.

Streamlined “one-stop-shop” development approval processing within the Pilbara SEZ.

The following sections consider each of these proposed incentives in greater detail.

Commonwealth Government Incentives

Company Tax

Australian resident companies are subject to company tax, at a rate set by the Australian Government. A non-resident company is taxed on its Australian source income at the same rate as a resident company. Taxable income and the tax rate may vary under limited circumstances, such as industry or business structure. The current company tax rate is 30% of company income with deductions allowed for operational expenditure.

Analysis:

The current rate of company tax reduces the incentive to invest in the Pilbara region particularly for foreign investors.

A significant reduction in taxation is required to offset the isolation and cost of operations in the Pilbara.

Recommendation:

Reduction in company taxation to 20% for approved companies based and operating within the Pilbara SEZ.

Fringe Benefits Tax

Fringe benefits are benefits paid to an employee (or associate) in respect of employment, such as a car, car parking, low interest loan and payments of private expenses. FBT is the tax payable on the provision of these benefits. FBT is separate from income tax and is calculated on the taxable value of the various benefits provided. The current rate of FBT is 46.5% of the benefit value.

Analysis:

The current FBT system generates a direct disincentive for companies to hire permanent residents and encouraging Fly-in/Fly Out and Drive in/Drive Out operations (House of Representatives Standing Committee on Regional Australia, 2013).

Recommendation:

Removal of FBT on housing subsidies paid to a permanent residential workforce within the Pilbara SEZ.

Personal Income Tax Zone Offset

The Personal Income Tax Zone Offset is designed to offset the cost of living in remote areas and is available to those who have lived or worked in a remote area for 183 days or more in given tax year. The tax offset is applied in three zones – Zone A, Zone B and special areas within each zone. The Pilbara is currently classified as remote (Zone A).

The entitlement amount varies depending on the relevant zone:

Table 6: Zone Tax Offsets

| Circumstance | Zone A | Zone B | Special Zone |
|------------------------------|---------|--------|--------------|
| Single | \$338 | \$57 | \$1,173 |
| Dependant spouse or relative | \$1,516 | \$528 | \$2,351 |

Source: ETAX Accountants (2013)

Analysis:

The current Personal Income Tax Zone Offset does not adequately reflect the cost of living in the Pilbara region.

Furthermore the 183 day threshold enables a significant proportion of FIFO workers to claim the offset without incurring the increased cost of living within the region (as living expenses are covered by the employer).

Recommendation:

Increase the Personal Income Tax Zone Tax Offset for permanent residents within the Pilbara SEZ to \$5,000 for single persons and \$8,000 for persons with a dependant spouse or relative.

Regional Labour Migration Agreement

Regional Migration Agreements (RMAs) are an agreement between the Australian Government and a state or territory government, local council, or another local stakeholder allowing employers to sponsor foreign workers in a broader range of occupations than allowed standard skilled migration programmes.

RMAs specify the occupations, numbers and visa requirements for the sponsorship of workers from outside Australia to certain regional locations.

The agreements are specifically designed to facilitate increased labour flows to regional areas experiencing acute labour shortages, in particular, regions that are isolated from large populations and do not have Australian skills and labour available (Department of Immigration and Border Protection, 2014).

Analysis:

The Pilbara RMA is an important and necessary tool in addressing the region's skills shortage.

However the agreement fails to address the needs of broader industry beyond the resources sector.

Recommendation:

Extension of the RMA to facilitate the needs to broader SEZ target industries.

State Government Incentives

Payroll Tax

Payroll Tax is a state tax on the wages paid to employees. It is calculated on the amount of wages paid per month and must be paid if total Australian wages exceed the exemption threshold in the relevant state or territory. Payroll Tax in Western Australia is 5.5% of the value of wages paid for companies that pay wages above the value of \$750,000.

Analysis:

Payroll Tax generates a significant disincentive for larger companies to employ additional workers.

The tax directly reduces employment and economic development outcomes within the Pilbara region. High operating costs in the region further reduce the capacity for industries outside of resources to employ staff.

Recommendation:

Removal of Payroll Tax for employment of permanent residents within the Pilbara SEZ.

Land Tax

Land Tax is an annual tax which is based on the aggregated taxable value of all land owned (excluding exempt land) at midnight on 30 June before the year of assessment.

Current Land Tax rates are provided in the tables below:

Table 7: WA Land Tax Rates (2013-14)

| Land Value | Rates |
|--------------------------|---|
| \$0-\$300,000 | Nil |
| \$300,001-\$1,000,000 | 0.10 cents for each \$1 in excess of \$300,000 |
| \$1,000,001-\$2,200,000 | \$700 + 0.53 cents for each \$1 in excess of \$1,000,000 |
| \$2,200,001-\$5,500,000 | \$7,060 + 1.37 cents for each \$1 in excess of \$2,200,000 |
| \$5,500,001-\$11,000,000 | \$52,270 + 1.64 cents for each \$1 in excess of \$5,500,000 |
| \$11,000,001 and upwards | \$142,470 + 2.43 cents for each \$1 in excess of \$11,000,000 |

WA Department of Finance (2013)

Analysis:

Land Tax directly reduces the incentive to acquire and develop land holdings within the Pilbara.

Recommendation:

50% reduction in Land Tax for approved land productively utilised within the Pilbara SEZ.

Transfer Duty

Transfer Duty applies to transactions over dutiable property (most commonly land, rights, and business assets) in Western Australia. The general rate of duty applies to most dutiable transactions not relating to residential land, and is assessed on the dutiable value of the transaction:

Table 8: WA General Rate of Transfer Duty (2013-14)

| Dutiable Value | Rates |
|-----------------------|---|
| \$0-\$80,000 | \$1.90 per \$100 or part thereof |
| \$80,001-\$100,000 | \$1,520 + \$2.85 per \$100 or part thereof above \$80,000 |
| \$100,001-\$250,000 | \$2,090 + \$3.80 per \$100 or part thereof above \$100,000 |
| \$250,000-\$500,000 | \$7,790 + \$4.75 per \$100 or part thereof above \$250,000 |
| \$500,001 and upwards | \$19,665 + \$5.15 per \$100 or part thereof above \$500,000 |

Source: WA Department of Finance (2013)

Analysis:

Transfer Duty directly reduces the incentive to acquire and develop land and business assets in the Pilbara.

