

25 March 2022



Mr Michael Brennan
Chair
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Sent via email: productivity.inquiry@pc.gov.au

Dear Mr Brennan

INQUIRY INTO AUSTRALIA'S PRODUCTIVITY PERFORMANCE

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the Western Australian resources sector. CME is funded by member companies responsible for more than 58 per cent of Australia's mining new capital expenditure in 2020-21¹ and 55 per cent of Australia's corporate tax income receipts by value in 2019-20.²

Embargoed preliminary results from our upcoming 2020-21 Economic Contributions Factsheets (the factsheets) also show a sample of 56 participating CME member companies directly contributing more than \$100.46 billion to the Australian economy, inclusive of \$12.67 billion in wages and salaries to 70,396 full-time Australians. Past year factsheets are available on our website,³ with this latest iteration to be released shortly.

As the above figures suggest, the productivity and competitiveness of the Western Australian resource sector have an important share of Australia's economic output. Therefore, the focus and intent of the Productivity Commission's (the Commission) five-yearly review into Australia's productivity performance (the inquiry) is strongly supported. We acknowledge federal industry peak bodies such as the Minerals Council of Australia (MCA) will also lodge submissions and our views are aligned. Therefore, we take this opportunity to express our interest in this inquiry and submit our views on productivity priorities from the perspective of the Western Australian resources sector.

Overview

Despite the health and economic challenges caused by the COVID-19 pandemic, the Western Australian resources sector was fortunate to reach record sales of \$210 billion in 2020-21, employing an average of 149,469 workers onsite.⁴ As documented in our 'Navigating through COVID-19' report from last year (the COVID-19 report),⁵ this performance is a testament to the government's willingness to coordinate and collaborate with the sector, the dedicated efforts of a skilled workforce to endure longer roster swings and resilience of the sector in responding to external shocks time after time.

COVID-19 has brought forward underlying tension for two critical long term issues (1) **timely access to talent** and (2) **delays in regulatory approvals**.⁶ These two areas have reduced the sector's ability to increase existing or new productive capacity sooner while commodity prices are favourable, constraining economic output.

The pandemic has also highlighted the economic opportunity of leveraging strengths of the Western Australian resources sector as a sustainable, stable supplier of materials to the global energy and digital technology transition, including continued downstream diversification into value-added products. As a significant contributor to Australia's exports, we expect the sector will remain a structural feature of the

¹ Australian Bureau of Statistics (ABS), [5625.0 Private New Capital Expenditure and Expected Expenditure, Australia](#), June 2021 ref period, 26 August 2021.

² Australia-wide operations of companies with direct, equity or subsidiary interests in WA-based member projects. Australian Taxation Office, [2019-20 Corporate report of entity tax information](#), 9 December 2021.

³ CME, [2019-20 Economic contribution factsheets](#), last updated 12 July 2021.

⁴ Department of Mines, Industry Regulation and Safety, [Latest statistics release: Industry activity indicators](#), 10 October 2021.

⁵ CME and EY, [The WA resources sector – Navigating through COVID-19 and recovery](#), 22 March 2021.

⁶ Commission, [Resources sector regulation](#), study report, 10 December 2020; CME, [Re: Resources sector regulation – Draft report](#), submission to the Commission, 20 August 2020.

economy well into the future. However, to capitalise on the \$182 billion pipeline in the ‘new energy economy’⁷ and ensure a sustainable comparative advantage, (3) **structural reforms to make our environment attractive to these investment flows are needed.**

In preparing this letter, CME has therefore sought to reiterate existing views and recommendations from our recent federal pre-Budget letter of support,⁸ focusing on the above three themes against the Commission’s indicated areas of:

- Productivity in general
- COVID economic recovery
- Workforce and labour
- Investment | Capital and other physical inputs to production
- Sector/industry-specific matters
- Government tools and processes (including services | spending | taxation and regulation).

