

17 December 2013

Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Inquiry into Microeconomic Reform  
PO Box 8469  
Perth BC WA 6849

Dear Mr Rowe,

**MICROECONOMIC REFORM IN WESTERN AUSTRALIA: IMPROVING THE EFFICIENCY AND PERFORMANCE OF THE STATE'S ECONOMY**

CME appreciates the opportunity to contribute to the Economic Regulation Authority's (ERA) inquiry on microeconomic reform with the aim of improving productivity and efficiency and the streamlining of unnecessary regulation.

Further to the initial CME submission lodged on 13 September, the efforts of the ERA to now focus the broad inquiry into a number of specific, key areas is welcomed.

CME's core recommendations centre on:

- Changing infrastructure requirements;
- Taxation and government revenue;
- Red tape compliance cost reduction;
- Product Markets specifically focusing on training and domestic gas; and
- Supplementary issues.

Details addressing the questions posed by the ERA discussion paper are expanded upon below. Where possible, CME has sought to address the specific questions raised in the discussion paper, provide detailed recommendations that are practical to implement for government and which should deliver significant benefit relative to the cost and time involved in implementation.

**CME and the WA resources industry**

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 resources sector and assist it to achieve 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 industry voice, adding value to our member companies in a dynamic and increasingly complex operating environment.

In order to achieve this, CME aims 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 expertise spanning industry and research activities, occupational safety and health, education and training, the environment, exploration, Indigenous affairs and workforce development, infrastructure, economics and tax, CME provides stakeholders and members with an avenue for undertaking extensive collaboration on all industry matters.

## **Background**

For a number of years now, the cost of doing business in Western Australia and Australia has escalated. The increase can be attributed to a number of factors such as a tight labour market, an increase in red and green tape, the push for cost recovery of government services and a federal Labor government policy position of "spreading the benefits of the boom".

Recent studies show Australia's cost competitiveness is declining and that the positive terms of trade, gained through high commodity prices and significant capital investment, have predominately been the driver of income growth since 2005.

Western Australian resources projects need to remain cost competitive in order to attract investment and to ensure sustainable operations to compete against our global rivals.

Recent work CME has undertaken with KPMG highlights just a 10% growth in Western Australian resources exports would deliver a \$2.7 billion increase in Western Australia's standard of living measured by gross state income and an additional 20,353 jobs in Western Australia over 5-10 years. This underscores why a focus on improving growth and investment in the resources sector delivers benefits across the whole economy.

CME considers efficiencies can be realised through the identification and recommendation of practical solutions to policy and guideline duplication, uncertainty, transparency and communication.

## **Public Utilities**

CME acknowledges the critical role of public utilities and the State Government's requirement to balance the objectives of supplying essential services with facilitating private sector investment through efficient and competitive markets in which private sector participants can be rewarded for their investment decisions. Leveraging such private sector investment in utilities infrastructure is particularly important in the context of the recent downgrade of the government's AAA credit rating.

While the questions posed by the ERA focus on government ownership of water utilities, CME is of the view the scope should be broadened to also consider the role of government ownership of the electricity utilities. CME considers a competitive electricity sector should be pursued as a priority, including the development of market related pricing methods to reward private sector risk, promote efficiency and provide appropriate price signals to consumers.

CME remains opposed to the merger of government-owned generator, Verve Energy, and government-owned retailer, Synergy. The merger appears to be a move away from facilitating a competitive and efficient energy market with greater private sector participation; a vision outlined in 2012 in the government's Strategic Energy Initiative.

CME considers the ERA should also assess the costs and benefits of disaggregating the new Synergy into several power generating retailers over the longer term. CME considers the government should define a timeframe for achieving disaggregation which would increase certainty in the market for potential private sector investors.

## **General Government Infrastructure**

The growth of the Western Australian resources sector is delivering economy-wide benefits, but it also poses a series of supply-side challenges in areas such as economic and social infrastructure. A coordinated and proactive response to these challenges is critical if the sector is to secure a sustainable and prosperous future for Western Australia and the nation. Failure to address these challenges will further undermine Western Australia's international competitiveness and attractiveness as a place to live and invest.

In Western Australia there has been a portfolio level approach to infrastructure planning. For example, there are a number of positive initiatives such as the draft State Aviation Strategy, the Strategic Energy Initiative, the Ports Governance Review, and the Regional Freight Transport Network Plan, however, these are being developed in isolation without an overarching infrastructure plan for the state.

CME considers the government should take a strategic approach to infrastructure planning across the state, and begin development of a state infrastructure plan. This would provide a platform to address resources infrastructure issues and consider how the issues could be integrated with other industries.

