



13 February 2014

Committee Secretary
Joint Select Committee on Northern Australia
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Canberra ACT 2600

Email: jscna@aph.gov.au

Dear Sir/Madam

INQUIRY INTO THE DEVELOPMENT OF NORTHERN AUSTRALIA

The Chamber of Minerals and Energy of Western Australia (CME) is pleased to provide a submission to the Inquiry into the Development of Northern Australia, being undertaken by the Joint Select Committee on Northern Australia.

CME is the peak resources sector representative body in Western Australia. CME is funded by its member companies, which generate 95 percent of the value of all mineral and energy production and employ 80 percent of the resources sector workforce in the state.

The Western Australian resources sector is diverse and complex, covering exploration, processing, downstream value adding and refining of over 50 different mineral and energy resources. In 2011-12, resources production accounted for over 90 percent of Western Australia's total merchandise exports and royalty payments to the State Government totalled \$5.3 billion.

The Western Australian territory above the Tropic of Capricorn comprises the Pilbara and Kimberley regions. These regions are home to unique and challenging landscapes and climate, which has shaped their respective economies and population centres. Both the Kimberley and the Pilbara have a rich and distinct cultural heritage, and a history of different land uses, including agricultural and pastoral, resources and tourism.

While the resources industry already significantly contributes to the economies of these regions, the Kimberley and Pilbara's greater potential is yet to be realised. Development is often hampered by the high cost of doing business, regulatory overlap, education, skills and training, limited infrastructure and the logistical challenges arising from these regions' unique geographic characteristics.

CME believes the way forward is to engage and involve all key stakeholders, understand the natural systems and landscapes in context, and to arrive at sensible whole of system policies and approaches to allow the generation of maximum benefits and building prosperity for the local community, the State and the nation. These policies will need to be able to adapt to the variability in each region's requirements and needs, so as to ensure regional priorities are identified and addressed.

CME would welcome an opportunity to participate further in the consultation process for the Inquiry.

Yours sincerely

Reg Howard-Smith
Chief Executive Officer



Australian Parliament Joint Select Committee Inquiry into the Development of Northern Australia

Submission for the Chamber of Minerals and Energy
Western Australia

February 2014

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Executive Summary

The Western Australian territory above the Tropic of Capricorn comprises the Pilbara and Kimberley regions. These regions are home to unique and challenging landscapes and climate, which have shaped their respective economies and population centres. Both the Pilbara and the Kimberley have a rich and distinct cultural heritage, and a history of different land uses, including agricultural and pastoral, resources and tourism.

While the resources sector already significantly contributes to the economies of these regions, the Pilbara and Kimberley's greater potential is yet to be realised. Development is often hampered by the high cost of doing business, regulatory overlap, education, skills and training, limited infrastructure and the logistical challenges arising from these regions' unique geographic characteristics.

CME believes the way forward is to engage and involve all key stakeholders, understand the natural systems and landscapes in context, and to arrive at sensible whole of system policies. This will ensure approaches to developing the region will maximise benefits and build prosperity for the local community, the State and the nation. These policies will need to be able to adapt to the variability in each region's requirements and needs, so as to ensure regional priorities are identified and addressed establishing a sound foundation for overall regional aspirations.

In this submission, CME has responded individually to each of the Inquiry's Terms of Reference, however, CME notes a number of its recommendations are applicable across the entire scope of the Inquiry. As such, CME has noted where its discussion and recommendations should be considered as part of a broader, whole of system approach.

Chamber of Minerals and Energy Western Australia

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia.

Having been in operation since 1901, the role of CME is to champion the Western Australian resource sector (minerals and petroleum) and assist it in achieving its vision to lead the world in sustainable practice through innovation and to underpin Australia's position in the global economy.

CME strives to be a persuasive resources sector voice, adding value to our member companies in a dynamic and increasingly complex operating environment.

In order to achieve this, CME strives to:

- Lead policy development on issues impacting on the resources sector;
- Promote the value of the sector to the community;
- Represent the views and advocate the needs of our members; and
- Provide an avenue through which members and stakeholders are able to collaborate.

With policy experience spanning industry and research activities, occupational safety and health, education and training, the environment, exploration, Aboriginal affairs, workforce development, infrastructure, economics and tax, CME provides stakeholders and members with an avenue for undertaking extensive collaboration on all industry matters.

The Western Australian resources sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 50 different types of mineral and energy resources. Besides being the largest private employer in regional and remote Western Australia, the resources sector is also the largest private employer of Aboriginal people.

CME represents companies directly involved in the resources sector or those providing services to it. CME's member companies generate 95 percent of all mineral and energy production by value and employ more than 80 percent of the resources sector workforce in the state.

CME's member companies are the foundation of its operation with their valuable contributions helping to build and prioritise the organisation's agenda. Their efforts and expertise enables CME to lead policy development on issues impacting on the resources sector and promote the sector's value to Western Australian and national communities.

CME has two established regional bodies for Northern Australia: the Kimberley Regional Council and the North West Regional Council. These councils consist of member companies that have, or will have, projects or interests in these regions. The role of these regional councils is to promote greater awareness of the resource sector throughout the regions and Western Australia, proactively address regional issues and develop links with all stakeholders in regional locations.

A key focus of the Kimberley Regional Council has been to determine the current status of the Kimberley region's infrastructure and determine requirements of project proponents into the future. In addition, the Council has been working to identify key programs and initiatives which companies can leverage to increase Aboriginal employment for their projects.

A key focus of the North West Regional Council is the continued development of the Pilbara through working with a broad range of local, state and federal stakeholders.

CME produces a range of publications, including the Investment in Resources Sector Infrastructure Report and State Growth Outlook.

The Investment in Resources Sector Infrastructure Report was launched on 5 February 2014. The Report considers the need for investment in resources sector infrastructure and focuses on five key areas to achieve this:

1. Infrastructure planning and coordination
2. Delivery of complex infrastructure
3. Financing, funding and Private Public Partnerships
4. Capital recycling
5. User financing contributions

The State Growth Outlook provides data on the expected demand arising from growth in the resources sector through to 2023, where possible identifying implications for international competitiveness, government investment and planning and liveability.

Copies of the Investment in Resources Sector Infrastructure Report and the 2013 State Growth Outlook, both referenced in this submission, are available at www.cmewa.com.

