

10 September 2020

Mr Michael Barnes
Under Treasurer
Locked Bag 11
Cloisters Square WA 6850

Sent via email

Dear Michael

2020-21 PRE-BUDGET SUBMISSION

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia (WA). CME is funded by member companies responsible for more than 84 per cent of the State's mineral and energy workforce employment.

The WA mineral and petroleum industry reported record sales of \$167.3 billion in 2019.¹ In 2018-19, CME member companies directly supported a total of 15,412 organisations across WA (including businesses, community organisations and local governments), creating another \$31.9 billion in value add to the economy. Overall, spending by members supported one in five jobs in WA.²

Overview

As part of CME's ongoing COVID-19 response and recovery planning, we have commenced a detailed data gathering exercise from member companies across a range of business types, sizes, commodities, project lifecycles and regions to inform the industry's priorities, opportunities and threats from now on. This included interviewing 30 senior C-suite level member representatives, who were each asked how the Government could best support the resources sector to return to 'business-as-usual' or bring forward economic recovery. Collectively, members had one common fiscal and budgetary request of Government – **no new or increased costs (royalties, taxes, fees or charges) imposed on the sector**. In these uncertain times, it has never been more critical to maintain stability and certainty in cost structures for both existing operations and future capital projects.

To inform the preparation of this deferred 2020-21 pre-Budget submission (the submission), CME has drawn members' insights on COVID-19 and CME's analysis undertaken to date. This submission is structured as follows:

1. The sector's response to COVID-19
2. No new or increased costs to provide investment certainty and stability
3. Continued efforts on regulatory reforms to efficiently deliver the economy's return to growth
4. Incentivising diversification and downstream value-add in the economy.

1. Response to COVID-19

CME and its member companies are acutely aware of the impacts of COVID-19 on the economy, with some businesses forced to close doors and many still struggling despite the recent easing of restrictions within WA. Without the McGowan Government's continued support for the resources sector to maintain essential operations, the impacts of COVID-19 may have seen the mothballing of projects and standing down of employees. On behalf of our members, CME expresses gratitude. The Government's willingness to

¹ Government of Western Australia, *Latest statistics release: Mineral and petroleum review 2019*, Department of Mines, Industry Regulation and Safety, April 2020: <http://dmp.wa.gov.au/About-Us-Careers/Latest-Statistics-Release-4081.aspx>

² Please note this expressly excludes the effects of household consumption, i.e. (a) 55,599 Western Australians directly employed full-time and (b) 196,915 Western Australians indirectly employed full-time to supply goods and services to the resources sector.

coordinate and collaborate from the beginning in responding to COVID-19 has been welcome and ongoing cooperation will be fundamental to ensure risk-based setting remain effective and sustainable.

The resources sector is a recognised global leader in workplace health and safety. From the outset, our sector acted quickly in implementing COVID-19 response strategies and protocols to maintain and protect safe operations throughout the evolving health crisis. In our member interviews, we asked about the effects of COVID-19 and its restrictions on business. The most significant concern was the impacts of health protocols (i.e. isolation and health screening), as well as ongoing travel restrictions and the requisite roster and quarantine requirements on the workforce. Additional costs were, and still are, being incurred to keep employees and regional communities safe, however feedback to date has been these costs are able to be absorbed as a necessary to doing business. While maintaining health protocols is not expected to affect essential production activities materially, there is a growing sense of unease in response to the cumulative impact of abnormal operating conditions. It is difficult to determine the associated effects on fatigue, mental health and wellbeing of the workforce and community.

Provided high levels of industry vigilance on COVID-19 is maintained along with the ongoing support of the Government, CME anticipates member companies will broadly continue to sustain operational activities as they are. Conversely, until there is an easing of restrictions to allow a freer flow of the labour market (goods to a lesser extent), there will be a deferral of some maintenance and shutdown activities. If market conditions and timelier approvals permit, there may be an opportunity to bring forward some of the \$91.1 billion worth of planned or possible WA resources sector projects currently in the pipeline.³ Notwithstanding, no new or increased costs or regulatory burdens imposed on the sector.