Recommendation:

Removal of Transfer Duty on property acquired for approved new plant and residential dwelling construction within the Pilbara SEZ.

Success of Special Economic Zones in Other Regions

UK Enterprise Zones

There are currently 24 Enterprise Zones across England providing a range of incentives for businesses looking to start up or expand their operations. The UK Government began establishing Enterprise Zones in 2011, targeting stressed areas which also possess significant economic potential. The Enterprise Zones seek to address the key barriers companies face in the start-up phase of operations (United Kingdom Department for Communities and Local Government, 2011). These Enterprise Zones offer companies establishing or expanding operations in the area:

- Simplified planning procedures for companies (automatic planning permission for specified types of development).
- Business rates discounts (worth up to an equivalent \$500,000 AUD per business over a five year period).

Table 9: UK Enterprise Zones

| Factor | Description |
|--------------------|--|
| Established | 2011 |
| Locations | 24 across the United Kingdom |
| Incentives offered | <ul style="list-style-type: none"> • Up to 100% Business Rates relief for 5-years. • Enhanced Capital Allowances for investment in plant and machinery • Lease payment holidays • Low-rent incubator units • Development funding • Automatic planning permission for specified types of development • Business-ready infrastructure (broadband internet, highway, rail, air, and port access) |
| Investment to date | Approximately \$1 billion AUD with 4,600 local jobs created |

Source: HM Government (2014)

By November 2013, Enterprise Zones in England had created around 4,600 local jobs, attracted 180 businesses and secured

an equivalent of almost \$1 billion AUD in private sector investment (United Kingdom Department for Communities and Local Government, 2013).

Case Study: Great Yarmouth & Lowestoft Enterprise Zone

Location: East coast in Norfolk and Suffolk, England.

Area covered by Zone: 1.21 square kilometres.

Target Industries: Energy, Business Services, Construction (including built environment) and Logistics.

The Great Yarmouth and Lowestoft Enterprise Zone is built around the region's local strengths in the energy sector (specifically renewables, oil and gas exploration and extraction, and nuclear). Made up of six sites, the zone provides an opportunity for businesses to capitalise on the area's leading position in the energy sector and its supply chain. Set up in late 2011, the zone now hosts a wide range of global and world leading companies which service the offshore oil, gas and wind industries.

Energy related businesses looking to set up or expand in the Great Yarmouth and Lowestoft Enterprise Zone benefit specifically from simplified planning (or abolishing planning approval completely), extensive export and industry infrastructure, and significant reductions in business rates. Global service provider for the offshore oil and gas industry, Diesel Power Solutions, recently moved to the zone doubling the size of its operations and saving around \$100,000 AUD over first five years in business costs (NewAnglia, 2014).

The Great Yarmouth and Lowestoft Enterprise Zone aims to attract 80 businesses to the Zone by 2015. The investment will create over 2,000 new jobs and an estimated \$95 billion AUD in capital expenditure invested over the next 20 years.

United States Empowerment Zones

A federal initiative known as Empowerment Zones began being implemented throughout the United States of America in the 1990s. The purpose of these zones were to facilitate job creation and generate economic growth by promoting local business opportunities. Designated areas were established around distressed communities which were characterised by deep poverty and/or high emigration. Businesses within the zones were supported through a combination of Federal grants, tax incentives and various other benefits.

Table 10: United States Empowerment Zones

| Factor | Description |
|--------------------|--|
| Established | 1993 |
| Locations | 30 across the United States |
| Incentives offered | <ul style="list-style-type: none"> • Annual tax credit of up to US\$3,000 for employees who live and work in an EZ • Tax credit of up to US\$2,400 for each new employee aged 18 to 39 years old who lives in the EZ • Increased Section 179 deduction allowing business owners to re-cover all or part of the cost of certain qualifying property. The maximum section 179 deduction dollar limit can be increased up to US\$535,000 for EZ business owners • Non-Recognition of capital gains on rollover of business assets • Low interest EZ facility bonds issued by a Local Government or a State Government • Qualified Zone Academy Bonds (QZABs): No interest bonds to “qualified zone academies”. Local education agencies must obtain commitments from private entities for qualified contributions of no less than 10% of the bond |

Source: United States Department of Housing and Urban Development (2014)

The unique Empowerment Zone initiative required that zones to be established from bottom-up strategic plans, devised through each community’s vision for economic revitalization and job creation. By 2005, more than 3,575 neighbourhood-based projects and programs had been developed and Federal grants and tax incentives of \$1.5 billion AUD were estimated to have leveraged over \$20 billion AUD in additional public and private sector investments.

Case study: Cumberland Empowerment Zone

Location: Cumberland County, New Jersey.

Area covered by Zone: approximately 10.4 square kilometres.

Target Industries: Accommodation and Food Service, Health Care and Social Assistance, Transportation and Warehousing, Construction and Wholesale Trade.

Recognised as a model program, the Cumberland Empowerment Zone successfully leveraged the County’s rich natural resources and unique heritage, addressing social and economic development challenges. Having received A\$27m in federal funding, the Cumberland program attracted an additional ten times that amount in private and public funding.

Cumberland’s resource based economy has been boosted by Empowerment Zone funded projects ranging from the establishment of a Food Innovation Center to seeding projects for the vital oyster and shell fishing industries. Funding has helped create youth employment programs as well as over 400 home renovation projects.

The Cumberland Empowerment Zone facilitated more than 130 job creating projects leading to around 2,000 job opportunities for residents of Cumberland’s most distressed communities.

Designated communities across the Cumberland County have also been supported through the State of New Jersey’s Enterprise Zone Program. This program offers incentives which encourage business growth and create private sector jobs aimed at stimulating local economies. Businesses within the boundaries of the zone benefit from a reduced retail sales tax (half the standard rate at 3.5%), receive tax exemptions on certain items (such as capital equipment, facility expansions, upgrades and personal property), and receive tax credits for hiring full time staff.

China Special Economic Zones

China first implemented four SEZ (Shantou Shenzhen, Xiamen and Zhuhai) under Deng Xiaoping in 1979. Following their success a further 15 SEZ were established in 1986.