POTENTIAL FOR DEVELOPMENT

Regional Overview

The Western Australian territory above the Tropic of Capricorn comprises the Pilbara and Kimberley regions. These regions are home to unique and challenging landscapes and climates, which have shaped their respective economies and population centres. Both the Kimberley and the Pilbara have a rich and distinct cultural heritage, and a history of different land uses, including agricultural and pastoral, resources and tourism.

The Pilbara is Western Australia's primary resource-rich area, producing minerals, oil and gas at an international scale. It is a vast region with a land area of over half a million square kilometres as well as extensive oil and gas fields off the coast. Commodities produced in the region include iron ore, copper, gold and silver, manganese and salt, and a range of hydrocarbons including crude oil and condensate, liquefied natural gas and natural gas.

The Kimberley covers an extensive area and diverse landscape with a history of land uses and conditions and low population density. The region covers an area twice the size of Victoria, yet is home to only 34 794 people¹. Approximately half of the population is Aboriginal. The region produces and is prospective for a range of commodities, such as iron ore, diamonds, oil, nickel and rare earths. The Kimberley is also home to the Canning Basin, which is highly prospective for shale and tight oil and gas. The sustainable development of this resource presents Western Australia with an opportunity for further economic development in the region. It also presents an opportunity to diversify the domestic gas market and achieve energy security, ensuring the Western Australian resources sector and households have a long-term supply of relatively clean, cost competitive energy.

Resources companies in these regions make significant economic contributions which have a substantial positive impact locally, regionally and nationally. Resources companies inject millions of dollars into the region through direct employment, flow-on secondary and downstream employment, physical and social infrastructure development, various community investments, grants and partnerships as well as the return of state royalty dollars through the 'royalties for regions' arrangement. Although difficult to measure accurately the indirect contribution of the companies is often of greater value due to the flow-on effects as a result of a resource project's presence.

Value of Minerals and Petroleum by Region by Commodity²

Region	2012-13 Value
Pilbara Region	
Iron Ore	53,593,560,699
Gold and Silver	1,007,952,954
Manganese and Salt	528,215,994
Copper	518,180,909
Other	218,745,186
Total	55,866,655,742
Kimberley Region	
Iron Ore	535,250,930
Diamonds and Crude Oil	359,611,428
Nickel, Copper and Cobalt	154,515,553
Gold and Silver	50,641,077
Construction Materials	11,781,110
Total	1,111,800,098

¹ Australian Bureau of Statistics 2012.

² Government of Western Australia Department of Mines and Petroleum, *Western Australian Mineral and Petroleum Statistics Digest 2012-13*, 2013. P. 56.

Realising the Potential

The greater potential for these regions is yet to be realised. Development is often hampered by the high cost of doing business, regulatory overlap, limited infrastructure and the logistical challenges arising from these regions' unique geographic characteristics.

CME believes the way forward is to engage and involve all key stakeholders, understand the natural systems and landscapes in context, to arrive at sensible whole of system policy approaches which maximise benefits, build prosperity for the local community, the state and the nation and minimise potential for conflict amongst multiple land users. These policies will need to be able to adapt to the variability in each region's requirements and needs, so as to ensure regional priorities are identified and addressed.

Policies need to allow resource companies to undertake business in a cost efficient and productive way.

The resources sector is already a significant contributor to the region in terms of employment, infrastructure investment and social investment, as well as state royalties and local government rates. To ensure their ongoing co-existence with other industries in the region, it is necessary to develop strategic linkages in a manner that does not limit opportunities but rather generates synergies for the region.

CME notes the number of individual inquiries and reviews currently being undertaken by the federal government on matters which have the potential to influence development of the north. These include separate white papers for Northern Australia, tax and agriculture; reviews of the native title regime currently being undertaken by Deloitte Access Economics and the Australian Law Reform Commission; and the Indigenous Jobs and Training Review.

CME considers it important this Inquiry takes into account the broader policy environment, and gives consideration to these other activities and how they contribute towards a holistic and strategic view of economic development in Northern Australia.

Recommendation: The Pilbara and Kimberley are identified as having a high potential for future economic development, and appropriate measures are implemented to ensure these regions are sustainably managed and developed.

RECOMMENDATIONS TO ENHANCE TRADE AND OTHER INVESTMENT LINKS WITH THE ASIA-PACIFIC

The Pilbara and Kimberley regions have deep and long-established trade links with the Asia-Pacific which could be expanded and used to leverage and further enhance trade and investment.

The Pilbara and Kimberley regions' proximity to the Asian markets is a significant competitive advantage. With the continued growth and fast-paced technological advancement in the Asian marketplace, there is ongoing demand for Pilbara and Kimberley minerals and petroleum products, with the potential to further expand these trade links as new resource projects come online.

Over the past decade rapid economic growth, growing urbanisation, and structural change within manufacturing have combined to make China the world's largest energy user, surpassing the US in 2010. This rapid growth has led to substantial increases in resource and energy imports, especially bulk commodities, into China from Australia. As China is predicted to move from an import extensive market to a consumption driven economy, there opens up a variety of opportunities for Australian businesses.

Australia has the advantage to service this demand through recognised experience, geographic strategic position, unique time zone positioning and established trade links with the region. However the potential to capitalise on this, and provide options for regional communities to benefit from this economic development and expansion, is constrained. Those constraints include infrastructure bottlenecks, inefficient approval and regulatory processes, and inadequate provision of services which limit the ability to provide the required gains needed in productivity and growth to be competitive.

As noted in later sections, there are a range of measures which, if enacted, will decrease the high cost of doing business in the region and thus increase the investment attractiveness for resource and other projects. This in turn will enhance trade and investment links internationally. In addition, a number of these recommendations, if enacted, would also benefit resource projects in other regions, providing a much-needed increase in the resources sector's cost competitiveness at a state and national level.

To increase regional prosperity and enhance trade and investment requires the involvement of all key stakeholders having an understanding of the unique operating environments. This includes understanding the needs and requirements of current and emerging industries within the region, leveraging synergies, and implementing targeted, whole of system approaches. Industries operating within the Pilbara and Kimberley do not do so in isolation from broader social, economic and regulatory environs. It is imperative measures are developed to realise economic potential which take into account all inputs which impact upon regional economic development, such as skills, education, housing and amenities, regulation and approvals, services and the provision of infrastructure. Adopting a holistic approach, and conducting comprehensive stakeholder engagement, will assist in developing an economic environment which promotes sustainable regional growth and development.

