A Special Economic Zone for Northern Australia

A New Vision for a Competitive North

Foreword

As we move into the Asian century, Australia continues to benefit from the unprecedented prosperity that the growth of China, India, and other developing nations brings.

North Australia - northern Western Australia, the Northern Territory and northern Queensland- provides a disproportionate amount of wealth and economic growth to Australia in the form of mineral resources and export earnings.

Rather than remaining idle and allowing these potential sources of prosperity to wither away in the face of growing international competition, Australia should seize the opportunities we have been given and invest in a sustainable economic future for all Australians.

Northern Australia

North Australia is home to some of the world's richest and most accessible mineral deposits. Consequently, Australia has been the beneficiary of a mining boom largely driven by China's economic development and the developing world's growing appetite for mineral resources. Exports of iron ore, coal and petroleum to China were worth more than $A40 billion in 2010, and constitute more than 70% of our exports to the growing economic giant[1].

Australian mineral exports raised $A175 billion of foreign exchange in the year to March 2011, and accounted for 60% of Australia's total exports of goods and services[2]. This means that resource sector exports contributes the equivalent of around 13% to Australia's $A1.3 trillion economy.

This abundance of natural resources and resulting wealth, however, is not an excuse for complacency. Australia, whilst enjoying geographic proximity to our key commodity trading partners and fast emerging economic giants, China and India, will rapidly see its current competitive advantage eroded as South American and West African nations export raw commodities with greater efficiency and in greater volumes.

Previously, Australia has been able to rely on its 'proximity premium' to emerging economies to maintain the competitiveness of its exports of iron ore, bauxite, manganese, diamonds and other minerals. Yet this transport cost advantage is being eroded due to historically low iron ore freight rates, as well as the construction of much larger ore carriers.

In addition, Australian resource projects are faced with time and cost blow outs, and North Australia faces severe skills shortages, under population, regulatory burden as well as a lack of vital infrastructure and increasing energy prices.

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[1] Department of Foreign Affairs and Trade (DFAT), 2010, *China Fact Sheet*, Canberra

[2] The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), 2011, *Australian mineral statistics 2011 - March quarter 2011,* Canberra

Australia is expected to benefit from $83 billion of mining capital expenditure in financial year 2011-12[3], up from only $4.2 billion in 2000-01[4]. But Australia should not assume that this investment is guaranteed. In the global marketplace the major mining companies have many investment options outside of Australia.

As cost blowouts become common on large resource projects, Australia, and especially resource rich states, may become a less desirable place for multinationals to invest their surplus funds. According to Tony Regan from Tri-Zen International, a consultancy specialising in the resource sector, “Australia, in general, and Western Australia in particular, is getting to be a very expensive place to do business”[5].

This sentiment is reflected in recent calculations by Macquarie Equities which show that over the past decade Australian resource projects have historically not only been built at far greater cost than initial estimates, but labour costs, input costs, and regulations have also pushed back completion dates significantly. Macquarie showed that for all projects started in Australia over the past ten years, the completion costs have been on average 36% higher than initial estimates. The same findings also revealed that the five largest resource projects currently under development in Australia, including the Gorgon LNG project off the WA coast, are collectively $A14 billion over budget and four years behind schedule[6].

The importance of the North to Australia’s economic future has been stressed in recent times as many of Australia’s most valuable resource projects are located in the North, as well as off the north-west, northern, and north-east coasts. The Browse Basin, the Surat Basin and the Bowen Basin are just some of many regions of great economic importance and potential which are the focus of a Defence Department review into defending Northern Australia’s vulnerable resource industry. As countries in the Asia Pacific and Indian Ocean rim come into greater global significance, and demand for resources grows, the Australia Defence Force (ADF) is correct to realise the importance of understanding “energy security and security issues associated with expanding offshore resource exploitation in our North West and Northern approaches”[7]. And according to the most recent Defence White Paper, released in 2009, poor defence capabilities in the North due to limitations of “physical and logistics infrastructure”, could be in some way remedied by increasing population, transport and other infrastructure[8].

The unique challenges and opportunities which face Australia’s North leaves open the possibility for some new and exciting policies for the country. As was recently noted by the Northern Territory

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[3] Australian Bureau of Statistics (ABS), 2011, *5625.0 Private New Capital Expenditure and Expected Expenditure – March Quarter 2011*

[4] ABS, 2002, *8415.0 Mining Operations 2000-01*

[5] Hutton, J., (2011). Woodside in race for foreign investment. *Australian Resources & Investment, 5*(3), 12-14.

[6] The Australian Financial Review, (2011, July 1), *Alarm bells sound on LNG project costs*, p25.

[7] Australia Government, (June 22, 2011), *Australian Defence Force Posture Review*, Department of Defence, Stephen Smith MP, Minister for Defence, Media Release

[8] Australian Government, 2009, *Defending Australia in the Asia Pacific Century: Force 2030*, Defence Wihite Paper 2009, Department of Defence, Canberra

Chief Minister Paul Henderson, new measures are vital given "…that the north is playing a bigger role in contributing to the nation's economy."[9]

Australian policy makers pride themselves on a history of inventive and creative policies to deal with the challenges the nation has faced. A Northern SEZ provides an opportunity for Australian policy makers to reform Australia's most valuable underutilised region for the economic benefit of the nation.

Five problems holding back Northern Australia

The North of Australia is not only unique in its natural environment and geography, but it faces a distinctive set of social and economic circumstances as compared to the south. The Institute of Public Affairs has identified the following set of challenges facing Australians living in the North, all of which can be solved, or in some way mitigated by the implementation of a Northern SEZ. The establishment of a Special Economic Zone will result in flow on effects which would benefit the whole of Australia.

Australia is a vast and diverse country. It is unreasonable to assume that a 'one size fits all' policy written in Canberra is suitable for a country just 20% smaller than Europe.