Table 11: China Special Economic Zones

| Factor | Description |
|--------------------|--|
| Established | 1979 |
| Locations | 19 SEZ (in addition China features a number of free-trade zones, state-level economic and technological development zones, and high-tech industrial development zones) |
| Incentives offered | <ul style="list-style-type: none"> Reduction in nominal income tax to 15% (from 33%) for partly foreign owned enterprises Potential exemption from income tax for two years Products manufactured in a SEZ are exempt from customs duty when sold inside the free trade zone or shipped outside China Tax refunds of up to 40% for direct reinvestment of profits Reduced foreign visa restrictions |

Source: UNCTAD (2000), Mack (2014)

SEZ policies include investment in new infrastructure, preferential tax exemptions, and reduced restrictions on foreign labour and capital.

The zones were critical in enticing foreign investment and technology to drive China's export led growth. Thus far China's economic development has lifted over 600 million people out of poverty (World Bank, 2010).

China's most successful Special Economic Zone (Shenzhen) developed from a small village into a thriving city with a population over 10 million within 20 years (Mack, 2014).

Case study: Hainan Special Economic Zone

Location: Hainan Island Province

Area covered by Zone: approximately 34,000 square kilometres.

Target Industries: Agriculture (rubber, fruit and seeds), tourism, fisheries and herbal medicine.

Figure 13: Hainan Special Economic Zone



Operating for more than 25 years, China's southern most province of Hainan represents the nation's largest special economic zone (Roll, 1991). Hainan is an island richly endowed with natural resources and minerals, a subtropical climate and two major ports with various small supporting harbours which leverage the regions strategic location to South East Asia (TriVista, 2010).

With preferential policies more generous than the mainland, Hainan offers favourable investment incentives to foreign enterprises looking to take advantage of this rapidly growing region. Investment incentives are in the form of various tax exemptions, tax subsidies as well as banking privileges and land use rights.

Hainan's isolation from the mainland of China make manufacturing and

other heavier industries a less sought after investment. Despite boasting large reserves of iron ore (the 8th largest mine in Asia) and one of China's most abundant deposits of natural gas, Hainan is a SEZ focused on sustainable industries, conserving its energy resources and promoting tourism. The flow of investments from around the world in the form of capital and infrastructure have transformed Hainan from an isolated administrative island into a premier Chinese tourist and investment destination. It's economic and social development has made outstanding progress over the last 25 years.



The SEZ has supported the significant growth and specialisation of Hainan's agriculture sector. Agriculture now accounts for over 50% of annual exports with rubber and fruit the main products (TriVista, 2010). In fact, the primary sector of Hainan accounts of the largest share of GDP among all provinces in China and has grown rapidly since 1988 (National Bureau of Statistics of China, 2012).

The development of the tourism industry under the SEZ through open policies and with significant international investment, has turned Hainan into one of the world's top international tourism islands. Tourism accounts for a large proportion of Hainan's GDP and since 1987 tourist numbers and revenue have multiplied by 24 times and 150 times, respectively (Xinhua, 2008).

Foreign-invested projects have recently been engaging in developing industries of transportation, telecommunication, tourism, and energy.

Where to From Here?

This document lays out the conceptual framework for establishing a SEZ in the Pilbara region. In order to implement and establish the SEZ and capture the regional and national economic benefits a number of key actions are required.

The **first** requirement is both Commonwealth and State Government support for the SEZ concept and the broader vision for the Pilbara.

The **second** requirement is to establish the necessary policy and governance framework to establish and manage the SEZ.

The **third** requirement is to put in place the aims, objectives and key performance indicators required for the successful operation of the SEZ.

The **fourth** requirement is a legislative platform. In order for the SEZ to achieve its full potential, to be operated in an efficient manner, to give investors confidence, to set long-term planning goals.

The legislation required for the establishment of the SEZ relates to simplifying enterprise registration and building and development regulations and establishing the “one-stop- shop” for potential investors within the SEZ.

The **fifth** requirement is the implementation of SEZ investment incentives.

Commonwealth Government

From the Commonwealth Government, the SEZ will require the following:

- Legislation of potential investment incentives:
 - Reduction in Company Tax for companies based and operating within the Pilbara SEZ.

- Removal of Fringe Benefits Tax on housing subsidies paid to a permanent residential workforce within the Pilbara SEZ.
- Increase in the Personal Income Tax Zone Offset for permanent residents within the Pilbara SEZ.
- Extension of the regional skilled labour migration agreement to encompass the broader range of industries targeted by the SEZ.
- One stop regulatory approval.
- Establishment of an SEZ Advisory Board in conjunction with State and Local Government and private sector stakeholders.

Western Australian Government

From the WA Government, the SEZ will require the following:

- Legislation of potential investment incentives:
 - Payroll Tax exemption.
 - Transfer Duty exemption.
 - Land Tax reduction.
- One stop regulatory approval.
- Approval of an SEZ Masterplan.
- Establishment of the SEZ Advisory Board in conjunction with Commonwealth and Local Government and private sector stakeholders.