Recommendation: The Inquiry adopt a holistic approach in developing measures to improve economic development in the Pilbara and Kimberley regions, which take into account CME's recommendations to address the range of economic and social inputs affecting these regions.

RECOMMENDATIONS TO ESTABLISH A CONDUCTIVE REGULATORY, TAXATION AND ECONOMIC ENVIRONMENT

In order to ensure the resources sector in the Pilbara and Kimberley continues to develop, and contribute to regional, state and national economies as a whole, it is important to ensure effective measures to deliver timely approvals, access to land and increases in productivity are implemented.

Recent CME research shows the increasing cost of doing business is becoming a significant challenge for many resource companies as they grapple with global market dynamics, increasing input costs and policy and regulatory settings that are volatile, complex and at times costly.

Further, as many projects move from construction through to commissioning and operations, efficient and cost effective management will become increasingly as companies seek to maximise value from their operations. Small changes in policy settings can potentially have large impacts to operational projects.

Approvals

Development Assessment and Approval (DAA) processes present one of the single biggest challenges facing "greenfield" resource project development in Northern Australia. Duplication between federal and state approvals, time delays and complexity of process are all contributing to the increasing costs of resource projects in Northern Australia.

Reform is needed to consolidate the myriad of regulatory processes to improve environmental outcomes, business and investor certainty and to restore community confidence in the transparency of the assessment.

To promote the continued growth and investment in the resources sector in Northern Australia, requires an approvals system framework which allows for effective and efficient decision making.

- Decision making should facilitate development which is consistent with Australia's global environmental management responsibilities.
- Decision making should be transparent and increased use of regulatory timeframes with assessment outcomes made publicly available.
- Development proposals should be assessed on merit.
- DAA processes should be science and risk based, focussing on those environmental matters which are material to the proposed action.
- Project conditioning should be non-prescriptive and outcomes focussed.

CME is encouraged by the federal government's immediate progress towards addressing duplication between environmental assessment and approval processes at the State and federal level through the implementation of their 'one-stop-shop' policy. When implemented the 'one-stop-shop' for environmental approvals will ensure;

- All projects triggering state and federal requirements are integrated into a single assessment and approval process, agreed to by State/Territory and Federal Governments.
- Administration of the project assessment and approval processes is structured to ensure an efficient, timely and cost effective process.
- Agencies involved in the assessment and approval processes have clearly defined roles and responsibilities.
- Transparent assessment process which provide clear lines of communication to the relevant assessor/approver.

Native Title Act 1993 (Cth)

CME members in the Pilbara and Kimberley, as well as state-wide, are major stakeholders in the native title system in Australia. Many of the projects undertaken by CME members in the regions involve 'future acts' under the *Native Title Act 1993 (Cth)* (NTA), in relation to which procedural rights are afforded to native title holders and registered native title claimants.

The timely and transparent resolution of native title claims facilitates the ability of the resources sector to enter into land access agreements with Aboriginal parties to comply with native title and Aboriginal heritage regimes. The resources sector's contribution to Aboriginal economic advancement is significant and should be facilitated through transparent government policy on the settlement of native title claims. Further, to support the resources sector's engagement with native title parties post-determination, prescribed bodies corporate should be resourced appropriately. To achieve those outcomes and the land access agreements which benefit regional communities as a whole, it is critical there are efficient and effective heritage and native title negotiating frameworks.

Currently, there are a number of reviews being undertaken by the federal government regarding native title, including:

- The review of the NTA by the Australian Law Reform Commission; and
- The Deloitte Review of the Roles and Functions of Native Title Organisations.

CME members are committed to legislative and policy amendments to the native title regime, following comprehensive stakeholder consultation, if proposed amendments deliver streamlined, flexible, equitable and sustainable outcomes in both the resolution of native title claims and future act negotiations. It would be preferable for the NTA be reviewed from both a procedural as well as substantive perspective in order to clearly identify which aspects of the native title 'system' are in need of amendment. This would ensure aspects of the system that can significantly affect the timely and effective resolution of native title claims are identified and reviewed.

Land Access and Multiple Land Use

Given the relatively 'undeveloped' nature of much of the land in Northern Australia there is an opportunity to design multiple land tenures which can accommodate all values and management needs within a parcel of land or a marine environment. The Pilbara and Kimberley provide an environment where suitable models can be designed and tested.

This can only occur, however, through partnerships involving all industries, landholders, land administrators, regulators and the Aboriginal community. This approach will enhance opportunities for integrated and sustainable land use arrangements.

Transparency in land use planning decision-making is an essential enabler for effective relationships and confidence in government land use decisions. Land access arrangements should be built on co-operation, trust and high standards of behaviour.

CME believes there are enhanced opportunities for integrated land use arrangements. In particular, CME considers the Multiple Land Use Framework (MLUF) as one such mechanism which, if implemented at a state and federal level with appropriate resources sector consultation, may have the potential to assist in developing a further understanding of the range of ways which different land users can coexist.

The objective of the MLUF is to facilitate multiple and sequential land use outcomes by articulating common principles between land users, increase transparency in land use decisions, provide certainty to the resources sector and improve community confidence in government land use decisions.

Noting the potential for multiple and sequential land uses in the Kimberley and Pilbara, the MLUF, if implemented in a considered and consultative fashion, will enable additional complementary land uses. However, CME cautions the MLUF must also be implemented in a way which retains congruency with state processes, rather than impose another level of compliance.

Regulation of Emerging Industries

An important factor in developing the economies of Northern Australia is the fostering, promotion and effective regulation of emerging industries. While these industries will support and strengthen existing markets, they will also create new opportunities for local employment and skills, as well as contribute to government revenue and the betterment of local communities.

To promote the sustainable development of new industries, jurisdictions must work in concert to ensure the regulatory environment is transparent, efficient, and does not create any unnecessary obstacles to environmentally and socially responsible development.

The federal government must recognise where existing regulatory processes associated with the development of resources are robust and best practice and not seek to impose additional requirements. It is important for regulation to not impose unnecessary requirements upon the resources sector, which result in additional costs and constrain development. This is particularly important where federal legislation seeks to enforce approvals processes which duplicate those employed by state governments.

