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The Pilbara – Creating A Legacy

Department of Primary Industries and Regional Development, Western Australia

Wednesday 6 June 2012: 13h00-13h40
Andrew Murray Chair: Western Australian Regional Development Trust[1]
Frank Butler Community Centre Bulgarra Karratha

The Pilbara – Creating A Legacy

2012 *Pilbara Pulse* Economic Summit Conference

Mining Town to Major Australian City – Role of Regional Development[2]

Distinguished guests, my thanks to the Karratha & Districts Chamber of Commerce and Industry for asking me to address this topic of 'Mining Town to Major Australian City - the Role of Regional Development - the vision of a sustainable Pilbara becoming reality, and what Royalties for Regions is doing to help achieve that goal'.[3]

The topic recognises that the Pilbara is Australia's export powerhouse[4] but it is still a region of towns not cities, investment has been very high in economic terms but much smaller in social terms, and it is dominated by one industry and needs to diversify.

The Pilbara population has grown to over 100 000, understated by the Census because half of that population is rotating FIFO residents.[5]

Western Australia's Government intends to keep growing Pilbara's population but to shift the mix to many more permanent residents.

That needs not just economic and social infrastructure investment but addressing amenity and liveability. The private sector has done a huge job on the economic front. The public sector is catching up on the social and services front.

Much more housing is key to reducing cost of living pressures, improving productivity, growing the Pilbara, and increasing liveability.

The further challenge is to grow the Pilbara into a more diversified economy by adding value-adding resource-based industry and technological investment, plus services, tourism, agriculture and so on to the resources and export sectors.

To be successful that growth has to be sustainable over the longer term.

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[1] Andrew Murray is the Chair of the Western Australian Regional Development Trust that oversights Royalties for Regions. The Trust is a statutory advisory body to the Minister for Regional Development and Lands.
[2] Speaker's brief: "The *Pilbara Pulse* conference is designed to seek opportunities for strategic intervention by all tiers of government and the private sector and to create a legacy for the future of the Pilbara, to foster local business growth and explore opportunities for diversification of the economy of Pilbara … How do you see the vision of a sustainable Pilbara become reality, and what is the role of Royalties for Regions in achieving that goal?"
[3] The Department of Regional Development and Lands' Pilbara Cities Office has developed the [draft] March 2012 *Pilbara Cities Economic Diversification Framework.*
[4] Western Australia overall now accounts for around 45% of Australia's export of goods. Port Hedland is the biggest port in Australia by tonnage shipped.
[5] The estimated resident population in the Pilbara is 50 000.

The good news is that a lot of effort is being put into growing this economy.

The WA Government will invest a total of $26.4 billion over the next four years in the State, including $7.6 billion in 2012-13, to build and expand the State's economic and social infrastructure.[6] Some of this helps the Pilbara.

The Deloitte Access Economics March quarter *Investment Monitor* estimates $270 billion current and potential projects in WA; of that total 44% or $119 billion is currently under construction, with mining projects being 85% of the total value. Seven gas projects reportedly account for 60 per cent of that.[7]

It is always wise to be aware of the downsides. WA's budget itemises the risks to WA's rosy outlook as including a sharp downturn or volatility in China's economic growth, sovereign debt concerns globally, and volatility in global energy markets.[8]

Development needs supporters. There are plenty of those.

While pessimists fear busts will crash north western hopes, sceptics think diversified sustainable northern economies impossible, and cynics call regional spending pork-barrelling – West Australians and big-spending investors are optimistic and giving regional development its own momentum.

In 2010 the Pilbara contributed $49 billion to the national economy, and this could quadruple within ten years.

Yet pessimists not only think a resources bust is coming but that any downturn will be permanent; this despite the sustained long term growth we have experienced in mining and the demand that is forecast to continue.[9]

Resource prices will fall. That is not being pessimistic but realistic. The resource producers already factor that in. But the boom/bust assumption that volume will also collapse is idiotic.

Boom and bust talk usually does not distinguish between price and volume. High resource prices result from demand exceeding supply. As supply lifts prices will indeed fall, and Chinese demand may reduce somewhat. However, the huge investment in added resource capacity in Western Australia confirms that producers and investors are certain high volume demand will continue.