CME acknowledges there is a limited ability for government to fund major infrastructure projects in Western Australia due to the current budget constraints.

Subsequently there is a drive to get assets and associated debt 'off the balance sheet' to reduce leverage and free up debt capacity. In order to regain the reputation of Western Australia as a competitive place to do business, the government must retain some flexibility within the budget for potential spending cuts to appropriately manage its finances. As a result the government must identify frameworks which encourage private sector investment in infrastructure projects.

CME is currently developing a report examining the incentives and barriers for private infrastructure investment, which identifies infrastructure investment frameworks/models between industry, private investors and government including the allocation of risk.

The report will consider:

- Investment in resources sector infrastructure – the resources sector relies on a range of public and private infrastructure to deliver successful projects. Quality infrastructure, built and operated efficiently, can be a key driver for the financial viability of projects.
- Infrastructure planning and coordination – long term, coordinated planning around the state's infrastructure can help avoid duplication and delays. A detailed long term infrastructure plan can create a pipeline of priority projects to help align planning processes across government and assist investors. Infrastructure planning should be informed through a collaborative approach between government and the private sector.
- Delivery of complex infrastructure – the delivery of resources sector infrastructure is generally achieved through planning, funding and delivery of projects by large private proponents for their own use, or by government for multiple users. The government should strengthen its capabilities when playing a more complex role to broker partnerships to develop economic infrastructure through establishing a dedicated economic infrastructure unit and through blended project delivery teams.
- Financing and funding and PPPs – the private sector invests in projects based on their financial return. Government will consider a number of factors when deciding to invest such as economic and social benefits to the state. Commercial and financial structures of projects can be optimised through viability gap funding, minimum guarantees, utilising existing revenue streams, and delaying demand risk transfer.
- Capital recycling – recycling capital from existing assets would allow the government to invest in new, value creating, infrastructure for the resources sector.
- User financing contributions – the taxation treatment of gifted assets and the structure and oversight of user contributions can impact on investment decisions.

CME would be willing to discuss the report in more detail with ERA.

## **Taxation and Government Revenue in Western Australia**

CME has consistently supported genuine reform of the Australian taxation system, both federal and state, and continues to do so to provide for an efficient and effective tax regime. Tax reform is an essential function of government. Importantly, CME considers government fiscal policy must not adversely impact the Australian resources sector's international competitiveness. Increasing government taxes and charges faced by the resources sector impact negatively on the investment pipeline which underpins future growth both in the state and nationally.

Where significant tax reform is proposed, CME recommends a systematic and consistent approach to take the proposal from idea to implementation in three distinct steps:

- Green paper – This first step in the tax reform process should involve public announcement of the high level conceptual tax policy objective for discussion. This may take the form of a Treasury discussion paper or alternatively at the federal level a referral to the Board of Taxation to provide recommendations.
- White paper – After review of initial feedback a more detailed announcement of the proposal should be available for wider public comment with an extended consultation period.
- Exposure draft – After review of stakeholder comments an exposure draft should be prepared and released for further comment.

CME understands the federal government is seeking to release a tax white paper early into 2014 which will involve consultation and be an all-encompassing review of taxation in Australia. CME urges the state government to be actively engaged in this process.

### Inefficient taxes

It is broadly acknowledged by many economists and tax policy theorists that certain narrow based taxes are "economically inefficient" although definitions of such vary. Generally, an inefficient tax is one that distorts individuals' behaviour where otherwise they would have made more "efficient" choices.

However other inefficiencies include high compliance costs relative to the revenue collected as well as the encouragement of unwanted and detrimental behaviour. For example having thresholds for payroll tax may encourage economically inefficient behaviour of business to not hire needed employees where this will bring them within the payroll tax matrix. In theory however, payroll tax can be an "efficient" form of taxation, equivalent to a consumption tax.

In Western Australia, employers who take on apprentices or trainees are eligible for a payroll tax exemption for the period of the apprenticeship/traineeship. This exemption, which has been in place for some time, has had a positive effect on industry training effort. Payroll tax exemptions are critical to industries in the Western Australian economy that have a heavy reliance on apprenticeships and traineeships, such as the resources sector. For example, nearly 50 per cent of Western Australia's construction industry workforce are trade workers trained from an apprenticeship system.

Land tax could also be considered an "efficient" form of tax, however again due to thresholds and exemptions there will always be distortions on behaviour to not act in the most economically efficient manner.

Stamp duty on the purchase of properties discourages turnover and potentially restricts mobility which has been a key concern of WA resources businesses for a number of years and still remains. The decision for individuals to relocate across states to benefit from skilled labour shortages, for instance, would be impacted by the economic impost of stamp duty on the transfer of properties.