One example of this is the ongoing development of the onshore oil and gas industry in the Canning Basin in the Kimberley, where some oil and gas reserves are extracted utilising hydraulic fracturing. Western Australia has a long history of hydraulic fracture stimulation, with an estimated 800 wells having been hydraulically fractured since 1958. These activities have been undertaken without incident. Concurrent with the development of these technical processes, State Government regulation has evolved to assess and manage the occupational health and safety, environmental and resource management risks associated with the development of Western Australia's unconventional gas resources. This regulatory regime is robust and best practice.

The development of unconventional oil and gas resources in Northern Australia, presents an opportunity to diversify the domestic market and achieve energy security. It will also deliver a new industry to Northern Australia and stimulate the establishment and growth of other new industries, leading to economic growth and employment.

However, capital and operating costs associated with the development of an unconventional gas industry in the Kimberley will be substantially higher than they are in other regions around the world. Government must ensure regulation does not impose any unnecessary additional costs on the resources sector, for example if the development of these resources were to trigger the provisions of the *Environmental Protection and Biodiversity Conservation Act 1999* (Cth) and thereby enforcing a separate and substantially duplicated federal approvals process on the resources sector. CME supports the development and implementation of bi-lateral agreements where appropriate.

Local government also has a role in promoting regional investment through attracting new and emerging industries. Local planning policies which are overly prescriptive, inflexible or seek to impose additional costs or conditions on developments can result in inefficient outcomes and restrict investment in regional areas. Coordination and consistency in regional and local planning attracts resources sector investment and assists the resources sector in efficiently investing in critical supporting infrastructure, for example, residential housing, Fly In Fly Out (FIFO) villages, commercial office space and workshops.

Sustainable Environmental Practices

The Pilbara and Kimberley have a range of special, sometimes unique, features presenting opportunities and challenges to government, the resources sector and communities in managing the region now and into the future. The resources sector has the commitment and capacity to contribute to getting the balance right between the needs of the environment, the needs of the Pilbara and Kimberley communities and the economic potential for the region.

The resources sector already contributes to biodiversity knowledge, conservation and rehabilitation. In areas which have been identified as being of priority conservation value, the resources sector supports the need to obtain and interpret comprehensive information detailing biodiversity before determining preferred or exclusive land use.

The resources sector invests in environmental management as part of both its regulatory approvals and as a landholder in the region. Significant threats to environmental values - ineffective fire regimes, weed incursions, and feral animal activity – are not confined within tenure boundaries, and instead

operate at a 'landscape scale'. Future resource development can make a major contribution to managing these threats within their own direct area of influence, or as part of delivering environmental offsets remote from their operations.

CME acknowledges there are certain areas within the West Kimberley region that contain unique and iconic features that deserve to be protected but was disappointed with the all encompassing approach to National Heritage Listing. National Heritage does not specifically preclude development, but it will add an extra layer of red tape in addition to state approval processes which the potential to reduce the viability of future mining operations in the area. The ramifications of the decision may impact negatively on towns in the region, Aboriginal employment opportunities, the State and National economy and the international attractiveness for investment in the region.

Effective management of environmental impact will only be achieved through the development and implementation of planning systems which are transparent, based on scientific and cultural understanding, backed by legal controls, and should contribute to the equitable resolution of different land use, conservation and development objectives.

Sustainable Heritage Practices

The resources sector in the Pilbara and Kimberley recognise the importance and significance of the regions' heritage values.

Member companies expend considerable resources managing the protection of heritage potentially affected by resource operations and the contribution of the resources sector to the body of knowledge about heritage and the archaeological record of the State is significant. To ensure the understanding and protection of Western Australia's heritage is achieved in the context of a dynamic resources sector, it is imperative an efficient and effective framework is in place.

As noted in the Multiple Land Use section of this submission, transparent land use planning decision-making is an essential enabler for effective relationships and confidence in government land use decisions.

Local Industry Participation

The opportunity for local business in operations and maintenance spend is substantial, long-lived and often in areas where local suppliers have comparative advantage. Policy development should focus on ways to assist local industry compete at a global level rather than quasi-mandating local content levels in projects or similar methods of protectionism. This will only lead to higher costs for project proponents and ultimately an uncompetitive local industry.

There is considerable effort by resource companies to promote local participation. However, there are a number of key factors that influence how contracts are awarded and local firms can be uncompetitive at a range of levels. Proponents consistently list scale, schedule and price as key differentiators between local and international suppliers.

Alignment of state and federal initiatives in relation to local industry participation is critical. CME believes it would be of benefit for state and federal governments to align local industry participation initiatives to reduce duplication and achieve traction with a combined, cohesive policy.

Taxation

CME has always supported genuine reform of the Australian taxation system in order to provide for an efficient and effective tax regime. Thus it has argued, in relation to any consideration of a federal tax on resources that it should:

- be prospective, that is apply only to new investment;
- protect Australia's international competitiveness;
- be differentiated by resource commodities;
- be levied on primary resource value; and
- be equitable and efficient.

The vast scale of projects in the resources sector requires extensive infrastructure and long term investment capital. In a global economy, the capital essential to fund these projects is highly mobile.

Even in the resources sector where Australia is well placed to drive economic growth, there are several competing jurisdictions for investment.

Australia's existing and recently-announced investments in the resources sector are the culmination of significant project development processes. These investments cannot be taken as an indicator of future investments. The global resources sector is assessing other locations in other continents, which have significant potential, and Australia's tax system must remain internationally competitive in order to attract investment, economic development and employment growth into the future.

In this global context, Australia needs tax policies that do not provide a disincentive to investment in an industry and so restrict the ability of Australian operations from competing internationally. This is particularly relevant for the resources sector already impacted by a suite of new tax and compliance measures at a Federal level, at a time when state taxes have not been reduced to date.

Goods and Services Tax (GST)

In recent decades Western Australia has been a net donor of GST to the federal government at the expense of timely and strategic investment in infrastructure and services, including roads, ports, energy, water and town development to support the state's considerable economic growth now and into the future.

Returns from resources projects, secured through the state fully underwriting project cost and risk, are being redistributed to other states. Mining revenue comprises around 9 per cent of all state revenue in aggregate, yet represents 85 per cent of the GST redistributed as a result of revenue assessments. Based on the current methodology, Western Australia effectively keeps just 15.9 per cent (\$369 million) of royalty income from mining raised in the state, while still having to manage and develop the resources sector and fund the competing infrastructure demands.

Getting the balance of equity and efficiency right (together with other key tax reform principles of simplicity, transparency and predictability) is vital for Australia's future prosperity.