Despite this investment, there are those who so fear the effects of Australian political and policy turbulence, deteriorating terms of trade, slower Chinese growth, a too high Australian dollar, falling productivity, and ongoing global financial social and economic pressures, that they think Australia's and the Pilbara's prospects gloomy over the longer term.

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[6] Government of Western Australia Budget Overview 2012-13 page 6.
[7] *The Australian* Friday 25 May 2012 David Uren page 1, *Cooking with gas: resources on boil.*
[8] Government of Western Australia 2012-13 Budget Paper No 3 Economic and Fiscal Outlook page 29.
[9] For instance *The Australian* 22 March 2012 page 4 carried a graph to 2015 sourced from the Australian Bureau of Resources and Energy Economics, showing sustained steady growth.

These attitudinal impediments do have an effect on support for regional development and on government investment, particularly by the Commonwealth. Such views need to be confronted and countered.

Royalties for Regions is ground-breaking. It is the most innovative and successful WA government policy in decades. It will make a significant long-term difference to this State. It is helping transform the Pilbara.

Royalties for Regions is popular valued and appreciated. It has already significantly lifted the amenity and facilities of many regional villages' towns and cities.

As the budget papers indicate,[10] a major task of Royalties for Regions is to deliver social infrastructure, including in 2012-13 investments in regional health, education, skills training, water, natural resources management, and aboriginal participation. On the economic side is continued investment in the Mid West Investment Plan, the Gascoyne Revitalisation Plan, the Kimberley Revitalisation Plan and the Ord expansion, SuperTowns, and Pilbara Cities.

The *Royalties for Regions Act 2009* is thankfully short and sweet.

There are three principal players in the Act – the Minister that decides after advice, the Department that executes the decisions, and the Western Australian Regional Development Trust that advises the Minister.

The Trust is an independent statutory body that oversights Royalties for Regions. We initiate our own work, plus whatever the Minister requests.

Our independence means we do not speak for the Government and they do not speak for us.

The object of the Act is to promote and facilitate economic, business and social development in regional Western Australia.

The income of the Fund is to be spent to provide infrastructure and services; to develop and broaden the economic base of regional WA; and to maximise job creation and improve career opportunities.[11]

The Act tells you *what* Royalties for Regions should be spent on but it does not say *why*.

Western Australia[12] is five times the size of France and it is still seriously under-developed.

This Act is aimed squarely at development. Not only have most commentators not grasped either the longevity or the quantum Royalties for Regions represents, but they have not grasped its State-building message.

The *purpose* of Royalties for Regions and regional development is to pursue a transformational state-building philosophy, an aspiration to develop this vast state to realise

[10] Government of Western Australia 2012-13 Budget Paper No 3 Economic and Fiscal Outlook Table page 222.
[11] Sections 4 and 9 of the *Royalties for Regions Act 2009.*
[12] Western Australia is 2 525 500 sq. kms.

its potential, increase and grow its aggregate wealth, and to enhance the well-being and opportunities of its people.

You can see this aspiration expressed in the Pilbara Cities Vision – the Government's planning and funding commitment to transform the regional hubs of Karratha Hedland and Newman into large population centres totalling 115 000 residents, with Tom Price, Onslow, Roebourne and Wickham totalling another 15 000, all intended to be sustainable attractive Pilbara towns.

The great virtue of this Pilbara Cities Vision is that it is reasonably comprehensive, it is future-based not past-based and it is an aspiration people can understand, believe in, get behind, and sign up to.

Pilbara Cities is investing in town centres revitalisation; land release; facilitating new housing, business, and industrial areas; affordable housing and rental options; the new Karratha suburb of Mulataga; economic partnerships with traditional owners; infrastructure; new roads; services; water and waste-water; energy; education options; health facilities and services; public amenities and community facilities; a maritime heavy-engineering common-use facility; and so on.

Over and above that, Royalties for Regions concerns itself with all the Pilbara, not just those places covered by the Pilbara Cities program.

As a concept and policy regional development in Australia has a chequered past. One problem has been that it has largely been place-based and project-based and not part of an overall plan; another problem has been a poor policy reputation due to the way in which expenditure has occurred.

There is still little indication of a general acceptance in media, political, bureaucratic, academic, business and community circles that regional development (both in Western Australia and nationally) is or should be a long-term policy and that it is not a passing political fashion.