Until the economy returns to full employment, CME acknowledges there will be a continued strain on the State's finances and notes the Government has announced a significant pipeline of targeted investments as part of the WA Recovery Plan. It is also appreciated the re-emergence of community transmission in other jurisdictions has delayed the phasing out of some restrictions in WA, and this will prolong the need for targeted and tapered Government assistance to stimulate social and economic recovery. CME has written separately to the Premier and the Minister for Education on potential pathways to transition available skills into in-demand industries forecasted to experience workforce shortages (including but not limited to our sector). The looming skills shortage brings cost escalation risk not just to our sector, but to other industries that will play a key role in leading the economic recovery.

2. No new or increased costs

As the sector supports well over 200,000 jobs (both directly and indirectly),⁴ allowing the sector to operate (a) without increased royalties or taxes and with a (b) continued commitment by Government to streamline regulation will help strengthen confidence in the economy. Acknowledging it may not be viable to reduce headline taxation settings, CME supports continued efforts to reduce the cumulative burden of current fiscal, and regulatory arrangements.

The strong fiscal management by the McGowan Government to build an operating surplus before the outbreak of COVID-19 was highly commendable. As a highly trade-exposed economy sensitive to external factors such as the iron ore spot price, it is crucial the Government's fiscal strategy and budgetary priorities remain prudent and sustainable. CME does not support a strategy focused on returning the State's finances to surplus at the expense of reducing the global competitiveness of our sector, nor the State's hard-earned position as an attractive investment destination. Any return to growth must be sustainable since the ongoing impact of COVID-19 on the whole economy may be slow and drawn out.

Due to uncertainty in duration and effects of a pandemic, the Government must provide investment certainty by ensuring no new or increased taxes, royalties, levies and other charges. By committing to no further tax increases or new costs, and where possible streamlining the efficiency of the tax base over time, this will minimise a key risk to investment in otherwise uncertain market conditions. Although some commodities have realised high prices during the recent COVID-19 state of flux, this optimism may not last in the medium term

³ As of 30 March 2020. Government of Western Australia, *Industry activity indicators: Investment*, Department of Mines, Industry Regulation and Safety, April 2020: <https://www.dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>.

⁴ Lawrence Consulting, *CME member expenditure survey economic impact assessment 2018-19*, prepared for CME, April 2020.

if the global economy falls into a deeper recession. Some other commodities will continue to remain depressed for some time.

The ability of companies to keep their cost base stable through sustained control of productivity and efficiency will be pivotal to mitigating volatility in commodity prices and remaining globally competitive. Any increase in operational costs, including labour and government charges, can reduce the life of the asset (mine) and negatively affect jobs. Shortened asset life results in foregone government revenues (corporate, employment and personal taxes) had it operated for longer.⁵ The importance of stable costs is equally relevant for all development projects (i.e. pre-asset), as it can defer final investment decisions, delaying or forgoing government revenue and job creation.

Although some members have scaled back or deferred discretionary and capital spend, CME retains an optimism this will pick up again as investment conditions improve and COVID-19 induced restrictions normalise. Therefore, it is essential for operating conditions, principally costs, to remain stable and allow for this resumption.

3. Continued regulatory reform

A return to economic growth should be self-reinforcing. CME, therefore, **supports the continued allocation of priority resources on whole-of-government regulatory reforms under the Department of Treasury to make it easier to do business in WA.** A continued focus on 'step-change' reforms to improve whole-of-government efficiencies, alongside improvements to the quality and effectiveness of regulation, will support WA retaining its hard-earned position as an attractive and stable investment destination. CME thus welcomes the Government's revised approach to Streamline WA, now led by the Department Treasury.

A unique opportunity exists now to pursue bold and practical reforms to meaningfully reduce unnecessary burden and increase the productivity of both business and Government. For example, recent media coverage has highlighted \$300 million in costs due to delays to project approvals. CME strongly recommends the **coordination and implementation of priority regulatory reforms are well-resourced to deliver results within reasonable and realistic timeframes**, e.g. streamline approvals and modernise cultural heritage management.

Combined with targeted and evidenced-based incentives, a bold reform agenda could be transformational in driving an expedited return to growth in the WA economy, likely far ahead of other jurisdictions. Pursuing both initiatives may support existing projects and stimulate investments in new projects.