CME encourages the Australian Government to engage with the Western Australian Government to seek an agreeable outcome to this issue, in the wider context of genuine and consultative state and federal taxation reform.

Zone-Based Income Tax Incentives

Western Australia's resources sector is located predominantly in remote and regional areas of the State. This can present challenges to attracting and retaining appropriately skilled labour. CME supports labour initiatives that deliver the dual objectives of meeting resource project labour demands and providing workers with alternative, flexible, and attractive employment options. The two primary strategies are fly-in-fly-out (FIFO) and residential.

The value of the zone rebate has been significantly eroded over time and currently does not provide an incentive to people to make their homes in regional Western Australia. CME believes a review of the income tax zone rebate is required to ensure it, or a replacement scheme, delivers a real financial incentive to workers to relocate to areas of identified need.

Recommendation: The Federal Government ensures any amendments to the legislative and regulatory environment promote equitable and sustainable practices in Native Title, land use, approvals and taxation. Any amendments should be developed in close consultation with the resources sector, and promote sustainable economic growth and improved resources sector productivity in the region.

RECOMMENDATIONS TO ADDRESS IMPEDIMENTS TO GROWTH

As part of a holistic policy approach to Northern Australia, it is imperative issues such as skills, workforce participation, Aboriginal jobs and training, education and services should be effectively integrated into Government's plans to promote and sustain economic development.

Aboriginal Jobs and Training

CME member companies have indicated concerns with the current administrative arrangements of government employment and training programs. These currently discourage engagement with the system and ironically risk limiting the employment of Aboriginal people, and limit local economic growth.

Concerns include:

- Lack of clarity regarding the roles and responsibilities of different government agencies providing support for employment and skills development of Aboriginal people – members have requested CME develop an information paper outlining available government programs to assist companies in the Kimberley region;
- Lack of leadership/ownership of government programs – currently not all required parties are at the table and effectively playing their role e.g. unresponsive Job Services Australia organisations, absent local shires/councils and varying levels of engagement by health providers;
- Lack of a clear “roadmap” to allow easy access by the resources sector to relevant agencies and understanding of availability of government programs;
- Lack of appropriate key performance indicators (KPIs) to encourage long term retention of Aboriginal employees– current KPIs encourage short term placement options to get numbers through the door for funding purposes, which results in “training for training’s sake” as opposed to meeting the resources sector’s needs; and
- Lack of consistency in government agencies undertaking capability assessments – resulting in a lack of private sector trust in candidate judgement and referrals.

Government must address these issues to ensure the resources sector, as a significant employer of Aboriginal people, is a central player in a new policy environment that is accessible, simplified and sustainable.

CME recommends consideration of government-led regional employment and training hubs. These hubs can be likened to ‘one-stop-shops’ with strong links into local industry and must feature strong ownership of programs and appropriate performance measures. They will provide a structure to ensure local program delivery meets community, regional and resource sector needs and will facilitate greater flexibility and innovation in how programs are designed. Hubs must have the appropriate authority and accountability to ensure all stakeholders (including state and federal government agencies, local authorities, community representatives, training providers, the resources sector and other relevant stakeholders) are participating and meeting their obligations.

CME considers this model could also be expanded to ensure a regionally-appropriate model for broader service delivery. Similarly, this broader service delivery should be relevant, measurable and targeted to the needs of the regions’ resources sector and community.

To ensure the retention of Aboriginal employees, significant support structures must accompany training and employment programs. The resources sector currently pursues such with little support from existing government programs due to the complexity and bureaucratic nature of current government program design. CME members have identified the following strategies as effective:

- Implementing cultural awareness training for all employees and targeted training for supervisors of Aboriginal employees;

- Identification and promotion of Aboriginal role models in the community and with companies to impart life skills and career guidance;
- Implementing formal and informal mentoring programs by both Aboriginal and non-Aboriginal people;
- Providing broad ranging employee support for family, housing, health and childcare; and
- Engaging with local Aboriginal communities to identify, understand and address cultural issues that may be barriers to employment.

With regard to providing cultural awareness training, government support for this training across all employees working with Aboriginal colleagues and in or near Aboriginal communities would enhance the likelihood of success of government employment programs and long term retention of Aboriginal employees. CME supports general cultural awareness to be recognised as a foundation skill that should be incorporated as a core subject within the school curriculum, university courses and vocational education and training programs.

Successful Aboriginal owned enterprises will lead to the economic empowerment of more Aboriginal people as both business owners and employers, as well as contributing to ongoing Aboriginal employment and regional economic growth. In the resources sector, appropriate government subsidies to contactors and sub-contractors to encourage them to engage with Aboriginal owned businesses, would assist to build capacity within the Aboriginal owned enterprise sector.

Skilled Workforce

Access to a highly skilled, productive and adaptive workforce is fundamental for the Western Australian workforce as a whole and in particular the trade-exposed resources sector, so that it can remain competitive and resilient in a global economy. Importantly, the transition from construction into operations will also bring a change in the occupational and skill requirements of Western Australia's resources sector.

CME's 2013 State Growth Outlook forecast the workforce required for growth plans in the resources sector in Western Australia was projected to peak in 2014. Following this peak, "employment in the minerals and energy sector will reduce as the current wave of construction activity gives way to operations"¹. Given rapid resources sector changes over the past 12 months, it is likely Western Australia may have already reached peak employment levels.

The skill sets needed for resources projects in the operations phase are highly technical and highly skilled. This will require significant up-skilling and an ongoing investment in training.

In the Pilbara and Kimberley regions, this issue is more significant for resources sector operations, where access to a skilled workforce is challenging with smaller local labour pools. To address this, CME member companies undertake a range of initiatives to meet their skilled labour requirements, including:

- Attracting and retaining skilled workers to regional areas by investing in the development of sustainable regional communities and supporting initiatives such as Pilbara Cities;
- Utilising fly-in fly-out (FIFO) arrangements to source skilled labour from other parts of regional and metropolitan Australia; and
- Up-skilling local workers to provide a stable source of local employees, including large numbers of Aboriginal people through a combination of work readiness programs, employment-based training programs and skills development programs.