Neither is there yet widespread belief that there really will be significant sustained and sustainable non-resources sector investment adding to and creating growth in Western Australian country towns and cities, and in WA's rural areas.

If you think it hard trying to get metro-centrics in Perth switched on to regional development in WA, it is nothing compared to getting the East on-side. Demographer Bernard Salt says a Great Divide still separates heartland eastern Australia from frontier Australia.[13]

While in many ways we are the California of Australia, there is no sign that easterners as a whole are saying 'go west' in any meaningful way.

[13] Bernard Salt - *The Australian* 28 May 2011.

Royalties for Regions delivers a dedicated secure ongoing income stream for regional development by taking 25 per cent of state royalty income every year for expenditure by the Royalties for Regions Fund.

Western Australia's royalty income was estimated at $4.8 billion for 2011-12;[14] and $4.9 billion for 2012-13.[15] 25 per cent of that is $1.2 billion each year.

Anticipating forward royalty income at $1 billion a year for Royalties for Regions for ten years is $10 billion.

So $10 billion more over ten years will be spent in country WA than otherwise would; spending that is mostly additional to that which would otherwise occur in the regions.

Royalties for Regions also creates a multiplier effect by bringing forward and leveraging regional expenditure by other WA state agencies that either would not have occurred or would have occurred later; similarly from the Commonwealth; and similarly from the corporate and the not-for-profit sector.

For example the Royalties for Regions commitment of $1.1 billion to Pilbara Cities is expected to provoke an overall spend of between $2.5 and $3 billion.

At present we can only guess at the multiplier effect of Royalties for Regions, but it looks reasonable to assume it is at least two times or $20 billion, and if it was five times it would mean $50 billion more invested in country Western Australia over ten years than would otherwise have been spent.

$10 billion multiplied sounds like a lot of money. It *is* a lot of money. But in a vast state like this it is far from enough. It needs to be spent wisely.

So priorities have to be identified. This is best done through quality strategic planning.

The Pilbara Cities Vision was not the result of a plan, but planning will carry the Vision through. But we need time.

There is a problem with political and policy cycles. Government time-frames are normally short-medium term over the four budget years. A vision like this is longer-term and requires a 15-year mind-set and commitment.

Shire planning and statutory planning in the Pilbara has improved.[16]

Good planning saves time and money, integrates collaboration and coordination, and crystallises desired social economic and environmental outcomes.

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[14] $4,794 billion Government of Western Australia 2011-12 Budget Paper No 3 Economic and Fiscal Outlook Table 1 page 73. The estimated actual turned out to be $4,493 billion - Government of Western Australia 2012-13 Budget Paper No 3 Economic and Fiscal Outlook Table 12 page 110.

[15] $4,871 billion Government of Western Australia 2012-13 Budget Paper No 3 Economic and Fiscal Outlook Table 12 page 110.

[16] The West Australian Planning Commission Pilbara Regional Planning Committee and the Department of Planning's Pilbara Planning and Infrastructure Framework is an example.

The Trust has not only been encouraging good planning, but that Royalties for Regions spending should be designed to result in better outcomes and more co-ordinated, efficient and effective regional service-delivery and regional decision-making, and deliver better value-for-money.

The Trust has argued that Royalties for Regions spending should be outcomes-based, include timelines and deadlines, use cost/benefit analysis where appropriate, and contribute to productivity growth.

Being outcomes-based means deciding not just on the intended result but reporting on and measuring the actual result.[17]

So, what we have got so far in answer to the question of how a sustainable Pilbara can become reality?

From the Government perspective it is to have a vision that is widely supported; have a plan that is comprehensive, strategic, supported and achievable; have ready cash committed over the longer term; spend it wisely and well; and concentrate on priorities and outcomes.

That's a tall order for any government venture;[18] especially when you need to add a good dose of policy courage and a long-term determination to see it through.

From a jobs and enterprise perspective, the big space needs to be left to the private sector.

If the job of the public sector is to provide strategic and process support, and to provide or facilitate the infrastructure, the social facilities and services, and the economic underpinnings; the job of the private sector is to use that to good effect, and to produce the businesses and innovation that will generate wealth and jobs.

But both the private and public sector need to address other issues for the full Pilbara potential to be realised,

It is important to address a number of barriers to growth and development.