The challenges facing people in Northern Australia are often inter-related and must be seen as dynamic rather than mutually exclusive. For example, the skills shortage and under population are to a large extent exacerbated by a lack of social and economic infrastructure which leads to an unwillingness for Australians to relocate to the North. At the same time, higher costs of living in rural areas are linked to a lack of infrastructure and low population density.

- **Skills shortage**
  City dwellers from the most densely populated capital cities on the eastern seaboard have historically shown an unwillingness to move to areas of Australia which lack infrastructure and other vital services.

[9] Adlam, N., (June 29, 2011) *Call for new tax zone*, Northern Territory News

The resource sector, and the states and territories most reliant on the resource sector as a share of their economies, suffer the greatest from a lack of skilled workers. According to the Department of Education, Employment and Workplace Relations, the most difficult vacancies to fill in 2010 were for resource workers, and Western Australia was the state with the fewest job vacancies filled. Only 45% of vacancies in the resource sector were filled, which includes such jobs as geologists and mining engineers, and only 53% of job vacancies in the Western Australian economy were filled in 2010[10].

The KPMG Private Companies Survey[11], released June 2011, also reveals that businesses in the two main resource states of Queensland and WA experience far greater skills shortages than do other, non-resource dependent states. When asked if their business was experiencing a skills shortage, respondents in Queensland and WA answered 'Yes' 60% and 59% of the time respectively, compared to 49% and 51% of the time in NSW and Victoria. The KPMG report also revealed that WA businesses are most likely to make use of the 457 Visa scheme, reflecting the fact that 63% of the $173 billion worth of advanced projects in the mining and resource sector are, according to Australian Bureau of Agricultural and Resource Economics, located within that state,[12].

The Australian Mines and Metals Association chief executive Steve Knott stated that 86% of companies had difficulty recruiting workers, leading to the possibility of jobs and investment being pushed offshore. In remarks made in Perth in July 2011[13], he also said job vacancies in the resource sector were at a record 3.9%, vastly higher than the 1.2% in manufacturing, and the 1.9% in construction. Mr Knott also noted that costs in the resource industry were being pushed up by inflated wages as companies compete for skilled workers – wages on offshore construction projects, like the joint ExxonMobil/Chevron Gorgon LNG project being built off the WA coast, have risen 37% since July 2009. ExxonMobil executive Glenn Hewson has said that "producing in Australia will become so expensive and so uncompetitive that we will lose opportunities" due to labour shortages and Australia's stalled multifactor productivity growth[14].

Western Australia and Queensland are predicted to need more than 300,000 workers in the next four years as record mining capital expenditure increases demand for skilled workers. 2011-12 State government budgets show that government anticipates Western Australia will suffer from a forecast shortage of 210,000 workers, and Queensland 140,000 jobs over the next few years. This skills shortage is likely to further inflate wages not only in the resource industry and resource states, but on resource jobs in other states, as workers from other states and industries are brought in to compensate for the shortfall.

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[10] Department of Education, Employment and Workplace Relations (DEEWR), 2010, *Skills Shortages – Summary*, Canberra

[11] KPMG, 2011, *Private Companies Survey 2011*, Melbourne

[12] ABARE, 2011, *Minerals and Energy, Major development projects – April 2011 listing*, Canberra

[13] Knott, S. (2011, June 30), *Addressing the labour supply problem*. Speech presented at the Association of Mining and Exploration Companies 2011 Conference, Perth, WA.

[14] Chambers, M. (2011, July 01). Oil and gas projects under the pump. *The Australian*.

As companies struggle to retain, and hire new staff to meet growing demand for resources, the inflationary effect on wages and input costs is slowing the potential rate of growth in the Australian economy, and putting pressure on the Reserve Bank of Australia to raise interest rates. The 2011 Australian Institute of Management salary survey found that in the past year, 83% of surveyed companies paid wage increases to staff[15], adding to company costs and acting as a disincentive for investment in the region.

There is anecdotal evidence from Perth that resource projects are so short of workers that recruiters have taken to poaching workers as they travel through the airport to other sites. Research by an academic reveals that workers are offered on the spot pay increases to leave their existing employment contracts to work on other projects.

Fly in – fly out workers are used by mining companies to fill job vacancies which would otherwise be unable to be filled due to a lack of housing and other infrastructure. Fly in – fly out workers live in a larger city and are flown to a remote worksite where they live and work during their work roster. This method of bringing workers to projects is needed due to a lack of social and economic infrastructure which discourages workers from living on site. As noted recently by the head of the Charters Towers Chamber of Commerce and Mines Tom Hogg, policies such as a SEZ are necessary to encourage population growth in the North- "If all business were paying less tax it would be more of an incentive to bring people here."[16] This practice of being away from their homes and families for irregular and extended periods of time can have a negative impact on relationships and lifestyles. A 2009 study showed that half of Western Australia's mining workforce work under fly in – fly out arrangements[17].

A significant reason for the workers unwillingness to live on a permanent basis near these resource sites, and the resulting skills shortages, are economic reasons. Economic interests are powerful motivators of human behaviour, and a skills shortage is exacerbated by Australia's uncompetitive income tax rate. The marginal income tax rate for workers earning over $180,001, not uncommon in the mining industry, is 45%. Some nations such as the UAE and Qatar do not have income tax, and the income tax rate in the United States is between 18 and 22%. This is a disincentive for overseas workers to migrate to Australia, and also an incentive for Australian workers to move to lower tax countries.