References

- ABS (2012). *Census of Population and Housing, 2011*. Cat. No. 2001.0. Australian Bureau of Statistics, Canberra.
- ABS (2013). *Regional Population Growth, Australia, 2012*. Cat. No. 3218.0. Australian Bureau of Statistics, Canberra.
- Aggarwal, A. (2006). Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka, and Bangladesh. Journal of Instafag Institute, World SEZ Association, Arizona, USA.
- ANDEV (2014). *About ANDEV*. Available from: <http://www.andev-project.org/about-us/whats-needed/>. Last accessed 6 February 2014.
- DEEWR (2013). *Small Area Labour Markets*. Department of Education, Employment and Workplace Relations, Canberra.
- Deloitte Access Economics (2011). *Long Term Economic and Demographic Projections ADF Posture Review*. Available from: <http://www.defence.gov.au/oscdf/adf-posture-review/docs/interim/attachd.pdf>. Last accessed 5 February 2014.
- Department of Immigration and Border Protection (2014). *Regional Migration Agreements*. Available from: <https://www.immi.gov.au/skilled/regional-migration-agreements.htm>. Last accessed 5 February 2014.
- ETAX Accountants (2013). *Zone Tax Offset: Do you Live or Work in a Remote Area?* Available from: <http://www.etax.com.au/blog/tax-tips/2013/04/09/zone-tax-offsets>. Last accessed 4 February 2014.
- Farole, Thomas; Akinci, Gokhan (2011). *Special Economic Zones: Progress, Emerging Challenges, and Future Directions*. World Bank. © World Bank. Available from: <https://openknowledge.worldbank.org/handle/10986/2341> License: CC BY 3.0 Unported. Last accessed 15 December 2013.
- FIAS (2008). *Special Economic Zones. Performance, Lessons Learned, and Implications for Zone Development*. Washington, DC: World Bank.
- Geoscience Australia, Department of Resources, Energy and Tourism (2012). *Iron Fact Sheet*. Available from: http://www.australianminesatlas.gov.au/education/fact_sheets/iron.html. Last accessed 12 November 2013.
- HM Government (2014). *Enterprise Zones*. Available from: <http://enterprisezones.communities.gov.uk/>. Last accessed 6 February 2014.
- ILO (2014) *ILO Database on Export Processing Zones*. Available from: <http://www.ilo.org/global/lang-en/index.htm>. Last accessed 6 February 2014.
- Jenkins, M., et al (1998). Export Processing Zones in Central America. Development Discussion Paper No. 646, Harvard Institute for International Development, Harvard University.
- Liberal and National Party Coalition (2013). *The Coalition's 2030 Vision for Developing Northern Australia*. Available from: <http://www.nationals.org.au/Portals/0/2013/policy/Developing%20Northern%20Australia%20-%20National%20Party.pdf>. Last accessed 6 February 2014.

- Mack, L (2014). Chinese Special Economic Zones. Available from:
<http://chineseculture.about.com/od/business/economy/a/Chinas-Special-Economic-Zones-Sez.htm>. Last accessed 6 February 2014.
- National Bureau of Statistics of China (2012). *Hainan Statistical Yearbook 2012*. China Statistical Publishing, Beijing.
- NewAnglia (2014). *Diesel Power Solutions Moves to Enterprise Zone and Doubles in Size*. Available from:
<http://www.newanglia.co.uk/wp-content/uploads/2014/01/Diesel-EZ-FINAL.pdf>. Last accessed 6 February 2014.
- Pilbara Area Consultative Committee Inc. (2008). *The Pilbara Plan*. Available from:
http://www.rdapilbara.org.au/publications/the_pilbara-plan.pdf. Last accessed 5 February 2014.
- Pilbara Development Commission. *Pilbara Cities*. Available from: <http://www.pdc.wa.gov.au/pilbara-cities/>. Last accessed 12 November 2013.
- Pilbara Regional Council (Undated). *Data Provided for the Development of the Pilbara Special Economic Zone*. Pilbara Regional Council.
- Pilbara Workforce Development Alliance, (2013). *Pilbara Workforce Development Plan 2013-2016*. Department of Training and Workforce Development, WA.
- Planning WA (2012). *Pilbara Planning and Infrastructure Framework*. Available from:
<http://www.planning.wa.gov.au/publications/6661.asp>. Last accessed 4 February 2014.
- RDA (2012a). *Pilbara Report Investment Prospectus Summary 2012, Exploring Opportunities in the Nation's Powerhouse*. Regional Development Australia, Pilbara, Western Australia.
- RDA (2012b). *Pilbara Report 2012, Exploring Opportunities in the Nation's Powerhouse*. Regional Development Australia, Pilbara, Western Australia.
- RDA (2013). *The Cost of Doing Business in the Pilbara*. Available from:
http://www.rdapilbara.org.au/resources/site1/General/Publication%20Reports/RDA%20Business%20in%20Pilbara_SinglePages.pdf. Last accessed 6 February 2014.
- Roll, C (1991). *A Comparison of Hainan with the Other Special Economic Zones*. RAND, Santa Monica, CA.
- TriVista (2010). *Understand China – Hainan*. Available from:
<http://www.understandchina.com/province/hainan/>. Last accessed 17 December 2013.
- UNCTAD (2000). *Tax Incentives and Foreign Direct Investment A Global Survey*. Available from:
http://unctad.org/en/Docs/iteipcmisc3_en.pdf. Last accessed 6 February 2014.
- United Kingdom Department for Communities and Local Government (2011). *Enterprise Zone Prospectus*. London. CLG.
- United Kingdom Department for Communities and Local Government (2013). *Fund Fuels Private Sector Investment Boosting Local Economies and Jobs*. Available from:
<https://www.gov.uk/government/news/fund-fuels-private-sector-investment-boosting-local-economies-and-jobs>. Last accessed 6 February 2014.
- United States Department of Housing and Urban Development (2014). *List of Current Empowerment Zones and Updated Contact Information*. Available from:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/economicdevelopment/programs/rc/ezcontacts. Last accessed 6 February 2014.
- WA Department of Finance (2013). *State Revenue*. Available from:

<https://www.finance.wa.gov.au/cms/section.aspx?id=209>. Last accessed 4 February 2014.

WAPC (2012). *Pilbara Planning and Infrastructure Framework, 2012*. Pilbara Regional Planning Committee, Western Australian Planning Commission, Western Australia.

World Bank (2010). *Results Profile: China Poverty Reduction*. Available from: <http://www.worldbank.org/en/news/feature/2010/03/19/results-profile-china-poverty-reduction>. Last accessed 6 February 2014.

World Economic Forum (2013). *The Global Competitiveness Report 2013 – 2014*. Available from: <http://www.weforum.org/reports/global-competitiveness-report-2013-2014>. Last accessed 4 February 2014.