Before we get to that, what is the task of the public sector with growth and development?

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[17] For a fuller exposition of outcomes, see the Western Australian Regional Development Trust *Review of the Royalties for Regions Country Local Government Fund*, January 2012, pages 222-226.

[18] For example, see the Western Australian 2009 Economic Audit Committee report *Putting the Public first: partnering with the Community and Business to Deliver Outcomes*, page 2. Plus, The Commonwealth Auditor-General says that soft areas in agency management include

- insufficient mechanisms to ensure value for money;
- insufficient active management of programs by senior executives;
- inadequate performance reporting as programs proceed; and
- performance reporting focussed on program efficiency and effectiveness can be thin or non-existent.

Public Sector Accountability Ian McPhee Auditor General for Australia CPA Australia International Public Sector Convention Melbourne 11 March 2011, pages 4-5.

Development[19] is intended to broaden deepen promote and facilitate the economic and social well-being of regional WA in aggregate.

Practically, this can only be done by providing the services and amenities necessary for a productive and fulfilled society; by maintaining sustainable jobs and economic activity in the regions; and by providing additional sustainable jobs and economic activity in specific local and regional areas; in so doing raising the prospects, standard of living and wealth of individuals communities and the regions overall.

Harnessing the resources of a region for 'sustainable progress'[20] in regional development requires aid or assistance to areas within regions that are short of resources or capital, or that are economically under-developed, or where aid or assistance will open up undeveloped areas, or enable new development.

Growth is a narrower concept than development but it is an important expectation and component of development.

Consequently expenditure by Royalties for Regions should help create growth opportunities, address market failure so that growth opportunities are enhanced, build regional capacity to encourage growth, and help remove barriers to growth.

Always accepting of course, those restraints on growth established in the public interest by public policy.

Of those in that list let's take barriers to growth.

Too often we assume the case for growth and development is obvious, and does not need advocacy.

Not everyone is in favour of growth and development.

A normal part of a democratic society is opposition. There has never yet been a development project that hasn't been opposed by someone. Opposition to regional development include those opposed to particular developments, and in some sectors, to any development.

No-growthers have a philosophical and ideological aversion to growth and development in general. Some people are anti-capitalist and anti-growth. Others are anti-capitalist but not anti-growth. Some people have a strong antipathy to mining in particular.

There will always be opposition to particular or specific regional development projects. Someone who opposes nuclear power, or logging old-growth forests, or a coal mine in Margaret River is not necessarily opposed to other economic activities.

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[19] For a fuller exposition of development and growth, see the Western Australian Regional Development Trust *Review of the Royalties for Regions Country Local Government Fund*, January 2012, pages 185-187.

[20] The Australian Local Government Association says that regional development is difficult to define: *"Due to its cross-disciplinary nature, regional development is difficult to define. Regional development is perhaps best viewed as a holistic process whereby the environmental, economic, social and cultural resources of a region are harnessed for sustainable progress in ways that reflect the comparative advantages offered by a particular geographic area: ALGA website."*

All political persuasions are capable of opposing specific proposals, but of all the political parties, the Greens do challenge the direction and nature of growth and development the most.[21]

What distinguishes no-growthers is absolute opposition. For example, no-growthers not only oppose the Kimberley James Price Point[22] development,[23] but oppose any LNG plant at any of the other 42 sites evaluated for the Browse Basin project.

There are much bigger impediments to growth and development than the campaigns and activities of no-growthers or some-growthers. Poor process and decision-making can turn governments and regulators into slow-growthers or unnecessarily-slowing-down-growthers.

Think of this contradiction. In 2011 our Federal Government and CHOGM[24] agreed to the *Perth Declaration on Food Security Principles*. These principles recognise food demand exceeding supply, the need to feed the world, and the need to make agriculture and fisheries more productive and sustainable.

You would expect government to follow that thinking through, but in that same year the Federal Government effectively locked up a massive one quarter of the Kimberley through heritage listing.

The Kimberley is 423 517 square kilometres in size, twice the size of Victoria.

This Commonwealth declaration will have deleterious effects on regional development prospects. By the Commonwealth's own assessment, small and large scale mining, large scale infrastructure, and broad scale agriculture are all automatically assessed as having a medium to high risk of having a significant effect on natural heritage values and should be referred for further assessment (presumably with open-ended and therefore costly timelines).