Australian Bureau of Statistics data released on June 23, 2011 revealed that Australia's Net Overseas Migration (NOM) for the year ended December 2010 fell 35% compared to the previous year[18]. This decline in NOM is the first recorded since 2003-04. NOM is the net gain or loss of population through immigration to, and emigration from, Australia. NOM fell to 171,100 persons in the year ending 2010, from 264,200 persons the previous year. This fall

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[15] Australian Institute of Management, 2011, *The Australian Institute of Management Salary Survey 2011*, Melbourne

[16] Jenkin, C., (24 June, 2011) *Economic boost hope*, The Northern Miner

[17] Clifford, S. (2009), *The Effects of Fly-in/Fly-out Commute Arrangements and Extended Working Hours on the Stress, Lifestyle, Relationship and Health Characteristics of Western Australian Mining Employees and their Partners*

[18] ABS, 2011, *3101.0 Australian Demographic Statistics December Quarter 2010*

represents 93,100 fewer workers to fill growing job vacancies and to put downward pressure on spiralling wages, especially in the resource sector.

The problem is not confined to overseas migration - the year to June 2010 was the lowest year for net interstate migration to Queensland in 38 years. Only 9,576 people moved to Queensland that year[19], exacerbating the skills shortage which has plagued Northern Australia. Resulting labour market bottlenecks have resulted in resource workers earning greatly inflated wages. A lack of skilled workers and the cost to industry means that Australia is unable to take full advantage of our resource wealth.

The skills shortage has resulted in a wage and labour bottleneck which stifle Australia's international competitiveness and ability to capitalise on the mining boom. According to February 2011 ABS figures, the average yearly wage in Australia is around $67,000. This is compared with a mining sector average yearly wage of $112,000[20]. The limited supply of skilled and willing workers to commit to working in often remote and poorly serviced areas means that the resource sector is forced to pay almost double the Australian average yearly wage to maintain a workforce. Inflation is not limited to labour costs in the resource sector however, other input costs have risen at staggering costs as miners compete for fewer and fewer sources of labour and capital inputs – mining truck tyres are now close to $US100,000, and may rise to their pre recession prices of close to $US150,000 last seen in 2008[21].

It is widely recognised that in its current state, the Australian labour market is unable to meet current demand for resource professionals.

A Northern SEZ is the right step towards encouraging those who possess the correct skills to permanently move to those areas where they are most needed. This will be achieved through migration from internal and external sources

- **Emerging commodity exporters**
  Australia has long enjoyed a competitive advantage over South America and West Africa due primarily to its location and freight advantage to China and other developing economies. Historically it has been cheaper for Australia to ship iron ore to Asia than it has been for countries like Brazil or Guinea to do so.

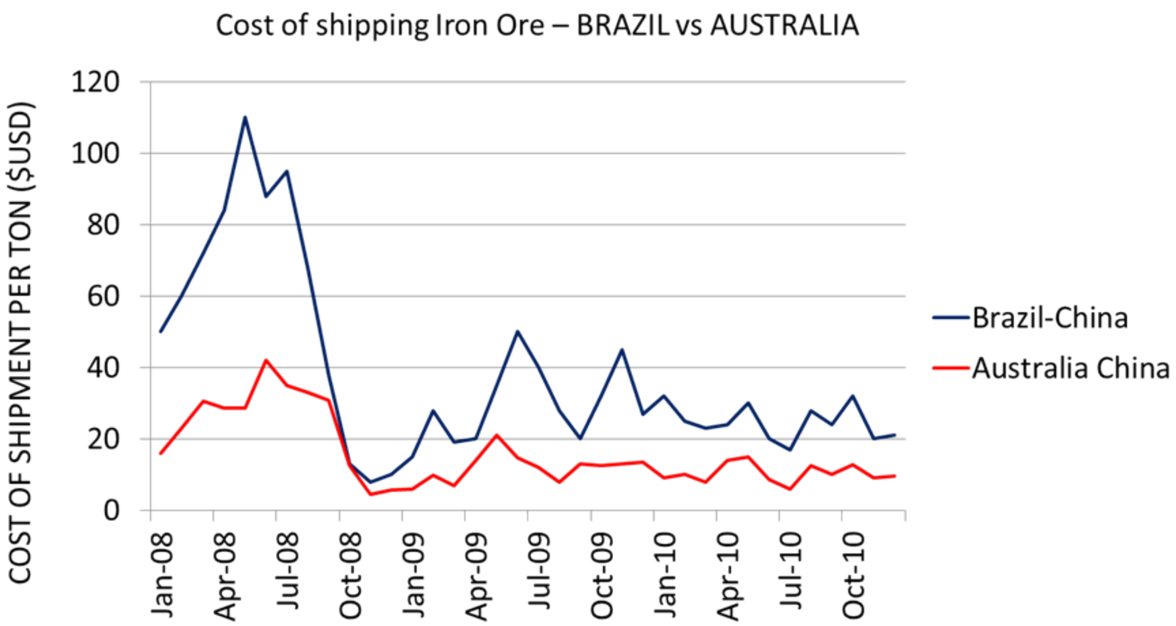
  Lower shipping costs, combined with the introduction of Very Large Ore Carriers (VLOCs), threaten Australia's freight advantage. New ships under construction are capable of handling up to 400,000 tonnes of cargo, crew and equipment, and Asian ports are being modified to handle these ships. Brazilian miner Vale, the second largest in the world, will take ownership or long term lease of as many as 35 such vessels between 2011 and 2013.

[19] Queensland Government Office of Economic and Statistical Research, 2010, *Australian Demographic Statistics June Quarter 2010*
[20] ABS, 2011, *6302.0 Average Weekly Earnings February 2011*
[21] The Australian Financial Review, (2011, July 1), *$94,000 tyres flatten profits*, p23

According to Vale, the cost difference of sending a tonne of coal from Brazil to China, compared to Australia to China, will fall from $US25 to $US10 thanks to the introduction of the VLOC's[22].

New data sourced from Clarkson Research Services, a shipbroker, has shown that costs for renting a capesize vessel, a common commodity transport ship, have dropped dramatically in recent years. In June 2008 the cost of renting such a vessel was $US186,500 a day, the current price of renting the same vessel is just $US11,500 a day. In addition, five of these ships are launched every week, ensuring that shipping costs are likely to remain low for the foreseeable future[23]. Iron ore shipping costs have been at historical lows since a peak in 2008 as can be seen in Figure 2. Since 2008 comparative costs have eroded Australia's advantage over Brazil in shipping commodities to China. This makes Brazil relatively more attractive for resource buyers and producers, and diminishes Australia's competitive advantage.