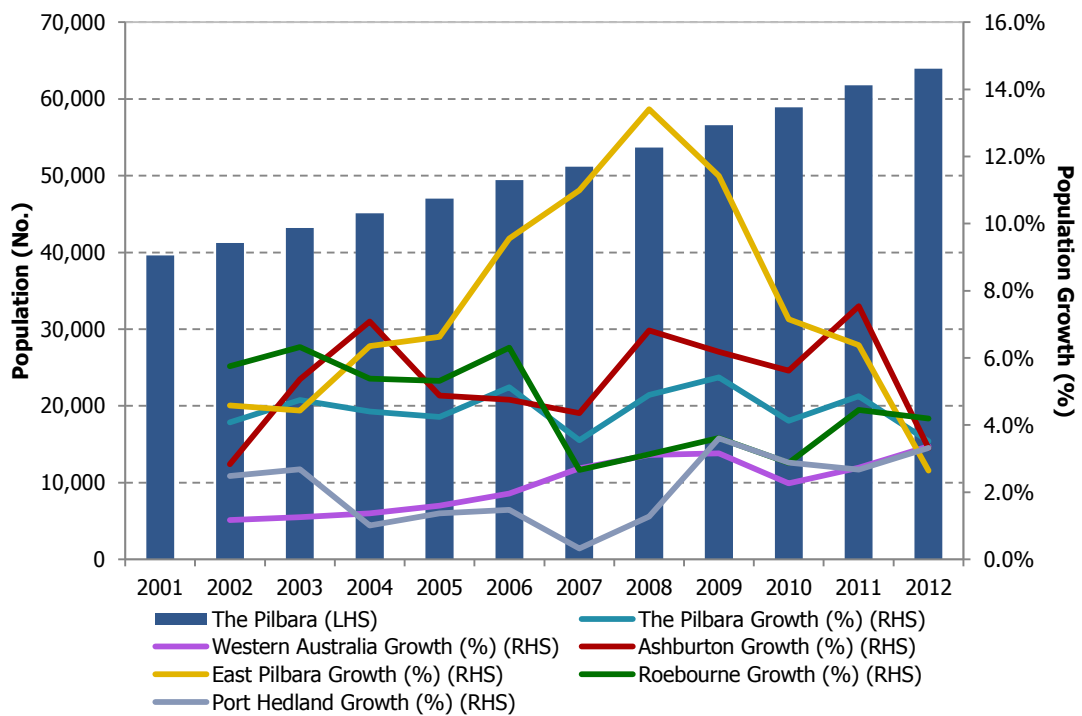
Xinhua (2008). *China's Hainan Island Unveils Blueprint for Int'l Tourist Island*. Available from: http://news.xinhuanet.com/english/2008-04/25/content_8051979.htm. Last accessed 17 December 2013.

Appendix A: Economic Profile of the Pilbara

Population

Total population in the Pilbara has increased on a yearly basis since 2001. In 2012 there were almost 65,000 people in the region. The Pilbara region has experienced a relatively steady rate of population growth over the last decade, estimated at around 4.5%. However in 2012 the Pilbara recorded its lowest rate of population growth since 2002 at 3.5%, this was driven by slowing population growth in two of its Local Government Areas (LGA), Ashburton and East Pilbara. In 2012, the state's population growth was around the same rate as the Pilbara.

Figure A.1: Population and Population Growth

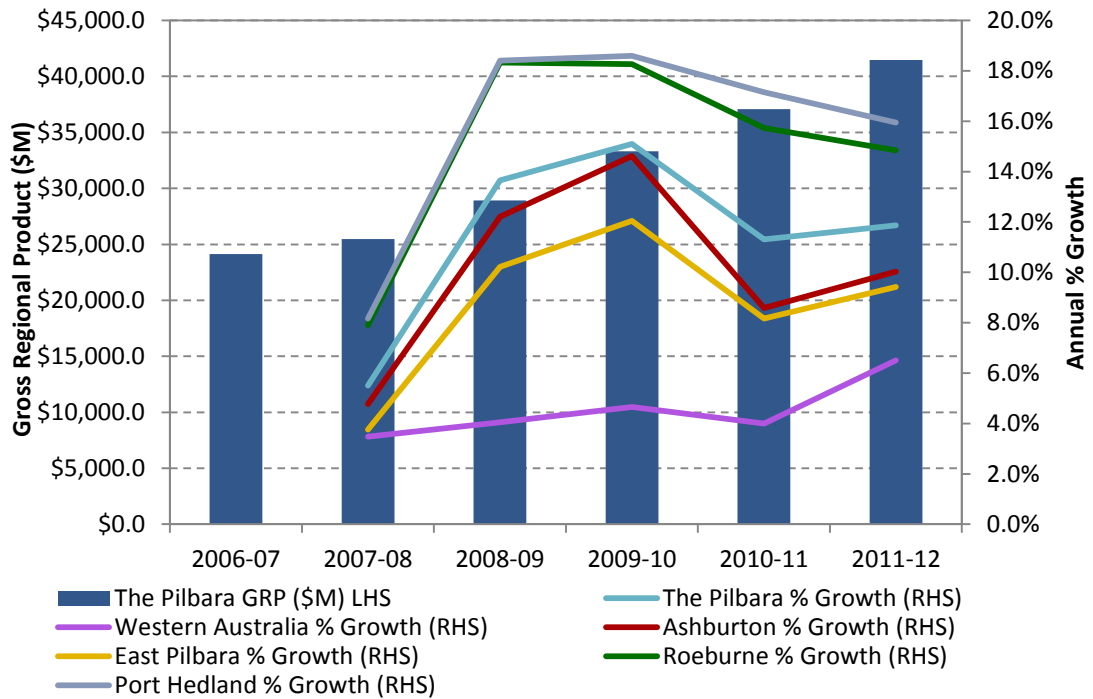


Source: ABS (2013)

Gross Regional Product

In the 2011-12 financial year, the total Gross Regional Product (GRP) for the Pilbara region was estimated at \$41.5 billion. The region's economy posted an annual growth rate twice as fast as the state at around 12% in 2011-12, this was driven by Port Hedland and Roebourne. Pilbara has reported an average annual growth rate of 11.4% since 2006-07.