Rangelands pastoral plans are also potentially affected by introducing additional regulatory processes to those projects that seek to introduce additional economic diversification into existing pastoral leases.

Job creation is of particular importance for the large population of Aboriginal people in the Kimberley. How job creation can now be advanced under this restrictive regime is uncertain.

Getting the Commonwealth under a new government to adjust its position will inevitably take time, which is a negative in itself.

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[21] Andrew Murray *Getting to grips with minorities:* The Institute of Public Administration Australia's Annual National Conference, August 2011 Hobart Tasmania, with the theme *Learning to Power Share*. See also William Bowe: *Green Members in Green Chambers: The role of the Australian Greens in government formation. Australasian Parliamentary Review,* Autumn 2010, Vol 25(1), 137-149; referencing Kate Crowley *Strained Parliamentary Relations: Green-supported minority government in Tasmania, Australasian Parliamentary Review*, 2003, Vol 17 No. 2, 55-71.

[22] James Price Point is the Kimberley coastal site 60 kilometres north of Broome, selected by the WA Government as an LNG precinct.

[23] *The Australian: Inquirer* section, 26-27 May 2012 page 16 Tony Barass *Greenies hijack gas pipedream* .

[24] Commonwealth Heads of Government.

Australians support native title, environmental and heritage laws because they balance the social, cultural, environmental and economic, and provide safeguards.

No-growthers have been known to use these laws as a Trojan horse, and that is understandable as an activist tactic. This is not an issue unless governments and regulators explicitly or implicitly move away from proper due and sensible process because of that.

Excessive black red and green tape is a concern[25], the introduction of extraneous matters can be concerning, and open-ended processes add to both risk and cost.[26]

Processes of this sort can put off projects completely, or impede or slow up those projects, so making regional development projects more difficult and much more costly. The result is sub-optimal social and economic outcomes, lost productivity, and reduced competitiveness.

As an example within Royalties for Regions, green tape, excessive delay, and poor process affected the Ord project costs negatively and unnecessarily.

Some of the Commonwealth conditions for approval could be considered excessive, unreasonable and not proportionate to the risks,[27] given their impact on the economics of the project.

Open-ended processes are of particular concern. Enforceable timelines and deadlines are essential. If not a single-decision-maker, as few as possible is desirable. Commonwealth and State approvals should be delegated one to the other, or otherwise run parallel. The Shire State and Commonwealth public sector should be held to performance standards.

Regulators who deal with those who wish to advance regional development, whether public sector or the for-profit and not-for-profit private sector, should keep in mind the outcome intended. If the proposal is allowable they should help ensure that outcome can be achieved quickly efficiently and sustainably, while still protecting the public interest.

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[25] The Economic Audit rightly lauded attention to productivity and efficiency and to breaking down the silos that so obstruct government agency coordination. On that front, one country business leader forwarded an email to me that said: *"Potentially some developments I have to contend with…3 levels of Govt…local. state, federal 2 commissions…local development commission, state planning commission 9 govt departments…planning, local government, regional development, water, health, education, transport, main roads, environment & conservation 2 authorities…EPA, FESA 3 utilities…western power, water corp, alinta Landcorp Plus some specific area development authorities (eg Pilbara cities) and more recently Regional Development Australia now that they have been allocated some funds. That's 22 different agencies of Government."*

[26] WA's Minister for Regional Development is a member of the Northern Australian Ministerial Forum, which *"has identified the need for a concerted effort by governments to streamline environmental regulation of major regional development proposals in regional areas"* - page 203 Government of Western Australia 2012-13 Budget Statements Budget Paper No 2 Volume 1.

[27] The final conditions imposed by the Commonwealth Environment Minister on the Ord expansion impose an additional $4 million overall cost, plus a $900 000 annual cost to the State. They also result in an additional $128 per hectare annual compliance cost for landholders, particularly around water testing requirements. There is a requirement to monitor nutrient levels in high-flushing sea tidal environments at a distance of 25 kilometres from the Ord expansion area; and, a required contribution of $1.5 million to an as yet unestablished research fund on the Freshwater Sawfish species.