Figure 2 | Comparative cost of shipping Iron Ore – Brazil vs Australia



As *The Economist* recently reported[24], Australia is rapidly losing its price advantage over South America and Africa in transporting commodities to Asian buyers. According to the newspaper, Australia used to enjoy a $US40 per tonne discount to ship iron ore to China over exporters in Brazil. This advantage is now only $US12 a tonne.

The marked drop in the cost of shipping raw commodities throughout the world is exacerbated by resource hungry developing nations turning their attention away from Australia in the raw materials marketplace. A March 2011 report from consultancy Ernst &

[22] The Australian Financial Review, (2011, June 23), *Slow boat to China, er, make that Italy*, p29
[23] The Australian Financial Review, (2011, June 15), *Big cargo ship charter fees collapse,* p26
[24] The Economist, (2011, May 28), *The Case for Complacency – She'll be right,* p7

Young revealed that China has "shifted focus from Australia and Canada to higher risk, higher return destinations including Brazil, Ecuador and parts of Africa."[25]

The sentiment expressed in the Ernst & Young report is echoed by a Reuters report which confirms that Africa indeed has "the potential to become a major iron ore exporter after 2020"[26]. The report lists major iron ore projects in 12 African nations which have the potential to further dilute Chinese demand for Australia resources.

Chinese steel makers have also indicated a medium term goal of sourcing the majority of their iron ore from Chinese owned companies. As part of their most recent five-year plan, the state owned China Iron and Steel Association has plans to buy half of their iron ore inputs from Chinese companies, up from only 10% currently. They have identified West Africa as a key new supplier which will assist them in this goal.[27]

Commodity buyers will turn to nations that can produce and export these minerals the most efficiently. As a result, Australia needs to find other ways to remain cost competitive, including through the introduction of the measures proposed for a Special Economic Zone.

- **Electricity needs and distribution / Lack of Infrastructure**

  The lack of infrastructure seen in Northern Australia can in part be attributed to under-population and the consequences of a fly-in / fly-out workforce. However, to address both under-population and the growth of stable and permanent communities in Northern Australia, significant infrastructure development is needed.

  In addition to higher wages, lower tax and reduced regulation, workers and investors look for community and industry infrastructure that fulfil their personal and business requirements. Electricity generation, medical services, affordable housing, roads, railways, telecommunications, education, shops and entertainment facilities are just some examples of the necessary infrastructure that is needed to create a sustainable and attractive Northern Australia.

  Sourcing power at a reasonable cost in some parts of Northern Australia is so difficult that businesses cannot rely on existing infrastructure for a reliable supply. Xstrata has built and maintains its own gas fired power plant in Mount Isa[28], a measure typically only needed in developing nations where existing infrastructure does not meet the needs of individuals and business.

  Northern Australia as a region suffers greatly from a lack of reliable energy supply. This is largely due to the fact that in Northern Australia, only northern Queensland is connected with a state wide energy grid. The northern parts of Western Australia, as well as the

[25] Ernst & Young, 2011, *Ungeared for growth*
[26] Reuters, (2011, June 8), *Factbox – Iron ore producers and projects in Africa*
[27] The Australian, (2011, July 26), *We'll buy iron ore from our own companies, Chinese warn*
[28] Xstrata, 2009, *Sustainability Report 2009*, Xstrata Copper North Queensland

Northern Territory, for a large part depend on small capacity gas and liquid fuel generators for their electricity needs[29].

A recent report[30] by the Energy Users Association of Australia (EUAA) established that capital city energy prices around Australia have increased by 40% relative to the CPI since 2008. Prior to 2008, energy prices had varied within a 5% band under or above the CPI, indicating that energy prices had previously changed roughly in line with underlying inflation. As electricity costs in energy intensive industries can represent between 25-50% of production costs, according to Rio Tinto[31], this is a huge cost burden on industry and employers throughout Northern Australia, where much of industry is energy intensive.

These huge increases in the cost of electricity are widely understood to have played a significant role in Australia's stagnant and occasionally declining multifactor productivity. In 2008-09 multifactor productivity fell 2.7% from the previous year – Australia's multifactor productivity growth has been trending downwards since 2003-04[32]. Multifactor productivity growth, or lack thereof, has been cited as a major danger to Australia's future prosperity. Recently Secretary to the Treasury Dr Martin Parkinson warned that government "expect[s] growth in living standards to slow over time unless productivity growth improves."[33]

The same report from the EUAA also highlights the marked difference in prices paid by customers of public energy companies, as opposed to those which have been privatised such as in Victoria or South Australia. The report found that prices charged by publicly owned energy distributors have doubled in the ten years to 2011. It found that energy prices in relatively de-regulated markets such as Victoria were markedly cheaper than in more heavily regulated energy markets such as Queensland or New South Wales.

Australia's electricity prices are hugely uncompetitive and factor in heavily on plans for international investment and prospects for economic growth. It was estimated by the EUAA that "If distributors in Australia achieved the investment and operational efficiency, per unit asset valuations and rates of return of British distributors, distributor prices will be around one quarter of their current levels in [publicly owned] New South Wales and Queensland." The EUAA also noted that "…British distributors are somewhat less efficient than comparable distributors in the United States of America."

The states and territory comprising Northern Australia, Western Australia, the Northern Territory and Queensland, all have government owned electricity networks. As has been

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[29] Australian Government, 2009, *Northern Australia Statistical Compendium 2009*, Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, Canberra

[30] Mountain, B.R., May 2011. *Australia's rising electricity prices and declining multifactor productivity: the contribution of its electricity distributors*. Energy Users Association of Australia, Melbourne.