Figure A.2: Gross Regional Product (GRP) 2006-07 to 2011-12

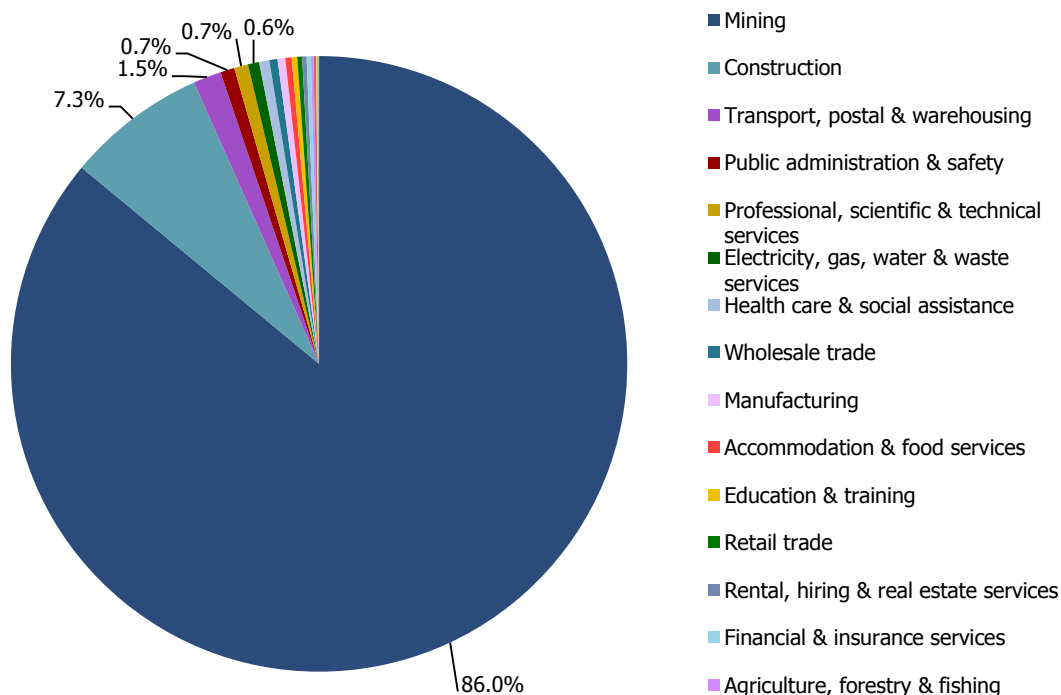


Source: AECgroup (Unpublished)

Industry Value Add

The mining sector accounted for 86% of economic activity in the Pilbara region during the 2011-12 financial year. Of the four LGAs that comprise the Pilbara region, Ashburton and East Pilbara both source over 90% of economic activity from the mining sector, while Roebourne and Port Hedland source less than 80%. With such heavy reliance on the mining sector for economic activity, the construction sector also plays a key role in supporting the mining sector. In 2011-12, construction activity contributed around 7% to economic activity in the Pilbara region, particularly driven by activity in Roebourne and Port Hedland.

Figure A.3: Industry Value Add (IVA) by Industry, 2011-12



Source: AECgroup (Unpublished)

Table A.1: Industry Value Add (IVA) Contribution Comparison, 2011-12

| Industry | Ashburton | East Pilbara | Roebourne | Port Hedland | The Pilbara | Western Australia |
|---|-----------|--------------|-----------|--------------|-------------|-------------------|
| Mining | 92.4% | 95.3% | 72.7% | 76.8% | 86.0% | 38.1% |
| Construction | 4.5% | 2.2% | 15.0% | 10.5% | 7.3% | 13.0% |
| Transport, postal & warehousing | 0.6% | 0.2% | 2.9% | 3.4% | 1.5% | 4.9% |
| Public administration & safety | 0.5% | 0.4% | 1.2% | 1.2% | 0.7% | 2.8% |
| Professional, scientific & technical services | 0.4% | 0.3% | 1.4% | 1.1% | 0.7% | 5.9% |
| Electricity, gas, water & waste services | 0.1% | 0.2% | 1.5% | 0.8% | 0.6% | 2.3% |
| Health care & social assistance | 0.2% | 0.2% | 0.9% | 1.1% | 0.5% | 4.3% |
| Wholesale trade | 0.2% | 0.2% | 0.8% | 0.9% | 0.4% | 3.3% |
| Manufacturing | 0.1% | 0.2% | 0.8% | 0.9% | 0.4% | 5.3% |
| Accommodation & food services | 0.2% | 0.2% | 0.4% | 0.6% | 0.3% | 1.4% |
| Education & training | 0.1% | 0.1% | 0.6% | 0.5% | 0.3% | 2.9% |
| Retail trade | 0.1% | 0.1% | 0.5% | 0.6% | 0.3% | 3.4% |
| Rental, hiring & real estate services | 0.1% | 0.1% | 0.4% | 0.5% | 0.2% | 1.5% |
| Financial & insurance services | 0.1% | 0.1% | 0.4% | 0.5% | 0.2% | 4.0% |
| Agriculture, forestry & fishing | 0.2% | 0.2% | 0.1% | 0.1% | 0.1% | 1.5% |
| Administrative & support services | 0.1% | 0.1% | 0.3% | 0.2% | 0.1% | 2.1% |
| Information media & telecommunications | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 1.4% |
| Other services | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 1.5% |
| Arts & recreation services | 0.0% | 0.0% | 0.0% | 0.1% | 0.0% | 0.5% |

Source: AECgroup (Unpublished)

Industry Contribution

The mining and construction sectors provide the greatest returns to the economy in terms of incomes, gross operating surplus and taxes. Together, mining and construction form over 95% of the region's gross operating surplus and almost 80% of total taxes paid.