The Western Australian resources sector is the largest private employer of Aboriginal people in Western Australia, with Aboriginal people accounting for 4.2 per cent of the resources sector's

¹ CME State Growth Outlook,
<http://www.cmewa.com/UserDir/CMEPublications/State%20Growth%20Outlook%20full%20report447.pdf>

workforce². This compares to an Aboriginal employment rate across the entire WA workforce of 1.6 per cent³. Specialist comprehensive Aboriginal training programs are a key feature of CME member companies' workforce development. For many years such programs have been successful in ensuring Aboriginal training is holistic and supported by fit-for-work programs and ongoing mentoring to lead to sustainable employment outcomes.

CME member companies often work in partnership with Western Australian State Training Providers (STPs) to up-skill local workers in regional areas. In its submission to the independent review of the Western Australian VET sector, CME called for greater collaboration between STPs to ensure flexible, responsive and resources sector driven training programs and greater engagement between the resources sector and policy development in VET to ensure policy decisions are based on the best available information.

Education

In regional Australia, a focus on ensuring school completions and articulation into employment or vocational and higher education pathways is crucial to ensure local people can participate in the resources sector or its allied industries. In its submission to the Indigenous Jobs and Training Review, CME proposed strategies to incentivise school completion for Aboriginal students as a way of boosting academic achievement in regional areas.

In particular, it is crucial for school students to graduate year 12 with the sufficient literacy and numeracy levels to ensure they can participate fully and be eligible for the technology-driven jobs of the future. The Western Australian Government has recently introduced a literacy and numeracy assessment for year 10 students to ascertain the students' levels of literacy and numeracy, with the aim that should the levels not be sufficient, extra assistance can be provided to the student prior to their graduation.

Long term career opportunities in the resources sector are often aligned to the science, technology, engineering and mathematics (STEM) disciplines and as such greater emphasis in providing teaching in these areas should be provided in regional Australia. CME supports local programs that encourage STEM teaching in Western Australian schools, including Earth Sciences Western Australia, which also undertakes regional outreach programs across Western Australia.

The resource sector invests heavily in education initiatives to assist with sustainably improving educational outcomes for students in the regions where they operate.

As part of this review, the Committee should also consider the outcomes of the national review of the Australian Curriculum recently announced by the Abbott government.

Geographic Labour Mobility – Fly In Fly Out (FIFO)

Over time the resources sector has developed an employment model to attract and retain its skilled workforce in the safest and most competitive manner. The workforce model is a combination of residential and FIFO. Workforce models vary from company to company and site to site and depend greatly upon what stage each project is at (construction, production or maintenance/shut-down) and where the project is located. Each of these workforce models requires different skill sets and different accommodation options at different stages.

Forcing the sector to utilise only one option over another (residential or FIFO) can negatively impact on attraction and retention of the skilled workforce and create further challenges particularly for operational projects.

In a competitive labour market, employee choice is paramount in attracting and retaining a workforce. Choice of what job they do, who they work for and importantly of where they choose to live.

² CME Diversity in Resources Survey 2013

³ 2011 Australian Census of Population and Housing

Employees cannot be forced to live in regional or remote locations if they don't choose to do so. FIFO enables employee to work in an or region and live where they choose. Further information is available in the CME publication 'A Matter of Choice' which goes into more detail and provides best practice examples of company processes.

CME has welcomed the Productivity Commission's recent draft report on geographic labour mobility which acknowledged FIFO has enabled the resources sector to meet their skilled labour demands during peak periods and has "spread the benefits of the boom across the economy more broadly". This report explored the benefits of FIFO for source and host communities across regional Australia.

Sustainable communities

Attraction and retention of a suitably skilled workforce remains a priority in the WA resources sector, especially in remote and regional areas where the majority of resources operations are located.

CME member companies have consistently invested significant funds and in-kind resources in the development of regional communities, both to attract and retain their workforce but also to contribute to the communities in which they operate. These investments have facilitated the development of significant new community infrastructure in the regions of resource companies operations for the benefit of the broader communities.

CME supports member companies' work with the federal, state, and local governments to achieve a shared vision and strategy in relation to the sustainability of Pilbara towns. As part of this, members have invested heavily in economic and social infrastructure to support regional communities.

The potential is for mutually beneficial outcomes – social and economic benefits for communities; benefits for employees in the areas of lifestyle choice and employment experience; and benefits for employers in the areas of attraction and retention of skilled staff.

The resources sector has always invested significantly in the provision of permanent residential accommodation and will continue to do so, particularly in catering for operational employees, further demonstrating their commitment to providing choice for their employees and to investing in regional communities where they operate.

Skilled migration

The resource sector places a high priority on, and invests heavily in, education and training of its workforce now and into the future. Training initiatives currently underway will assist the sector greatly in developing a workforce into the medium and long term future. There is however a pressing need for an immediate skilled workforce in certain occupational areas, and therefore a flexible and responsive skilled migration program.

The 457 visa scheme provides a relatively small portion of the resources sector workforce however it is used to fill genuine skills requirements of the resources sector during the project development phase⁴³. At a time of high operating costs for the resources sector, recent changes to the 457 visa program have increased costs associated with recruiting overseas candidates. In addition the retention of Labour Market Testing (LMT) for a range of occupations, including engineering roles, adds a further administrative burden for employers seeking highly skilled and experienced employees.

⁴ CME Federal Election Submission, Pg. 26 <http://www.cmewa.com/UserDir/CMEPublications/130730%20-%20ET%20-%20Federal%20election%20submission%20-%20FINAL502.pdf>

CME would welcome efforts to streamline the process with some skilled migration processes to ensure that, when there is a genuine need to recruit internationally, employers are able to access this skilled labour pool in a timely and affordable manner.

Recommendation: In close consultation with resources sector, the Federal Government consider effective strategies, such as a government led regional employment and training hub, to grow skills, workforce participation, education and Aboriginal owned enterprises.

RECOMMENDATIONS TO SET CONDITIONS FOR PRIVATE INVESTMENT AND INNOVATION

The productivity of the resources sector in Western Australia is central to the resources sector's ability to continue to attract international capital. A study by the Business Council of Australia⁴ found the workforce in Australia compared with the US Gulf Coast was generally 35 per cent less productive for resources projects in major cities and 60 per cent less productive for projects in remote locations. This will remain a key challenge for the resources sector in WA and will continue to damage the sectors international reputation relating to costs and project management.