(1) Labour markets and productivity

CME supports flexibility and agility in the temporal and spatial movement of skilled labour in response to demand across Australia.⁹ However, COVID-19 and its restrictions have exposed reliance on migration and limited the occurrence of these structural shifts in the labour market, whereby historically, labour supply was reallocated towards higher productivity industries during each upswing in terms of trade. Our COVID-19 report found 91% of member companies experienced disruptions due to domestic travel restrictions, whilst international travel restrictions impacted 70%.¹⁰

With job vacancies reaching new record highs¹¹ and labour market tightness at a decade high,¹² contemporary settings are needed to facilitate increased workforce participation, skilled migration and investment in upskilling and reskilling training initiatives. To supply labour for the skills required for the global energy and digital technologies transition and produce economic growth, continued investment in broad-based STEM education is also needed. CME, therefore, supports the following measures and recommends similar reforms of this nature are considered in future:

- Implementation of the Automatic Mutual Recognition of Occupational Registrations scheme to improve labour mobility across jurisdictions for interstate electrician, gasfitter or plumbing licences.
- Completing Apprenticeship Commencements to encourage a transition towards achieving the second and third years of an apprenticeship.
- Extension of the Skilled-Recognised Graduate Subclass 476 for engineering graduates to live, work or study in Australia until April 2024.
- Expansion of the Priority Migration Skilled Occupation List to support COVID-19 economic recovery last year, with 22 additional occupations added representing several skilled roles in acute demand in the resources sector such as Mining and Petroleum Engineers.

To improve the responsiveness of the labour market to adapt to emerging demands and temporal fluctuations, CME supports simplification and increased flexibility of the skilled migration program and visa application processes as recommended by the Joint Standing Committee on Migration.¹³ CME notes the government is yet to table a response to the final report.

The sector is committed to employing and training locally, employing new or bolstering existing local hiring policies in response to the pandemic and its restrictions. However, long-term productivity will continue to

⁷ Between \$125 and 182 billion of battery metals, refineries, hydrogen and ammonia projects in Western Australia. Department of Industry, Science, Energy and Resources (DISER), [Resources and energy major projects 2021](#), figure 1.4, p 6.

⁸ CME, [2022-23 pre-Budget submission – Letter of support](#), submission to The Treasury in support of MCA and Australian Petroleum Production and Exploration Association, 1 February 2022.

⁹ CME, [Remote area tax concessions and payments – Issues paper](#), submission to the Commission, May 2019; [Re: Remote area tax concessions and payments – Draft report](#), post-draft submission to the Commission, October 2019.

¹⁰ CME and EY, [The WA resources sector – Navigating through COVID-19 and recovery](#), 22 March 2021, pp 15-20.

¹¹ ABS, [Almost 400,000 job vacancies in November](#), media release, 12 January 2022.

¹² Reserve Bank of Australia, [Statement on monetary policy – February 2022](#), 5. Economic outlook section, 3 February 2022.

¹³ Parliament of the Commonwealth of Australia, [Final report of the inquiry into Australia’s skilled migration program](#), Joint Standing Committee on Migration, August 2021.

require access to a diverse, skilled workforce that is highly mobile and able to be deployed where and when needed. This dependence is mainly due to the large, complex and intense nature of resource sector and infrastructure projects, which will continue to require the deployment of experienced and highly skilled professionals that can only be sourced from interstate and overseas. This mobility need is particularly acute when large volumes of workers are required to be deployed to remote sites for intermittent repair and maintenance works or the start-up and ramping-up of projects in response to time-bound favourable terms of trade. To facilitate productivity for industries like the Western Australia resources sector, the continued support of a nationally and internationally mobile and readily deployable workforce is needed.