The land-rich provisions in the stamp duty legislation create inequities for mining companies in Western Australia as most mining companies hold tenements with a market value exceeding \$1 million. CME has long recommended these provisions be brought into line with other states (for example by increasing the threshold from \$1 million and excluding exploration tenements from the definition of land).

Broadening the payroll tax or land tax bases to offset a decrease in transfer duty rates would not be viewed as genuine taxation reform nor would it necessarily remove any of the inefficiencies it is seeking to improve.

Fundamentally, taxes should be easily administered and monitored, simple, predictable and equitable. In order to have state based taxes that meet these principles without having significant detrimental impact on the state's revenue base, there needs to be genuine taxation reform at both a state and federal level to address this national issue with a focus on broadening the taxation base and appropriately distributing the GST so Western Australia is best able to manage its economy.

#### States revenue base

In recent years Western Australia has been a net donor of GST to the Commonwealth, 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.

CME supports a more equitable distribution of GST to recognise, reward, and support state based productivity, protect Australia's international competitiveness, and promote economic stability. Without this reform, there will continue to be a downgrading of the state's revenue base which impacts on the infrastructure-reliant resources sector more proportionally than other sectors.

CME strongly encourages the state government to continue working with the federal government and other state representatives to address this increasing issue as a matter of priority.

#### Local government rates

Local government rates are another example of an additional layer of tax surrounded by uncertainty. CME has seen a trend of Western Australian local governments increasing differential rates applicable to mining projects, with minimal consultation, in some areas affecting increases of over 22%.

Local government rates have been an ongoing issue over the last decade for resources companies in Western Australia as differential rate increases have been inequitable, unpredictable and not administered smoothly.

CME will continue working with the Department of Local Government and Communities to ensure appropriate key performance indicators are put in place to effectively evaluate the Western Australian government's gross rental valuation policy trial prior to its conclusion in July 2015, understanding the impact on industry of any policy shift, will require close ongoing consultation with industry.

#### **Reducing the Cost of Complying with Red Tape**

Overall, there has been progress on the implementation of reforms from the 2009 *Reducing the Burden* report. Substantial progress has been made in the development of tracking systems for applications, the reporting of performance of Western Australian Government agencies and the development of outcome-based conditions of approval. The Department of Mines and Petroleum has led the way in this regard within government.

A number of other recommendations have been partially addressed such as the introduction of whole of government initiatives to reduce the amount of duplication of information required by government agencies. The establishment of the Lead Agency Framework has been a step in the right direction however further work is required to realise much needed improvement in this area.

There is still a way to go to make Western Australia a national or international benchmark for best practice in approval processes. The following are recommendations of the government's Red Tape Reduction Group (RTRG) yet to be progressed:

#### Approval information

- Western Australian Government agencies should be encouraged to create single portal for information required in multi-agency approval processes.
- Create a publicly available database for improved monitoring and auditing of land clearing.

#### Policy context

- The introduction of "deemed approval" mechanisms in government decision-making processes to provide certainty about decision making timeframes.

#### Duplication and overlap

- The introduction of whole of government initiatives to reduce the amount of duplication of information required by government agencies.

#### Timelines

- The introduction of "deemed approval" mechanisms in environmental approval and licensing processes to provide incentives for government agencies to make decisions within statutory timeframes.

#### Overall

- Creation of a one-stop-shop with appropriate decision-making authority within the Department of Treasury and Finance or the Department of the Premier and Cabinet to facilitate interagency coordination on regulatory issues.
- Introduction of a risk-based assessment process for determining native vegetation clearing applications.
- Western Australian government agencies should be required to publish internal policies and guidelines used in decision-making processes

To promote the continued growth and investment in the Western Australian resources sector, while ensuring a robust assessment of impacts to protect environmental assets, Western Australia needs an approvals framework that is accountable, transparent, timely, and above all adheres to the principles of procedural fairness.

CME supports the Western Australian Government's election commitment to establish a Statutory Approvals Tracking System utilised across all lead and approvals agencies, enabling industry to access information on projects and approvals applications from a single location.

While the current lead agency model has resulted in positive cultural change in some agencies, administrative improvements including around front-end scoping, communication, escalation and the effective and efficient use of the framework within agencies is needed to meet the expectations of the resources sector.