In order to maintain our international competitiveness, there must be a combined, renewed focus on arresting the decline in productivity. One method to address this is through the development and implementation of innovative responses and technological solutions, made in partnership with the research and innovation sector. The Pilbara and Kimberley's substantial natural resources position means these regions are in a prime position to be substantial contributors to innovation in resources project development and operations.

Initiatives for innovation need to leverage and expand upon the skills and knowledge base within the regions, and the resources sector more broadly, and provide opportunities for local industry participation. This would also result in positive flow on effects for other sectors, such as education.

The energy, mining and minerals processing industry is Australia's principal export earner and most globalised industry. It has been a major driver of growth, investment and higher living standards in Australia over the last decade.

Securing the benefits of Australia's comparative advantage in resources requires stable and globally competitive tax arrangements that encourage investment. With the resources sector among the highest taxed industries in Australia, further instability in taxation arrangements carries the risk of making Australia a less attractive destination for resources investment.

High levels of capital investment and long lead times before the generation of sales income and production-dependent cash flows are key characteristics of the resources sector. The amount of funding required – and the limitations on funding capacity of domestic financial institutions – means Australian resources companies are heavily reliant on highly mobile, global capital for investment.

The investment economics of projects are assessed based on the overall tax burden such that it is the combination of all business tax rates and measures (not just the corporate rate or any other single tax measure) that is used to assess project viability. As well as the overall burden of taxation, predictability of fiscal regimes is a critical factor influencing commercial decision-making.

Recommendation: Government work with the resources sector and regional stakeholders to identify appropriate ways in which to leverage collaboration, provide local opportunities, and promote innovation within those industries contributing to a region's economy.

⁴ BCA Study, 2012, Pipeline or Pipe Dream? Securing Australia's Investment Future.

IDENTIFY THE CRITICAL ECONOMIC AND SOCIAL INFRASTRUCTURE NEEDED TO SUPPORT THE LONG TERM GROWTH OF THE REGION AND WAYS TO SUPPORT PLANNING AND INVESTMENT IN THAT INFRASTRUCTURE

The continued development of regional centres in Western Australia is vital to support the continued growth and ongoing sustainability of the resources sector in the Pilbara and Kimberley.

CME recommends infrastructure priorities be set out by federal government, aligned with state government strategic documents, and clear commitments are made to provide certainty around government infrastructure provision to cater for future growth.

However, in the absence of effective planning, improving housing and other infrastructure is not a short term solution capable of meeting immediate growth requirements, especially when the workforce will increasingly be required to work in remote and isolated areas.

Engagement with the community is critical and informs decision making on resource sector wide issues and ensures social infrastructure provided by government is supported by the resources sector. Careful planning and strong partnerships between the resources sector, communities and government can result in mutually satisfactory programs in the resources sector and regional development. In particular, it is important for development to occur in ways that provide for collaborative co-existence.

Infrastructure Planning and Investment

Given recent changes in financial and commodity markets, and government revenue, CME commissioned Price Waterhouse Coopersto work with members and relevant government agencies to examine the incentives and barriers to private sector investment in infrastructure, and consider alternative funding models.

The resultant report, titled Investment in Resource Sector Infrastructure Report, considers the need for investment in resources sector infrastructure and focuses on five key areas to achieve this:

1. Infrastructure planning and coordination
2. Delivery of complex infrastructure
3. Financing, funding and PPPs
4. Capital recycling
5. User financing contributions

A copy of the report can be found here <http://www.cmewa.com.au/UserDir/CMEPublications/140116-INF-FINAL%20designer%20report-v0602.pdf>

Common User Infrastructure

Improvements in infrastructure will also help to address the productivity challenge and investment in economic infrastructure such as airports, roads, rail and ports, and supporting social infrastructure. CME recognises the state bears substantial upfront costs to provide this infrastructure for projects such as Liquefied Natural Gas (LNG) and supports the state negotiating with the federal government for upfront receipt of royalty revenues in recognition of this cost.

CME also acknowledges the state's overall infrastructure requirements will exceed the ability of the government to fund the required infrastructure and therefore a coordinated, proactive and long term approach is required.

Common use infrastructure, for example, could be delivered in partnership by the public and private sectors through innovative financing models. In the LNG sector, common use infrastructure to

improve productivity could include transport infrastructure, and local service markets and supply bases in the state's North West.

Housing

CME considers the current extremely high cost of land and housing remains the largest impediment to population growth and sustainable communities in the Pilbara and Kimberley regions. Even small increases in population, whether the result of inwards migration in response to new employment opportunities, or the result of natural increase, quickly create demands for additional housing in towns with small existing housing stocks. These capacity constraints are further magnified due to the high cost of building and construction.

Significant barriers to the provision of additional housing in the Kimberley have been recognised. In some communities, work is underway to ensure a supply of land for residential purposes. It is essential these land releases are timed to coincide with future resource sector development to ensure affordable regional housing.

Housing affordability continues to be a constraint in the Pilbara towns of Port Hedland and Karratha, however, measures such as land releases have alleviated its severity. The limited ability of the land supply chain to deliver developed land, together with high local building costs has kept the cost of housing high. There is considerable scope and opportunity for the federal government to utilise federal Housing Affordability programs to support housing affordability for service workers across the region.

Water

The Western Australian Department of Water regards the Kimberley region as a water-limited environment. Some towns, like Broome and Halls Creek, will require investment in infrastructure to continue maintaining supplies of potable water as populations increase. The Pilbara is also considered one of the regions requiring the most water.

Water is a key enabler of growth for the resources sector and the wider economy. In setting policies government should bear in mind resource projects have long development lead times and key decisions, including water supply and surplus water management, are generally taken years ahead of the commencement of operations.

The water resource management strategic priorities for the resources sector are:

- access to water resources for exploration, construction and security of supply for operations;
- maximum optionality in the management, use and disposal of dewatering water surplus to mine needs;
- recognition of the significant investment the resources sector makes in water resource development and management;
- the need to recognise and protect State Agreement Act rights; and
- the need to contain costs so as not to harm Western Australian's competitiveness in the international commodity markets.

CME notes water reform in Western Australia must balance the requirements of the National Water Initiative (NWI) as well as Western Australian conditions. CME supports a water management framework which enables fixed-term and volume licensing alongside a NWI-style market mechanism. This should include an agreed mechanism to transition to a market mechanism if required. This will provide government with the capacity to objectively manage water resources for all situations that may emerge in the future.