[31] Rio Tinto, (2009, February 13), Submission to the Department of Climate Change - Renewable Energy Targets – Discussion Paper and Draft Legislation

[32] ABS, 2020, *5204.0 Australian System of National Accounts 2009-10*

[33] Parkinson, M., (30 June 2011) *Sustaining Growth in Living Standards in the Asian Century,* Gala address to the Melbourne Institute Economic and Social Outlook Conference, Melbourne, Australia.

demonstrated in a 2010 study in the Australian and British electricity industries[34], privately run electricity networks deliver substantially cheaper and more efficient outcomes than their government run counterparts. This is the case even when customer numbers and peak demand grows at a rate that favours the government run area in the case of this study.

Government should privatise electricity generation and distribution in the Northern Special Economic Zone to ensure that economic growth is not stifled by over-regulated energy markets. The resources industry requires cheap electricity in order to remain internationally competitive. To ensure current levels of employment and output, and facilitate growth in these areas, within Northern Australia, electricity prices need to become internationally competitive through de-regulation and privatisation.

- **Regulatory burden, and the erosion of secure property rights**
  Federal and state regulations are inherently designed for high population areas and are therefore particularly unsuited to regional and Northern Australia. Incompatible and inconsistent regulations on businesses, individuals and industry are particularly burdensome to Northern Australia.

  In 2005 the Australian Chamber of Commerce and Industry (ACCI) calculated the cost of regulation on the Australian economy as 10.2% of GDP[35]. As the volume of legislation and regulation throughout the economy has historically risen since Federation, the level of regulation cannot be assumed to have fallen. Individuals and businesses are burdened by regulations as they face additional administration and compliance costs, as well as facing delays, and the opportunity cost of performing a task not related to their core business.

  Two industries which are the backbone of the Northern Australian, and therefore the national economy- agriculture and mineral resources- are the subject of regulations which place substantial additional costs on doing business.

  In the World Bank's 2011 'Ease of Doing Business' rankings[36], Australia placed poorly in a number of key indicators, and also performed worse than in 2010. Of 183 economies ranked by the international financial institution;
  - Australia ranked 63rd in 'Dealing with Construction Permits', down from 62nd in 2010,
  - Australia ranked 35th in 'Registering Property', down from 32nd in 2010,
  - Australia ranked 59th in 'Protecting Investors', down from 57th in 2010.

  The World Bank calculated that in Australia in 2011, the length of time it takes a firm to deal with a construction permit was 221 days, and 395 days was needed to enforce a contract.

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[34] Mountain, B. & Littlechild S., (2010) *Comparing electricity distribution network costs and revenues in New South Wales and Great Britain*
[35] The Australian Chamber of Commerce and Industry, 2005, 'Regulation costs Australia $86 Billion Annually', Media Release.
[36] The World Bank, *Doing Business 2011*

These rankings are reflected in the length of time it can take to apply for a mining license in Queensland. The Department of Mining and Energy (DME - Queensland), in 2010 estimated that a 'simple mining lease application' takes between 12 and 15 months to be approved[37]. This regulatory burden is increased to between 24 and 36 months if it is a native title lease and an environmental impact statement is required. The costs of these delays are significant in terms of investor certainty, international competitiveness as well as economic impact in jobs and income lost. In the same report the DME calculated that a 12 month delay cost the Queensland economy $A2 billion of export revenue, as well as up to 3,650 of direct and indirect jobs throughout the economy (see Table 2.)

Table 2 | Hypothetical 12-month delay on a Queensland mine

The size of the prize:
A hypothetical new mine with production delayed by 12 months results in a substantial set of economic opportunities forgone for Queensland, including:

- **700-800** construction jobs
- **650** permanent on-site operational jobs
- around **2200** new (indirect) jobs throughout Queensland
- around **$580 million** in value added
- around **$340 million** in wages and salaries
- around **$170 million** in state royalties Export revenues of around **$2000 million**.

While these estimates are significant they cannot quantify the damage done to Queensland's reputation from a system that results in projects running behind schedule. This hidden reputational cost has two dimensions—to Queensland's reputation as a reliable supplier of commodities and to Queensland's reputation as a jurisdiction that is a safe and appealing investment destination.

NB: The above estimates, (2007 dollar terms) are based on the then Department of Mines and Energy's 2007 study of the central Queensland mining and minerals processing industries. It assumes a new 10Mmtpa open-cut coking coal mine exporting at a spot price of AUD $200/tonne.

Source: Department of Mines and Energy, 2010, *Supporting Resource Sector Growth: Industry Proposals for Streamlining Queensland's Approval Processes,* Department of Employment, Economic Development and Innovation, Queensland, Australia

The duplication of regulation from all three levels of government often results in delays in operations that are economically important to the nation. For example in occupational health & safety (OH&S) regulations, a firm operating in all state and territory jurisdictions would be subject to 282 different codes of practice, and may need to comply with up to eight state and territory OH&S regimes, as well as a national one[38].

Mining, the industry which provides much of the economic growth and employment opportunities in Western Australia, the Northern Territory and Queensland, is particularly burdened by such regulations as there are often separate pieces of legislation which target the industry on top of the general Commonwealth or state wide regulations. These

[37] Department of Mines and Energy, 2010, *Supporting Resource Sector Growth: Industry Proposals for Streamlining Queensland's Approval Process,* Department of Employment, Economic Development and Innovation, Queensland, Australia.

[38] Australian Government, 2010, *Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety,* Productivity Commission, Canberra, Australia.

regulatory duplications, overlap, and potential for regulatory inconsistency between jurisdictions and legislation are cause for great concern.

Australia's North has been subject to some particularly onerous legislation and regulation governing how individuals and businesses can use their own land.