(2) Regulatory inefficiency and delayed economic activity

CME's survey collection, which underpinned the COVID-19 report, highlighted 46 per cent of our member companies selected 'Streamline and reduced time frames on project approvals' as the highest-ranked form of government support.¹⁴ In the accompanying interviews with senior member representatives such as Chief Executive Officers and Managing Directors, this form of government support was also the most identified in half of the discussions across different commodities. This high priority was also re-confirmed in internal CME surveys conducted over the last four months with members of the following:

- Infrastructure Committee, with almost 60 per cent of respondents selecting 'Getting an energy project up and running – Approvals and regulation related (green and brownfields)' with an identified magnitude of impact of 'Major or Catastrophic', making it the highest-ranked issue
- Battery & Critical Interest Group, with 100 per cent of respondents selecting 'Streamline and reduce time frames on project approvals' as the highest-ranked form of government support
- Climate and Energy Reference Group, with 92 per cent of respondents selecting the State-based project approvals framework for greenhouse gas emissions as a policy and regulatory priority, making it the second highest ranked issue.

Inefficiencies or uncertainties in government regulatory processes are a key barrier in delaying when projects can be scheduled to procure significant inputs into the construction phase and the subsequent transition to production coming onstream. The more delayed timeframes become, the higher the forgone loss in ongoing economic output that would have accrued had it started sooner via:

- Employment outcomes, the associated reduced costs in required government welfare and increase in discretionary spending of households. The sector is one of the highest paying industries.¹⁵
- Operational expenditure as a reliable income for servicing industries. Preliminary findings from our factsheets indicate supply chain spending by 56 member companies supported more than 18,000 businesses, 1,000 community organisations and 80 local councils across Australia, contributing to an estimated 8.7 per cent of the gross regional product.
- Royalty and tax collections for funding of essential public services and infrastructure. As the last Federal Budget recognised, there are significant flow-on benefits from the resources sector doing well.

It is acknowledged that current government regulatory processes are struggling to keep pace with the scale and volume of private investments underway. With long lead times until resource sector investments produce available output, these delays in regulatory processes affect productivity.

From the perspective of member companies, this delay results in additional time and resourcing effort (whether internal or externally sourced) invested in planning, following up progress or responding to further requests for information to gain approval. Therefore, this can result in resources reallocated towards less productive uses that may have otherwise been used for more productive uses, such as procuring six months' worth of goods and services or investing in discrete internal improvements such as IT projects. For example, delays to obtaining necessary approvals, permits and licences from government authorities due to the large volume required are commonly publicly disclosed as a reasonable assumption or significant project risk in

¹⁴ CME and EY, [The WA resources sector – Navigating through COVID-19 and recovery](#), 22 March 2021, p 37.

¹⁵ ABS, [6302.0 Average weekly earnings, Australia](#), November 2021 ref period, 24 February 2022.

prospectuses and forward-looking statements.¹⁶ Adding to this volume is the duplication of similar types of information requested by different agencies for similar regulatory outcomes under various legislations.^{17 18}

For the public sector, this can also distort the allocative efficiency of taxpayer monies as the increased time spent in assessing or referring projects between and within agencies does not necessarily lead to a practical improvement in environmental protection outcomes achieved. As one member company publicly disclosed to their shareholders,¹⁹ these delays can occur for existing projects with no new or additional regulatory requirements. CME's recent submission to the Western Australian Department of Water and Environmental Regulation on introducing cost recovery for state-administered environmental impact assessment services highlights these concerns on regulator efficiency and effectiveness.²⁰

The ten-year statutory review into the *Environment Protection and Biodiversity Act 1999* (the EPBC Act) found it outdated and urgently needed reform. CME strongly supported the Commonwealth Government's proposals to reform the EPBC Act, including introducing 'single touch approvals' that enables federal and state environmental assessment and approvals laws to proceed under one streamlined process.²¹ This proposal gained the endorsement of the jurisdictions through the National Cabinet. CME recommends urgent priority is given to progressing these reforms to reduce regulatory duplication and improve efficiencies in the Australian economy whilst ensuring robust environmental outcomes.

Further to our climate policy position,²² CME and its members companies support the Paris Agreement and its goal of limiting global warming to well below two degrees Celsius by reducing emissions to net zero no later than 2050. However, maintaining stability and consistency in whole-of-economy policy and regulatory settings is also vital for underpinning investment certainty. This fundamental requirement extends to market mechanisms used to achieve policy objectives such as reducing carbon intensity.