CME recommends the Government continue to allocate appropriate funding and resources to pursue the following reform initiatives:

- Immediate low-risk wins to reduce compliance burdens and streamline a regulator's approach, e.g. via omnibus bills where applicable.
- Deliver the agreed Commonwealth-WA bilateral approval agreement.
- Reinstate the merits of a lead agency or case management model to expedite whole-of-project approvals and assessments.

If these reforms are effectively delivered, the Government should also be prepared to provide additional recurrent funding to relevant agencies to resource an increased volume of submitted assessments and approvals from all industry sectors. For example, as a result of the Government's housing stimulus, CME understands the number of applications needing to be processed by the Department of Planning, Lands and Heritage has almost increased two-fold.

4. Incentivising diversification and downstream value-add

CME supports the long-standing stability of the *ad valorem* ten per cent netback method, which has underpinned the WA royalty regime for decades. However, it is becoming increasingly clear existing tiers do not contemplate the processing complexity, capital or operating costs associated with producing value-adding mineral concentrates, chemicals and downstream products. Consistent with the Government's drive

⁵ Excludes the opportunity cost of lost government revenue which can be used for welfare. As resource sector projects are located in regional and remote Western Australia, a shorter life of the mine may increase unemployment and rate of welfare dependency.

to encourage long-term investment in downstream diversification of the economy, there are reasonable grounds to review how the system specifically treats downstream processing in more modern, high value (and risk) commodities.

Consideration of royalty rates below the second-tier (five per cent for concentrate) and third-tier (2.5 per cent for metal) can incentivise establishment and facilitate sustained development in downstream pathways. A different tier would only apply to commodities such as magnetite concentrate, pellets, heavy rare earths and battery minerals (i.e. lithium).

These commodities typically involve a higher level of capital investment and processing intensity to achieve grades suitable for further downstream production or export. Notably, these projects are also relatively employment-intensive compared to other commodities. For example, although lithium sales made up only one per cent of the total sector's exports, it employed four per cent of the whole sector's operational workforce (i.e. 4,000 full time onsite jobs in 2019).

Ensuring competitive fiscal settings to produce mineral concentrate, chemical and other downstream products could play a key role in supporting WA's road to recovery from the effects of COVID-19. More modern and globally competitive royalty rate settings on these products would support the Government's commitment to sustainable job creation, Australia's Critical Minerals Strategy and the Future Battery Industry Strategy, amongst other future growth opportunities. While the full impacts of COVID-19 on the global economy will not be known for some time, the Government must consider longer-term arrangements that can effectively maintain existing and attract new downstream investment.

The Government, in consultation with industry and peak bodies, should undertake a targeted review of the netback framework to ensure the royalty regime is modern, effective and competitive in incentivising downstream investment in mineral concentrates, chemical and other products. The potential revenue foregone by lowering the royalty rate on these commodities needs to be assessed against the benefits of investment in a new and diversified downstream industry, i.e. job creation and value add to the economy.

Conclusion

In summary, CME asserts no increase to existing cost structures, nor unnecessary regulatory red tape left unresolved through recovery-focused reforms. Maintaining stability and certainty in both the cost and regulatory regime will help strengthen the economy while ensuring the sector can capitalise on current and future upswings in commodity prices. If you have questions on the matters raised in this submission, please contact Rob Carruthers, Director – Policy and Advocacy.

CME also consents for the Department of Treasury to share this submission. Where relevant, this submission should be read in conjunction with CME's submission made earlier in January 2020.⁶

Yours sincerely



Paul Everingham
Chief Executive Officer
The Chamber of Minerals and Energy of Western Australia

Copy:
The Hon. Ben Wyatt MLA
Treasurer; Minister for Finance; Aboriginal Affairs; Lands

The Hon. Bill Johnston MLA
Minister for Energy; Mines and Petroleum; Industrial Relations

⁶ CME, 2020-21 pre-Budget submission, submission to the Department of Treasury, January 2020:

<https://cmewa.com.au/wp-content/uploads/2020/01/2020-21-State-Pre-Budget-Submission.pdf>