In recent decades, federal and state governments have imposed increasingly restrictive land use legislation and regulations, often as a convenient way to meet environmental or other political objectives. The sometimes haphazard and unpredictable way these regulations are applied can result in a lack of investment certainty in areas of Australia, increasing the inherent risk of contributing funds to develop and maintain property and develop infrastructure. This adds unnecessary costs and uncertainty to individuals and business. The Productivity Commission noted in 2009 that property purchases and consequent investment in exploration by mining firms is subject to great sovereign risk – "Consequently, there is a reasonably high risk that a company could take on acreage and spend a considerable amount on exploration only to find that they can never obtain environmental approval to develop the field."[39]

Different sectors of the resource industry can potentially be subject to multiple layers of regulation and legislation, increasing administration and compliance costs, and leading to the $A14 billion collective cost blowout seen in the five largest resource projects that was noted previously. For instance one of these projects, the Gorgon LNG project off the WA coast, is subject to, among others, the following layers of regulation, mainly concerning and restricting land use under environmental or heritage concerns;

- *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (Commonwealth)
- environmental regulations enacted specifically for the Gorgon Project under the *Barrow Island Act 2003* (WA)
- *Petroleum and Geothermal Energy Resources Act 1967* (WA)
- *Petroleum (Submerged Lands) Act 1982* (WA)
- *Petroleum Pipelines Act1969* (WA)
- *Occupational Health and Safety Act 1991* (Commonwealth)
- *Dangerous Goods Safety Act 2004* (WA)
- *Occupational Health and Safety Act 1984* (WA)
- *Environment Protection and Biodiversity Act 1999* (Commonwealth)
- *Environment Protection (Sea Dumping) Act 1981* (Commonwealth)
- *Protection of the Sea (Prevention of Pollution from Ships) Act 1983* (Commonwealth)
- *Conservation and Land Management Act 1984* (WA)
- *Environmental Protection Act 1986* (WA)
- *Pollution of Waters by Oil and Noxious Substances Act 1987* (WA)
- *Wildlife Conservation Act 1950* (WA)
- *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* (Commonwealth)
- *Historic Shipwrecks Act 1976* (Commonwealth)

[39] The Australian Government, 2009, *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*, Productivity Commission, Canberra, Australia.

- *Aboriginal Heritage Act 1972* (WA)
- *Heritage of WA Act 1990* (WA)
- *Planning and Development Act 2005* (WA)
- *Local Government Act 1995* (WA)
- *Native Title Act 1993* (Commonwealth)
- *Titles (Validation) and Native Title (Effect of Past Acts) Act 1995* (WA)
- *Aboriginal Affairs Planning Authority Act 1972* (WA)
- *Aboriginal Communities Act 1979* (WA)
- *Australian Maritime Safety Authority Act 1990* (Commonwealth)
- *Coastal Waters (State Powers) Act 1980* (Commonwealth)
- *Coastal Waters (State Title) Act 1980* (Commonwealth)
- *Customs Act 1901* (Commonwealth)
- *Defence Act 1903* (Commonwealth)
- *Energy Efficiencies Opportunities Act 2006 (*Commonwealth)
- *National Greenhouse and Energy Reporting Act 2007* (Commonwealth)
- *Navigation Act 1912* (Commonwealth)
- *Quarantine Act 1908* (Commonwealth)
- *Submarine Cables and Pipelines Protection Act 1963* (Commonwealth)
- *Maritime Transport and Offshore Facilities Security Act 2003* (Commonwealth)

The regulations noted above are in addition to economy wide legislation such as the *Trade Practices Act 1974* can also reduce the economic incentive for business to invest, especially in infrastructure vital to Northern Australian development. The *Trades Practices Act* Part IIIA leaves privately built infrastructure projects open to access by competitors within the resource sector. Part IIIA requires an organisation to provide third party access to certain facilities which are financed, owned and operated by private individuals or corporations. This acts as a disincentive for companies to invest in expensive and large scale projects.

Regulations, or the application of restrictions on industry, have the potential to cause immense harm to those industries. A case in point is ban on live cattle exports from Australia to Indonesia, introduced by the federal government on June 7 2011. The live cattle export trade in Australia is worth

Streamlining and significantly reducing unnecessary regulatory burdens in Northern Australia will ensure that resource projects proceed as soon as possible. This will benefit the entire Northern Australian economy and reduce the burden on small businesses that support the main industries in the region.

The Economic Potential of North Australia

Australia has often faced what has been described as the ‘tyranny of distance’, as our geographic position has routinely, with some exceptions acted as a hindrance to our economic prosperity. Within Australia’s borders, the northern portions of Western Australia and Queensland, as well as the Northern Territory, can be said to suffer the same condition. Yet Northern Australia has much to offer, and with the correct policy choices, could be an economic powerhouse within our borders, providing not only raw materials for the rest of the world, but value added goods and services from export diversification.

Northern Australia is well known for its vast reserves of minerals, namely iron ore, coal, LNG and aluminium. Of the almost $A300 billion of goods and services exported from Australia in 2010, more than 30% comprised just two commodities, iron ore and coal[40]. When other minerals, raw materials and commodities like aluminium, beef, wool and wheat are taken into account, these primary products comprise 71% of Australia's produced merchandise exports[41]. Raw materials clearly play an important role in Australia's export driven economy, and within our economy the North plays a disproportionately important part.

The states which comprise Northern Australia, Western Australia and Queensland, as well as the Northern Territory, contribute to the majority of our major export earners. In 2009-10, 97% of our iron ore exports came from Western Australia, 56% of coal exports came from Queensland, and all of our natural gas exports came from either Western Australia or the Northern Territory. In addition, 63% of Australia's live animals exports (excluding seafood), comes from Western Australia, the Northern Territory, or Queensland[42] [43].

There are also regions within Northern Australia which contribute to the Australian economy disproportionately above their population base. For example the numerous on and off shore projects and developments in the Pilbara region of Western Australia, although containing just 0.2% of the Australian population, produce approximately 20% of our exports according to Regional Development Australia[44]. These projects, such as the Gorgon and Pluto LNG projects currently under development, demonstrate how much potential Australia's North has for the economy.