CME supports the state's efforts to progress bilateral agreements with the Australian Government to establish a one-stop-shop for environmental approvals to reduce unnecessary duplication between State and Commonwealth environmental assessments. CME also recommends:

- The state undertakes a review of the effectiveness of the Lead Agency Framework, with industry involvement to ensure the process is effective in delivering a clear gateway and streamlined process for proponents, as well as whole of government benefits.
- Development of a government on-line case management system for projects in collaboration with industry.
- Follow through of the Western Australian Government's election commitment to establish an Environmental Data Library, which makes publicly available online biodiversity, water and cultural heritage data.

### **Product Markets in Western Australia**

Due to the nature of our membership, CME is best placed to only comment on two of the market areas requested by the ERA; licensing and domestic gas.

#### Restrictive framework for licensing or registering tradespeople

A number of trade occupations in the resources sector require mandatory training and licensing in Western Australia including plumbers, crane operators, gasfitters and electrical occupations. This ensures the safety of workers and co-workers during the completion of these tasks. These occupations are currently the subject of negotiations between states/territories and the federal government regarding the introduction of national occupational licensing. At its 13 December 2013 meeting COAG identified a number of concerns with the proposed Natural Occupational Licensing model and decided not to proceed. States and territories will work together to investigate alternative approaches to improve labour mobility. CME supports this approach.

CME supports the appropriate training of staff involved in manual handling, and the resulting safety improvements from staff who gain adequate competency prior to undertaking such tasks. However, there is a risk that mandatory training becomes an impost on businesses and reduces economic efficiency.

Market supply for electricians is restricted through requirements set in Western Australia by the Electrical Licensing Board. These restrictions are aimed at providing safeguards for industry, individuals and the consumers of electrical services and relate to qualification/experience requirements and successful completion of a capstone test.

Up until recently in Western Australia, both the Electro-technology Training Package (UEE11) and the Metal and Engineering Training Package (MEM05) were used to train electricians and electrical fitters in the resources sector. The MEM30405 qualification has been specifically designed to reflect the job tasks of Engineering Tradespersons – Electrical/Electronic work within industrial environments of the metal, engineering, manufacturing and associated industries.

The Resources Industry Training Council (RITC) and CME have been involved in discussions with industry partners and the Western Australian regulator with regards to the recent move to only grant an unrestricted electrical licence for those who have progressed through the UEE Training Package pathway. The resources industry supports a dual pathway approach to an electrical qualification to respond to the different industrial environments an electrician works in, and the various installation and fitting work they would be undertaking.

The RITC and CME consider the largely 'domestic' orientation of the UEE training package lacks relevance to a resources development context. It is understood a new MEM electrical qualification has been designed to closely align with the regulatory requirements including:

- providing a unique qualification only for licensed electricians;

- covering the ERAC 66 essential capabilities and the 32 critical capabilities;
- including a capstone unit; and
- being comparable but not duplicating the Electro-technology Training Package pathway.

Recognition of both pathways would substantially improve the existing framework in Western Australia for many companies in the mining and oil and gas sectors.

While there has been no financial modelling of the cost/benefit of changes to existing qualification recognition arrangements, should the MEM pathway no longer be recognised, industry would be required to change its training regime. This would create unnecessary inefficiencies and incur costs to industry relating to mapping of MEM training to the UEE pathway, revision of internal training documentation; and professional development of trainers and assessors.

### Domestic Gas

CME recognises the importance for the state of secure and diverse energy supplies. In particular, natural gas is a critical energy source for electricity generation and an input to domestic production processes. While the domestic gas reservation policy is one mechanism aimed at ensuring security of energy supply, CME considers the policy should be independently reviewed in 2014-15, as outlined in the Strategic Energy Initiative, to transparently and quantifiably demonstrate the basis for the policy position.

CME will engage in the development of the Federal Government's Energy White Paper in 2014 which will consider policy and regulation reform to secure reliable, competitive and transparently priced energy. We would encourage the alignment of state and federal reform initiatives and regulation.

The Independent Market Operator's Gas Information Services Project, comprising the gas statement of opportunities and gas bulletin board, is an example of such an initiative to improve transparency in the state's domestic gas market and CME supports the project objectives. However, the gas bulletin board should be independently reviewed after the first 12 months of operations i.e. in August 2014, to ensure the proposed benefits are being realised, particularly given the substantial costs imposed on gas shippers in order to deliver the initiative.

Any changes to the current Western Australian policy must only occur after detailed and robust analysis and consultation with industry to ensure the most practical solutions have been identified and evaluated.

### **Supplementary issues**

#### Indigenous jobs and training

CME's recent industry consultations in the context of the current federal government review of indigenous jobs and training has highlighted a number of concerns within the resources sector about government agency involvement and interaction with industry which is creating inefficiencies and impacting the effectiveness of the provision of government services.