The approvals process for mining resources has been a legitimate target of reports, including by the Productivity Commission. The minerals and energy sector has outlined a clear set of issues it wants addressed.[28]

But the sector itself can be at odds. Preventing third party access to Pilbara rail infrastructure has affected regional development prospects and costs.

Sometimes government regional development priorities are wrong. It is no good having a focus on an outcome and deciding on a budget and timeline if you haven't anticipated the bottlenecks and invested in the inputs necessary for making good progress and facilitating early problem-solving.

As an example, there is a backlog of 12 months or more in Pilbara land valuation which results in delayed projects. High value and complex valuations are necessary relating to native title agreements, land swaps, town and industrial sites, developer proposals, mining related land, and so on.

If what is holding up key elements and adding cost to the multi-billion Pilbara Cities project is the need to have Pilbara-dedicated land valuation officers at a cost of half a million or so, why fiddle about?

If you want to hear a tough verdict, the Economic Audit committee appointed by WA's Premier said that over-governance takes government away from outcomes and leads to weakness. These weaknesses they said included inflexible out-dated and prescriptive processes; complex accountability arrangements and below par performance management; and bureaucratic and cultural barriers to whole of government collaboration and public innovation.[29]

Where these weaknesses affect you, you need to identify them and take them on. If you want to develop responsibly but quickly effectively and at the least cost, then you have to apply constant pressure on those who can reduce such barriers to growth.

If the polls do not change, the next federal government will be the Coalition. They have promised to repeal the carbon tax and the mining tax, presumably by July 2014.[30]

Assuming they can and do, they will need to make savings to adjust to the consequent lost revenue. Some carbon tax compensation can be wound back. It is not needed if the carbon tax is repealed.[31]

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[28] For example the Chamber of Minerals and Energy of Western Australia's *Report on Environmental Approvals Reform.*

[29] Western Australian 2009 Economic Audit Committee report *Putting the Public first: partnering with the Community and Business to Deliver Outcomes*, page 2.

[30] The federal election must be held no later than 30 November 2013. If Labor does not agree in the Senate to the Coalition repealing the carbon tax and mining tax legislation, the Coalition has said they will go to a double-dissolution, after which the legislation will be repealed.

[31] On climate change policy see also Andrew Murray *Applying Fiduciary Duty in Real Politik* pages 209-217 in *Fiduciary duty and the atmospheric trust* edited by Ken Coghill and others Ashgate Publishing, England 2012.

The mining tax is meant to tax super-profits. WA is getting a very modest infrastructure spend from Labor's mining tax.[32] If there is to be no mining tax, would a new Coalition government drop this infrastructure commitment?

The mining tax targets an era of 'mining super-profits', particularly for iron ore producers.

Technically super-profits are described as sustained 'economic rents'. The easiest way to describe the concept of an economic rent is as delivering excess returns above the normal levels of return in a competitive market, and considerably above the rate of return required for investment to occur.

By definition, in due course mining super-profits will end, and profits will return to trend. If I understand BHP's remarks in May correctly, they are anticipating that will occur in a dozen years' time in 2025.

There are those who argue that super-profits should be taxed and saved for the future. The Trust advised against locking Royalties for Regions funds up in a Future Fund.[33]

The Trust considered that if saving for intergenerational equity is the policy objective, the building of productive infrastructure now will better serve both this generation and later generations.

The State requires much more capital on a debt-free basis for large scale investment in much-needed regional infrastructure. This is difficult to provide via current direct and indirect State earnings. More State debt is not an option. The Commonwealth will not make up the shortfall.

If the Coalition were to drop the mining tax and therefore drop the infrastructure commitment, for the State to take up that commitment it needs more revenue.

The easiest alternative source to a mining tax is mining royalties.[34] Note that iron ore presently constitutes 88% of WA's royalties. Note also that the Commonwealth gets the royalties from WA's massive LNG projects under its Petroleum Resources Rent Tax.[35]

The Trust has not considered the matter of increasing royalties, but it is worth speculating on what might happen after the mining tax is repealed.

Increasing royalties meaningfully is probably only palatable in political and policy terms while super-profits are being realised.

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[32] About $2 billion over ten years according to the Government of Western Australia 2012-13 Budget Paper No 3 Economic and Fiscal Outlook page 71.