Table A.2: Contribution by Industry

| Indicator | Units | Incomes | Gross Operating Surplus | Taxes Less Subsidies Products | Production |
|---|-------|-----------------------|-------------------------|-------------------------------|----------------|
| Agriculture, forestry and fishing | % | 0.1% | 0.1% | 0.1% | 0.3% |
| Mining | % | 52.6% | 92.7% | 79.6% | 54.9% |
| Manufacturing | % | 2.8% | 0.5% | 2.7% | 2.4% |
| Electricity, gas, water and waste services | % | 0.9% | 0.4% | 0.6% | 1.5% |
| Construction | % | 18.9% | 3.4% | 6.4% | 16.7% |
| Wholesale trade | % | 1.4% | 0.2% | 0.5% | 1.3% |
| Retail trade | % | 1.4% | 0.1% | 0.3% | 1.5% |
| Accommodation and food services | % | 1.8% | 0.2% | 3.6% | 2.5% |
| Transport, postal and warehousing | % | 4.4% | 1.1% | 3.2% | 5.7% |
| Information media and telecommunications | % | 0.2% | 0.1% | 0.0% | 0.1% |
| Financial and insurance services | % | 0.6% | 0.2% | 0.5% | 0.7% |
| Rental, hiring and real estate services | % | 1.3% | 0.2% | 0.6% | 3.0% |
| Professional, scientific and technical services | % | 2.0% | 0.2% | 0.7% | 2.0% |
| Administrative and support services | % | 3.0% | 0.1% | 0.2% | 2.9% |
| Public administration and safety | % | 2.6% | 0.1% | 0.2% | 1.9% |
| Education and training | % | 2.5% | 0.1% | 0.1% | 0.6% |
| Health care and social assistance | % | 2.1% | 0.1% | 0.1% | 1.0% |
| Arts and recreation services | % | 0.1% | 0.0% | 0.0% | 0.0% |
| Other services | % | 1.2% | 0.1% | 0.5% | 1.1% |
| Total | | \$M. \$3,627.0 | \$16,231.8 | \$166.6 | \$180.9 |

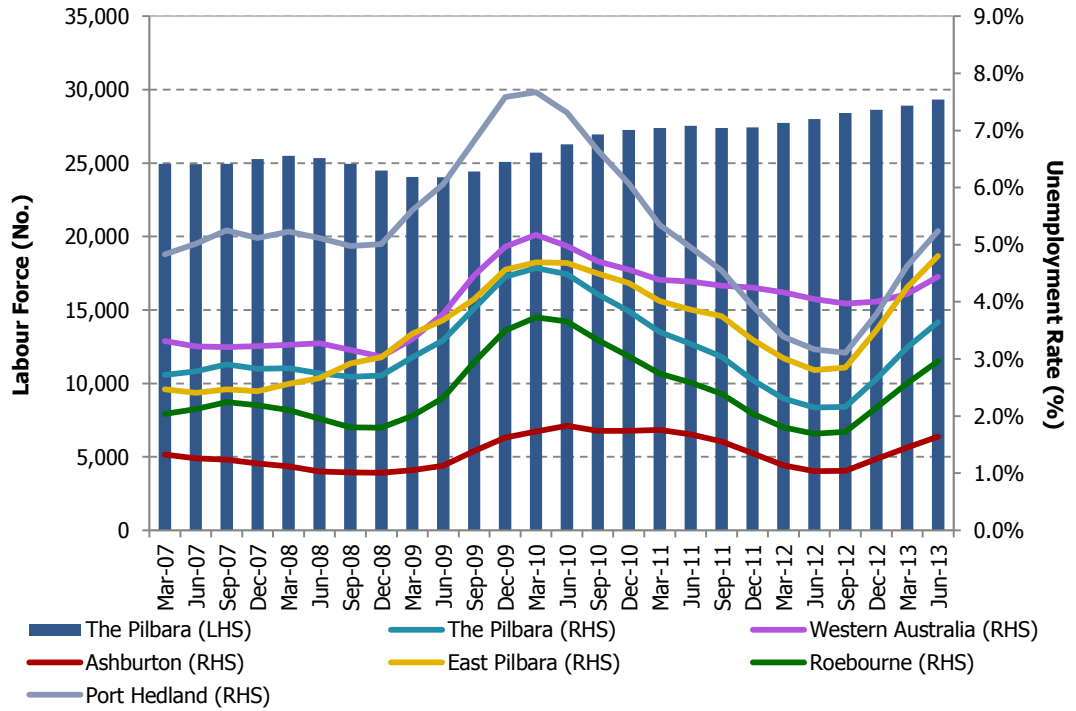
Source: AECgroup

Employment

The total labour force of the Pilbara was 29,328 in June 2013, this represents a 16% increase since June 2008. Roebourne and Port Hedland currently represent over two thirds (68%) of the Pilbara's local labour force.

Unemployment in the Pilbara was 3.6% in June 2013, with Port Hedland and East Pilbara reporting the highest unemployment rates, both slightly above the state around 5%.

Figure A.4: Labour Force, Mar-07 to Jun-13

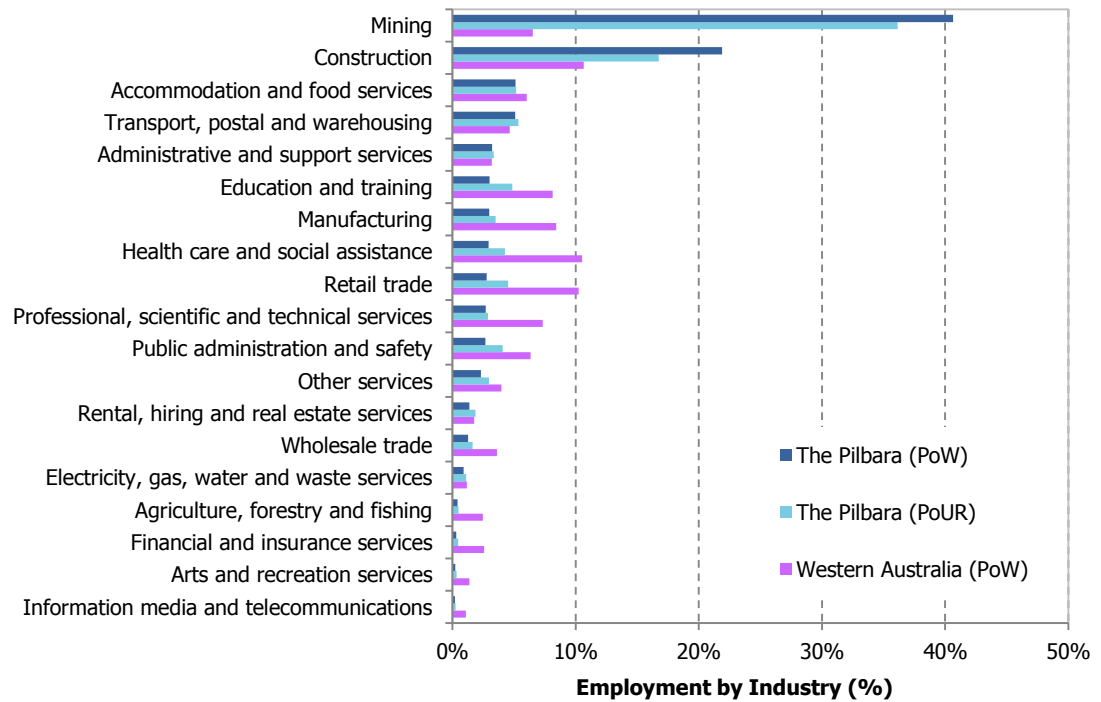


Source: DEEWR (2013)

The mining and construction sectors were the most significant employers in the Pilbara region during 2011. These two sectors employed greater proportions of non-local workers, suggesting the strong presence of FIFO worker arrangements in those industries.