Yet there is potential for Northern Australia to contribute much more to Australia's economic well-being. Northern Australia holds 50% of the Australia land mass, yet as of 2009 only 4.7% of the population reside there[45].

Potential for new and expanded industries exists in Northern Australia- the Northern Australian Land and Water Taskforce estimated that there are currently 600 gigalitres of groundwater available throughout Northern Australia, capable of supporting the expansion of agriculture in the region. The Taskforce estimated that if these groundwater reserves were utilised, Northern Australia's groundwater irrigated land could increase from 20,000 hectares, to 60,000 hectares of intensive

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[40] Australian Government, *Composition of Trade Australia 2010*, Department of Foreign Affairs and Trade, Canberra

[41] Australian Government, 2010 *Exports of Primary and Manufactured Products Australia 2009-10*, Department of Foreign Affairs and Trade, Canberra

[42] Australian Government, 2010, *Australia's Trade by State and Territory 2009-10*, Department of Foreign Affairs and Trade, Canberra

[43] Australian Government, *Composition of Trade Australia 2010*, Department of Foreign Affairs and Trade, Canberra

[44] Australian Government, 2010, Preliminary Pilbara Regional Plan, Regional Development Australia

[45] Australian Government, 2009, *Northern Australia Statistical Compendium 2009*, Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, Canberra

agriculture[46]. This means that there is potential for intensive irrigated agriculture to grow from a $160 million industry to one worth almost half a billion dollars to the Northern Australian economy.

There is also great potential for the expansion of the northern beef cattle industry. Currently 5% of jobs in Northern Australia are in this industry, yet by some estimates there is the capacity to double the output of the industry. Beef and cattle exports were worth up to $400 million dollars a year as recently as 2010, and Australia's North provides 80% of Australia's live cattle exports, and holds 30% of the nation's cattle[47]. By increasing intensity of production, through allowing producers greater access to the vast water resources that the North holds, among other things, the Northern cattle and beef industry has the capability to become a billion dollar industry in Western Australia, Queensland and the Northern Territory. However the importance of further development of infrastructure, in order to facilitate the production and transportation of agricultural, bovine, and other products cannot be overstated.

The mineral resource industry, although currently the backbone of the Australian economy, also has potential to offer further economic, investment and job growth throughout Northern Australia. Amongst other things, the industry is held back by a skills shortage, a lack of infrastructure and regulatory burden. By reducing the impacts of these burdens, the North can provide even greater income for Australia, and much more of this income has the potential to remain in the areas where these resource projects are located. This can be helped by removing overbearing and unnecessary red tape and regulatory duplication which can exist due to layers of local, state and federal bureaucracy.

A Northern Special Economic Zone

Australia needs policies that promote investment, skilled migration, and ultimately leads to sustainable economic growth not just for Northern Australia, but Australia as a whole. The challenges outlined above are challenges that could unhinge the prosperity Australia has enjoyed for the past decades. Although we have traversed the past few years relatively unscathed by the financial upheavals which have seen most developed nations suffer devastating recessions, Australia is not immune to international economic upheaval.

As Australia increasingly relies on China we are increasingly vulnerable to international economic 'shocks', and must ensure our economy is given the freedom from prohibitive regulation to respond accordingly. The recent Federal Budget is a case in point of the gamble, which the government especially takes on the continued steady growth of China. The 2011-12 Budget forecast Chinese economic growth at 9.5 and 9% for the next two years respectively[48], and while this is not large compared to recent years from the economic giant, recent growth figures have shown the dangers of relying on such growth. Relying on such growth rates is especially difficult, as Chinese Premier Wen Jiabao set a growth target of a more modest 7% over the next five years according to an official Chinese newspaper[49].

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[46] Northern Australia Land and Water Taskforce, 2009, *Sustainable development of northern Australia*
[47] Ibid, p.21
[48] Australian Government, 2011-12 Budget, *Statement 2: Economic Outlook*, p12-13, Canberra
[49] China Daily, (2011, February 28), *Premier sets 7% growth target.*

The idea of a Special Economic Zone (SEZ) would undoubtedly seem foreign to many Australians as their use here has been almost negligible. Yet throughout the world many nations currently benefit from the reduced taxes and regulations that SEZs provide. According to the World Bank, more than 3,000 zones currently exist in 135 countries around the world[50].

Special Economic Zones promote investment, create jobs and can transform underdeveloped regions into areas of considerable economic activity. In an Australian context, a Special Economic Zone has the potential to help confront the challenges the nation faces.

The Special Economic Zone we are proposing should be comprised of Northern Western Australia (WA), the Northern Territory, and Northern Queensland (QLD). It is important that the nation offers investors an environment that is internationally and regionally competitive.

Proposed Northern Special Economic Zone

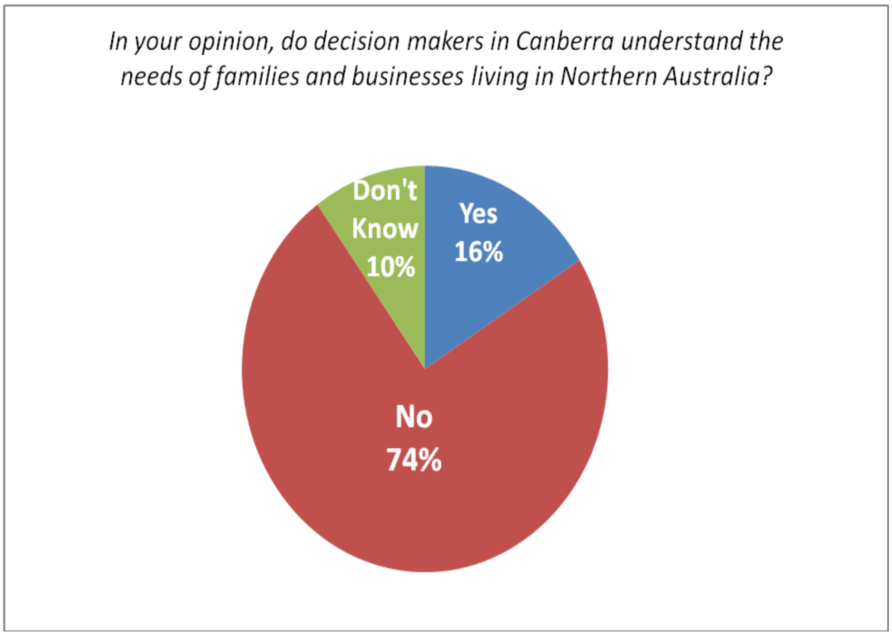
A Special Economic Zone is a vision for the future prosperity of Northern Australia. Research conducted exclusively for the IPA in May 2011 established that the majority of Australians do not believe that decision makers in Canberra understand the specific needs of families and businesses in Northern Australia. Australians in WA and QLD were the most likely to think Canberra was out of touch, with 74% revealing they felt Northern Australia's needs were not understood by Canberra.

