CME is confident the 2012 study's results will provide an up-to-date picture of forecast resource projects, and the key economic and social infrastructure required to enable them. CME will be pleased to provide a copy of the report to the Panel and the Treasurer later this year.

Ahead of CME's State Growth Outlook Study 2012, CME draws the Panel's attention to the following key Western Australian infrastructure requirements:

Oakajee Port and Rail

Significant resource sector investment is occurring in the Mid West region of WA, in particular as part of the emerging magnetite iron ore sector.

Iron ore is a high bulk relatively low value (per tonne) product requiring substantial infrastructure to move the product from mine site to port. Considering capacity at Geraldton Port is limited, a new deepwater port at Oakajee, capable of handling Cape Size ships, is therefore fundamental to the development of the Mid West's emerging iron ore industry.

It is vital the Western Australian Government has the funds to finance its share of the total Oakajee infrastructure project in a timely fashion.

Esperance Port and Common User Facilities

Esperance Port will be a critical element of the supply chain for the emerging iron ore sector in the Yilgarn area, while at the same time meeting the needs of established nickel and other industries – many of which have expansion plans. CME welcomes the State and Australian Government's investment in the Esperance Port Access Corridor Project, but further investment in the port capacity and operations is needed if the region's development potential is to be reached.

This will require strategic government investment, a clear framework for facilitating private investment, and surety that the Western Australian Government has funds to contribute.

Perth Airport

In 2011, the resource sector's workforce in Western Australia was estimated to be 101,000 with approximately 50% employed on fly-in fly-out (FIFO) rosters. This number will increase as new projects commission and existing activities expand. By 2020, the Western Australian resource sector will employ approximately 127,000 people, with over 50% employed on FIFO arrangements.

The resources sectors' paramount concern is safety, therefore fatigue management policies require that shift changeovers for operational workers occur at 6am and 6pm. This drives demand for workers to fly into and out of Perth at times coinciding with peak periods (approximately 5.30am to 7.30am and 4:00pm – 6:00pm on week days) of aircraft movements at Perth Airport.

Consequently, a safe and efficient aviation sector and road network linkages to Perth Airport with appropriate airport infrastructure is a key enabler to support resource sector and wider economic growth. Perth Airport is a central hub for FIFO activity and it is critical that the associated infrastructure can accommodate this growth, particularly around peak periods.

CME encourages the State and Australian governments to expedite the Gateway WA project as a high priority to improve access to and around Perth Airport. Further, significant congestion is being experienced at Perth Airport in the terminals and on the runway, aprons, and in the airspace. Accordingly, Perth Airport Corporation's re-development plans must continue to progress and initiatives to improve air space management must be fast tracked.

However, the incremental improvement initiatives above may not deliver the capacity to adequately manage the peak periods into the future. The potential need for a third runway to support peak periods is emerging as a key infrastructure consideration to enable the forecast ongoing increase in peak period aircraft movements.

2. Overly penalises economic performance

CME believes fiscal policy should reward productivity and economic growth. Under the current policy of horizontal fiscal equalisation, this is not the case.

Specifically, by increasing royalty rates, Western Australia could lose more in GST grants than it gains in royalty revenue. Conversely, by reducing certain royalty rates, it could gain more in GST than it loses in royalty revenue – but to the detriment of all other States.

More generally, around 90% of royalties from an increase in the value of mining production in Western Australia is redistributed to other States. Western Australia is in essence being penalised for economic growth through a reduction in GST grants.

In recent decades, Western Australia has been a net donor of resources to the Commonwealth budget, 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. More recently it has also been a net donor of GST to other States.

Returns from resource projects, secured through the State fully underwriting project cost and risk, are being redistributed to other States through both mechanisms. An example of this is the cost to the Western Australian Government of enabling the establishment of the North West Shelf gas project.

Currently, there is considerable Government investment required in the Mid West region of Western Australia to enable the development of valuable, albeit infrastructure, energy, and water intensive, magnetite iron ore projects. Up-front Government investment in common user infrastructure such as energy networks and common user port facilities, i.e. the Mid West Energy Project and Oakajee respectively, is urgently required.

With such heavy investment, the Western Australian Government faces an opportunity cost in the short term whilst a critical mass of users is achieved, and the longer term risk that the asset will never be fully utilised and costs fully recovered.

3. Barrier to structural adjustment and labour mobility

The current fiscal equalisation policy is inhibiting the free flow of labour and capital across regions and industries to where they will be most productive.

By delivering equitable Government service delivery in every State, regardless of local economy and workforce participation, the policy of horizontal fiscal equalisation provides no incentive for people to move to areas of economic growth. This is a key concern for Western Australia's resource sector which is facing significant shortages of skilled labour that could potentially be eased via skilled domestic migration. For example, CME's State Growth Outlook Study forecasts the workforce required for growth plans in the resources sector is expected to reach a peak of almost 119,500 persons in 2012 – some 43,800 (58%) above the 2009 sector workforce of approximately 75,600.

4. Complexity, bias and lack of transparency

The current process is complex, considering over 110 measures, which can detract from transparency. The outcomes of the fiscal equalisation process can also be biased to what can be more readily quantified. Assessments of States' relative 'needs' considered to be of lesser reliability are often discounted – despite the fact that the assessments are just as likely to under-estimate as to over-estimate needs. Other areas of differential needs are not assessed at all, including infrastructure to support future economic growth.

Recommendations

CME submits the following recommendations for the Panel's consideration:

- Transition to an equal per capita (EPC) share of GST distribution, with the Commonwealth Government directly funding any subsidies to smaller States (including from the fiscal dividend it will reap from reform of the GST distribution), in a way that appropriately balances equity and efficiency considerations. This will place Western Australia in a stronger position to support national economic growth and help address concerns 1, 2, and 3 above.

- Consideration in the short term of discounting mining revenue assessments to enable and incentivise States to develop, properly price and efficiently use the benefits of their resources. As per the previous recommendation, this will place Western Australia in a stronger position to invest in projects and initiatives to support resource sector growth and help address concerns 1 and 2 above.

- Limit annual falls in States' GST 'relativities' or grants. This will help address concerns 1, 2, and 3 above, as well as increasing stability in State budgets.

- States to be able to agree among themselves on a GST distribution outcome, i.e. on how their aggregate share of the GST pool is allocated (while not affecting outcomes for non-participant States). This will help address all concerns above by potentially leading to a more effective GST distribution that is responsive to changing circumstances.

- The need for simplified methods based on broader indicators of underlying differences in States' relative needs. This will help address concern 4 above.

Conclusion

CME looks forwards to the Panel's final report to the Treasurer in approximately October 2012. CME hopes to remain involved in helping the Panel form its recommendations. If you would like to explore CME's views further, please contact James Edwards, Manager – Economics and Taxation, j.edwards@cmewa.com or (08) 9220 8534.

Yours Sincerely

Reg Howard-Smith
Chief Executive