Resource projects are expected to continue to meet their own demand mostly through self-extracted ground water. However, security of water supply to supporting infrastructure and to facilitate the development of supporting communities and towns remains a high priority and the government is urged to undertake next source planning early, in consultation with the resources sector.

Regions' Roads

Federal government funding for major road projects in the region, including the Great Northern Highway re-alignment in Port Hedland has been essential to supporting the increasing needs of the road network in the Pilbara. Federal funding has also supported the development of improved freight corridors into our state's ports.

In regards to the Pilbara and Kimberley regions, the use of the Great Northern Highway and the North West Coastal Highway are integral parts of production.

Flows of diesel, materials and supplies into the regions will need to be maintained to ensure efficient production operations. Flows of agricultural and mineral products out of the region through the various ports will need to be maintained to meet shipping schedules and the requirements of end-users.

These highways are central to the tourism industry and will be used by at least some of the personnel needed on development sites.

Ensuring all road users are able to fully utilise the highway network in the Pilbara and Kimberley is of significant importance in promoting economic development in these regions. For example, the creation of appropriate passing lanes and bridge infrastructure has the potential to increase the useability of the highway network. However, to realise this potential, a consultative approach to planning and implementation with all stakeholders is required.

Enabling efficient access to the network is also important in promoting economic growth. In this regards, Western Australia's 'on one-stop shop' for managing the over-size over-mass load permitting process appears to have addressed some inefficiencies associated with the previous process, in which responsibilities were shared between multiple agencies.

Regions' Ports

As development in the regions increase, port facilities will need to expand in parallel, to maintain capacity and avoid creating supply chain or trade bottlenecks.

As the Pilbara and Kimberley regions continue to grow, increased volumes of supply chain materials and bulk product from industries such as agriculture or resources will need to be transported through local ports.

Existing port facilities in the Kimberley region are of limited scale, while in the Pilbara, capacity issues continue to be a constraint on future development. For example, the Port of Wyndham is expected to be important for the export of additional agricultural production for an expanded Ord River irrigation area, as well as servicing a growing resource sector presence in the East Kimberley. The Port of Port Hedland and the Port of Dampier also continue to progress plans and projects aimed at providing additional capacity, in light of anticipated growth.

Investment in port facilities will also assist to address the increasing competition for berth space and port facilities by other industries, including tourism, agriculture and local recreation. By further developing the regions' ports the development of these industries can continue without undue constraint or unnecessary competition.

Pilbara and Kimberley ports are also undergoing reform, as part of a state-wide ports amalgamation, which will create Pilbara and Kimberley Port Authorities. CME is supportive the intent to streamline and drive efficiencies as part of the ports amalgamation, however reiterates the need for the amalgamation to produce effective outcome with no adverse impacts

Aviation

CME forecast resources sector aviation demand as part of the 2013 State Growth Outlook.

The 2013 State Growth Outlook found, based on committed, probable and potential projects, resources sector passenger numbers in Western Australia are expected to increase by around

640,000 passengers above 2012 levels in 2017, or a five per cent increase on the 2012 passenger movements at around 12 million. This would be the equivalent to around five additional flights during each peak hour (totalling ten flights between 6 – 8am), or an average increase in flight size of 21 passengers.

Based on committed and probable projects, passenger numbers from the resources sector is expected to peak at 390,000 above 2012, by 2014. This is an increase of 3.2 per cent and would be the equivalent to around three additional flights during each peak hour (or six in total), or an average flight size increase of 13 passengers.

The 2013 State Growth Outlook also found Passenger volumes at Perth Airport grew from 4.9 million in 2001 to 11.3 million in 2011, a growth rate of 9% per annum. Growth rates at Port Hedland, Newman, Paraburdoo and Karratha have averaged over 16% per annum, meaning that passenger volumes have more than quadrupled since 2001.

The provision of timely and appropriate airport infrastructure and punctual, reliable, safe and efficient aviation services is imperative to the continued sustainability and growth of the regions' resources sector and the safety of those working in it.

Perth airport is a central hub for future resources sector development. The sector uses a workforce model which combines residential and long distance commuting, primarily fly-in, fly-out. Initiatives to address congestion and delays at Perth Airport will improve productivity and operational management.

Addressing the peak capacity problem at Perth Airport will require ongoing cooperation between the airport, the resources sector, and Government. Planning for and managing the high volume of charter flights from Perth Airport would be enhanced if government agency data collection on passenger numbers and aircraft movements was extended to cover these flights.

CME also recognises the financial capacity constraints facing many local government-run regional airports, including their limited ability to invest in the required level of infrastructure investment to support increasing air traffic and aircraft size using these destinations. CME also recognises some regional airports may lack the skill and resourcing to appropriately manage airports and airport growth, and supports the action to encourage private sector investment in, and management of, regional airports.

Energy

In regards to energy in the Pilbara and Kimberley regions, CME notes the importance of developing the white paper in conjunction with other concurrent policy development processes, such as the Direct Action Plan, and CME supports the consideration of key findings from other studies, such as the Eastern Australian Domestic Gas Market Study.

Investment and taxation frameworks should facilitate private sector investment in energy infrastructure without incentivising over investment. Appropriate frameworks should include partnerships across the public and private sectors or capital recycling of public assets.

Regulatory frameworks should also ensure efficient and timely approvals of energy infrastructure development.

Energy policy should acknowledge the importance of supporting infrastructure, such as diesel storage, renewable energy systems and road access, required for energy provision in challenging, regional and remote locations in the state.

CME also considers Government investment in emerging technologies to achieve energy policy objectives should be merit based and transparent.

Social Infrastructure

Strategic and coordinated investments in community infrastructure contribute to the sustainability of regions.

Investments in health, education, and town amenity are important in developing regional communities and improving the health and wellbeing of the residents. This in turn assists in attracting and retaining staff to the regions and contributing to sustainable population growth.

These investments should be coordinated and based on realistic population growth assessments to ensure there is not a disproportionate burden on local governments to fund the ongoing operations of the facilities.

Recommendation: A proactive and co-ordinated response is developed, in consultation with the resources sector, the state, and regions is employed to address:

- **the planning and prioritisation of infrastructure, including common use infrastructure**
- **ensure affordable land releases, building and construction are available in the regions**
- **investment in upgrading the regions' transport, social and energy infrastructure**

Consideration is given to the Resource Sector Infrastructure Report's recommendations regarding planning, financing and delivering infrastructure.