[50] World Bank, 2008, *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development*, The Multi-Donor Investment Climate Advisory Service

A state of impasse has been reached between the resource rich states of Northern Australia, and Federal government confined to Canberra and the south east. In July 2011 the Western Australian Premier Colin Barnett said that "Western Australia does literally look over the horizon to Asia, not to Canberra… it is simply an economic reality."[51] This sentiment reflects the vast geographic distance separating Northern Australia from Canberra, as well as the continuing economic relationship Western Australia has with China and the developing world. As noted by Premier Barnett, by 2020 WA will likely account for over half of Australia's exports.

The Queensland government has also acknowledged that Canberra's one size fits all approach to governance does not work for such a vast continent. In July Premier Bligh said that in reference to commonwealth legislation and regulation, "Every state has to be looked at differently, I don't believe one size meets all."[52]

Figure 1 | Regional Queensland and WA responses



Source: Exclusive IPA research

Research conducted at the same time also established that Australian's are in favour of the establishment of such a zone to reduce tax and red tape to promote investment. 60% of surveyed Australian's indicated they were in favour of a Northern Special Economic Zone, with higher support in regional areas. 73% of regional Western Australians and Queenslanders supported the idea, and in Perth and Brisbane 66% of respondents were in support.

States which comprise the proposed Northern Special Economic Zone are home to the vast majority of proposed and operating resource projects. These sources of wealth for Australia require the implementation of a policy which will encourage investment, and should acknowledge the reliance of Australia on the North for much of its future growth opportunities.

[51] The Australian, (2011, May 28), *Western Australia shuns Canberra, eyes China*
[52] WAToday, (2011, July 26), *Feds don't get us on carbon tax: Bligh*

Western Australia, the Northern Territory and Queensland between them account for almost 90% of advanced energy, mining and minerals projects as shown in Table 1.

These Northern Special Economic Zone states have been the backbone of the Australian economy due to their abundant natural resources. The importance of these states and the Northern Territory, as well as mining in general, is illustrated by the remarkable fact that according to KPMG, in the 6 months to 31 December 2010, mining sector profits made up 47% of profit before tax of the entire ASX50. What is more remarkable is that those mining sector profits were made by only four companies.

Table 1 | Projects, number, cost ($m), sector by State and Territory, April 2010

	Energy projects		Mining projects		Minerals processing		Total	
	No.	Cost	No.	Cost	No.	Cost	No.	Cost
Northern Special Economic Zone States (WA, NT, Qld) Advanced Projects								
Northern Territory	2	795	0	0	0	0	2	795
Western Australia	6	64,111	21	19,688	2	2,620	29	86,419
Queensland	16	6,807	3	1,646	3	2,860	22	11,313
NEZ State totals	**24**	**71,713**	**24**	**21,334**	**5**	**5,480**	**53**	**98,527**
Share of Australia	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**89.89%**
Non-Northern Special Economic Zone States (SA, NSW, Vic, ACT, Tas) Advanced Projects								
New South Wales	13	5,158	3	2,232	0	0	16	7,390
South Australia	1	138	1	390	0	0	2	528
Tasmania	1	345	0	0	1	150	2	495
Victoria	2	2,670	0	0	0	0	2	2,670
Non-NEZ State total	**17**	**8,311**	**4**	**2,622**	**1**	**150**	**22**	**11,083**
Share of Australia	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**10.11%**
Total Australian projects								
Advanced	**41**	**80,024**	**28**	**23,956**	**6**	**5,630**	**75**	**109,610**
Less Advanced	**127**	**172,822**	**148**	**68,349**	**11**	**8,750**	**286**	**249,921**

Source: Adapted from National Resources Sector Employment Taskforce, 2010, *Resourcing the future: Report*,, at <http://www.deewr.gov.au/Skills/Programs/National/nrset/Documents/FinalReport.pdf> ; Australian Bureau of Agricultural and Resource Economics, 2010, *Minerals and energy: major development projects*, at <http://www.abare.gov.au/publications_html/energy/energy_10/ME10_Apr.pdf>

The Institute of Public Affairs and ANDEV

The Institute of Public Affairs, founded in 1943, is the world's oldest free market think tank. The IPA is a not-for-profit research institute based in Melbourne, Australia with staff and associates around Australia.

Australia cannot afford to squander the prosperity we have been afforded. Policy makers need to put in place policies that will continue to provide opportunities to future Australians. The Institute of Public Affairs is committed to promoting public policy solutions that empower individuals and enterprise to create wealth to enrich themselves and society. And the evidence around the world proves that only wealthy societies have proven capable of delivering social and environmental dividends.

It is for these reasons that the IPA believes that a Northern Special Economic Zone is the best policy tool with which to stimulate investment, grow industries and populate Northern Australia.

The IPA is proud to be associated with Australians for Northern Development & Economic Vision (ANDEV), a group which is at the forefront of policy debate about the sustainable economic development of Northern Australia.