Clarity regarding engagement with government, identifying clear roles and responsibilities among agencies and co-ordination between agencies on indigenous training issues would lead to a more efficient allocation of resources, reduce duplication and provide clarity for end users.

Ideally, the preparation of a clear "roadmap" to allow easy access by industry to relevant programs and understanding of availability of government programs would be of great benefit. There is a need for greater co-ordination of services into "regional hubs" that might be best likened to one-stop-shops with strong links into local industry.



CME recommends government address the inefficiencies and duplications regarding the provision of indigenous services among various departments and regions to ensure that services are most clearly provided where required.

#### Local industry participation

The development of high quality and competitive local suppliers is of vital importance to the Western Australia resources sector and local industry is proving competitive in many areas. While a lot of focus recently has been on construction activities, the opportunity in operations and maintenance spend is substantial and long lived and often in areas where local suppliers have comparative advantage.

Considerable effort is currently being expended by resources companies to promote local participation. For example, Local Content Steering Committees have been established for key Western Australian resource projects and resource companies are actively involved on the Federal Government's Resources Sector Supplier Advisory Forum and associated working groups.

Any additional initiatives proposed at the state level should focus on building competitiveness and not duplicate initiatives and obligations that already exist under the different levels of government. Alignment of state and federal initiatives in relation to local industry participation is critical to achieving traction and reducing duplication.

CME advocates 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 introducing similar methods of protectionism. This would only lead to higher costs for project proponents and ultimately an uncompetitive local industry. CME appreciates the approach taken to date by the Western Australian Government in this regard.

#### Oil & Gas Centre of Excellence

Centres of excellence aim to be focus points of expertise in which world class researchers can collaborate and innovate. Innovation is extremely important in the resources sector and Western Australia's substantial natural gas reserves naturally position the state to be at the forefront of innovation for oil and gas project development and operations, such as floating LNG technology.

Establishing a Western Australian oil and gas centre of excellence would leverage and expand on the existing strong skills and knowledge base in the state and would provide opportunities for local industry participation, in addition to having flow on effects for other sectors, such as the state's education sector.

#### Future Fund

In the 2012-13 State Budget, the government created a Future Fund with the aim of ensuring current financial proceeds from mineral wealth is saved for future generations. With an initial allocation of \$1 billion in seed capital from state royalties, the government projects the fund will grow to \$4.7 billion after 20 years. This would yield approximately \$230 million per annum in interest which could be used to invest in necessary infrastructure and services.

Given the financial proceeds into the fund are coming from activities undertaken by the resources sector, a regular cost benefit analysis regarding the long term benefit of contributing to the fund versus investing in infrastructure which could grow the economy immediately would help focus the public on the fund's purpose and inform future debates about government spending, taxation and service delivery.

As projections show the size of government is likely to continue to grow as a proportion of Gross State Product, a regular analysis of the choices made in allocating government spending into the future fund would allow current government spending to be checked and prioritised while still achieving the government's goal of cushioning future generations of Western Australians from the cyclical nature of commodity markets.

Without such a check and balance, the size of government is likely to grow faster, leading to inefficient spending and higher taxes across all sectors.

### Royalties for regions funding

While CME understands broader consideration of state imposed mineral and petroleum royalties are not included as part of this review, CME believes the ERA should give consideration to the distribution of the Royalties for Regions (RfR) funding.

The state government announced changes to the RfR program as part of its 2013-14 budget, placing greater emphasis on underlying economic inputs to improve regional competitiveness.

The 2013-14 budget showed RfR funding is expected to amount to \$4.8 billion over the current forward estimates period, of which \$207 million (4.3 per cent) is attributable to administrative costs.

Key initiatives for allocated RfR spending include a focus on agriculture, West Kimberley revitalisation, Goldfields Esperance revitalisation and a renewed focus on health and health services. While CME supports the provision of the RfR services listed above, the ERA should review other measures to determine if, like the state budget funding reallocations in its 2013-14 budget, its percentage funding methodology represents the most efficient and effective mechanism and allocation for realising key Government initiatives.

### **Conclusion**

CME appreciates the opportunity to contribute to the Economic Regulation Authority's microeconomic reform to improve the efficiency and performance of the Western Australian economy and looks forward to continued consultation and the opportunity to represent the views of our membership further once the Draft paper resulting from the Discussion paper submissions has been prepared.

Please do not hesitate in contacting Sarah Hooper ( ) or Shannon Burdeu ( ) if you have any further queries.

Yours sincerely,

**Reg Howard-Smith**  
Chief Executive