The Pilbara's employment profile demonstrates a similar reliance on the same sectors as its economic structure.

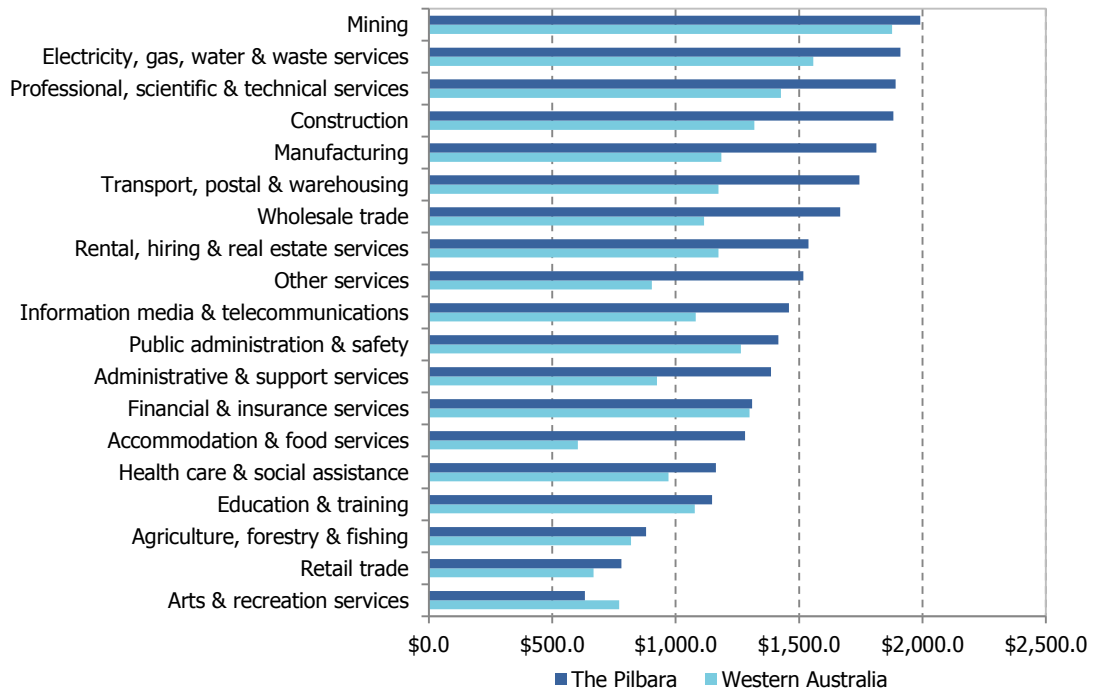
Figure A.5: Employment by Industry by PoUR and PoW (2011)



Source: ABS (2012)

Those working in the Pilbara received on average \$1,758.3 per week. This was 1.6 times higher, on average, than the earnings of those working in Western Australia. Higher incomes in almost all industries compared to Western Australia in 2011.

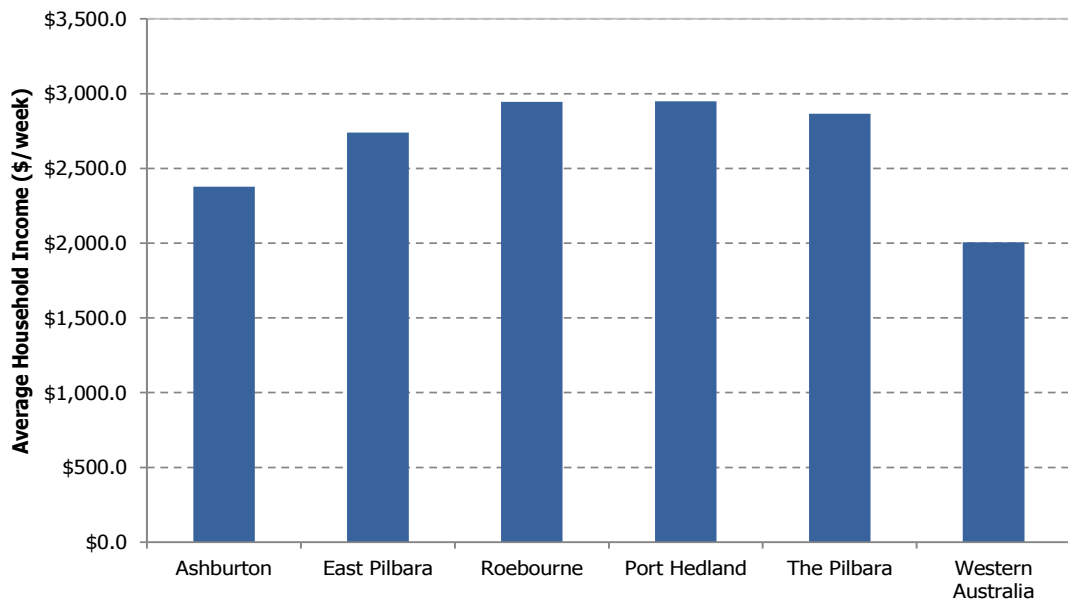
Figure A.6: Average Weekly Individual Income by Industry, 2011



Source: ABS (2012)

The average weekly household income in the Pilbara was 1.4 times higher than the average household income for the state. The highest average household incomes were reported in Port Hedland and Roebourne, \$2,949.4 and \$2,944.3 respectively, this is compared to the state average of \$2,005.6.

Figure A.7: Average Household Income, 2011 (\$/week)



Source: AECgroup (Unpublished)

PAGE LEFT INTENTIONALLY BLANK