[33] See the Trust's 2011-12 Annual report. Instead of a Future Fund, the Trust recommended that a Royalties for Regions strategic regional development fund was needed which would receive both RforR and non-RforR funds; and, that it should be a cumulative fund for very large future regional infrastructure projects that will need funds beyond the budget out-years.

[34] *The Australian* 29 May 2012: Jonathon Pincus: *Government should cede minerals tax to states.*

[35] However the Australian government does provide the Western Australian government with ongoing compensation through North West Shelf and Condensate Compensation Commonwealth grants, for the loss of shared offshore petroleum royalty revenue resulting from imposing the crude oil excise on condensate.

Because of the effects of the Commonwealth Grants Commission's formula and horizontal fiscal equalisation, increasing royalties would need to be accompanied by a resolution of the GST issue, otherwise effectively much of the royalties revenue increase is just redistributed to eastern Australia.

A new Coalition government could support and encourage the States to raise a royalties surcharge for those identified miners earning super-profits. The surcharge would need to be withdrawn when those super-profits ended.

This could deliver much more money for infrastructure for WA and the Pilbara than the Commonwealth is presently committed to.

To make a royalties surcharge system more palatable, the royalties surcharge could principally be used for hard infrastructure that directly benefit the resources sector as well as the community, such as ports, airports, rail, roads, water, power, communications, large housing estates, and industrial parks.

All eyes are presently on mining, but greater food exports represent a huge opportunity. WA and the Pilbara would benefit if new sustainable farmlands could be opened up.

China, India and the developing world offer growing opportunities for Western Australia, which will create more jobs, skills, and wealth. The 'bourgeoisification' of China and India (and Indonesia, Malaysia and others), and the great and growing appetite for our mineral resources, food and fish, tourism and other goods and services offer tremendous export opportunities.[36]

By 2030 there are expected to be over 3 billion people in the middle-income bracket in our Asia Pacific region.[37]

That Asia-Pacific demand will need leadership, investment, and innovation in Australia to help satisfy it.

I agree with the federal Secretary to the Treasurer Dr Martin Parkinson, who in 2011 said:

> I am continually surprised that Australian investors have not yet realised the potential benefits of this new middle class for our agricultural industries.[38]

I've mentioned the effects of locking up so much of the Kimberley. There is also the no-dams mantra, and there is antipathy to 'northern food bowl' proposals.[39]

Whatever that opportunity, there are challenges to its realisation.

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[36] Commonwealth Budget Paper No 1 2011-12 Budget Strategy and Outlook: Statement 4 Opportunities and Challenges of an Economy in Transition.
[37] Commonwealth Budget Strategy and Outlook Budget Paper No 1 2012-13, page 2-28.
[38] Dr Martin Parkinson, Secretary to the Treasury, 30 June 2011: Gala Address to the Melbourne Institute Economic and Social Outlook Conference SUSTAINING GROWTH IN LIVING STANDARDS IN THE ASIAN CENTURY page 9.
[39] Including the report of the Northern Australian Land and Water Taskforce.

Green tape is a big hurdle to be got over; native title takes a long time to resolve, but it is water that is often the biggest challenge to regional development.

New technology and innovation in more efficient and sustainable use of ground and surface water, desalination, recycling and waste water have been very useful in regional development.

A lack of adequate water data can and does affect significant development proposals.

Over many years WA has underinvested in procuring and consolidating comprehensive detailed water resource data. Given its size it is not surprising that water mapping is not complete for much of WA, but a lack of adequate data can and does affect significant development proposals.

We need to determine the areas where an adequate sustainable water source does or might exist, to be utilised for significant regional development opportunities. In that regard Pilbara agricultural research and analysis has been undertaken using Royalties for Regions funds. Mine de-watering offers agricultural/pastoral possibilities.[40]

We need to identify priority geographic areas where better water data and water investment could provide for or accelerate major regional development.

What is my conclusion?

The role of any regional development program and policy, including that of the vision of a sustainable Pilbara becoming reality, and including Royalties for Regions generally, is to address needs and capitalise on opportunities.

Regional development must create growth opportunities, address market failure, and build regional capacity in ways that reflect the needs and goals of the regions and regional communities themselves, as well as the state as a whole. It must above all be an enabler.

[40] From 2010 nine pilot Pilbara Water Opportunities worth $2.5 million test the feasibility of agricultural projects, including those resulting from mine dewatering.