Currently, there are disparate initiatives pursued within and across jurisdictions, nationally and internationally for selected reporting entities or industries. Any policies or regulations on emissions abatement will need to be least cost, flexible and nationally consistent to drive an efficient, liquid and mature market in the longer term. This approach will require a coordinated, sustainable development approach between and within all levels of government, infrastructure providers and whole-of-economy across similar but competing objectives such as electricity grid transformation, fuel security, environmental protection and emissions reduction.²³

(3) Facilitating expansionary and new capex

With medium to longer-term increases in global demand for critical energy and materials expected (e.g. natural gas, battery minerals and rare earths, hydrogen and ammonia, etc.), there is a reasonable expectation that associated commodity prices will be favourable for investment. However, the cost of bringing new supply online has become relatively higher as chances of new commercially viable discoveries become rarer, assets deplete and international competition on value chain input costs intensify.

A more accommodating environment for large-scale capital expenditure is warranted to take advantage of global capital stocks and increase Australia's enduring share of output in these global industries. As we seek to move further downstream in some of these strategic industries, the scale of capital and complexity of technological investment will only become more significant and sensitivities to regulatory and tax settings will heighten as companies worldwide compete for market share.

COVID-19 related disruptions to borders, global supply chains and access to scarce talent have meant 44 per cent of our member companies focused on sustaining existing productive capex, deferring capex or final

¹⁶ Australian Securities and Investments Commission, [Mining and resources – Forward-looking statements](#), INFO 214, October 2016; [An inside look at mining and exploration initial public offers](#), REPORT 641, 5 December 2019.

¹⁷ Leary J and Kerrigan G, [The Mining Law Review – Australia](#), 10th edition, 1 November 2021.

¹⁸ CME, [Streamline WA – Request for regulatory reform proposals](#), submission to Department of Treasury, 22 March 2019.

¹⁹ Pantoro Limited, [2021 Annual report](#), September 2021, p 4.

²⁰ CME, [Implementing cost recovery for Part IV of the Environment Protection Act 1986 \(WA\)](#), submission to the Department of Water and Environmental Regulation (DWER), October 2021.

²¹ CME, [Independent review of the EPBC Act – Discussion paper](#), submission to the Chair of the EPBC Act Review Expert Panel, 1 May 2020; [Independent review of the EPBC Act – Interim report](#), submission to the Chair of the EPBC Act Review Expert Panel, 14 August 2020; [Re: EPBC Act Amendment \(Streamlining Environmental Approvals\) Bill 2020](#), submission to the Senate Standing Committees on Environment and Communications, 19 November 2020; [Re: EPBC Act Amendment \(Standards and Assurance\) Bill 2021](#), submission to the Senate Standing Committees on Environment and Communications, 24 March 2021.

²² CME, [Climate change](#), policy areas, updated 24 September 2021.

²³ CME, [Energy and governance legislation reform – Consultation paper](#), submission to Energy Policy WA, 1 November 2021; [State Infrastructure Strategy – Discussion paper](#), submission to Infrastructure WA; [Climate change in WA – Issues paper](#), submission to DWER, November 2019.

investment decisions (FID) where possible.²⁴ Although there is \$340 billion of publicly announced and feasible projects in Western Australia,²⁵ their translation will depend on several factors. These factors may include:

- Terms of trade such as exchange rates remaining strong or interest rates low
- The cost structure of doing business in Australia remaining stable or becoming more internationally competitive compared to resource-rich jurisdictions
- Other FID conditions such as commodity outlooks and long-term customer contractual relationships remaining positive, leveraging mutual geostrategic interests in the longer term
- Streamlining and improving the efficiency of regulatory and administrative burdens, including guarding against further increases in the length of time it takes to obtain primary approvals. Please refer to the comments above.

It is vital to note that prolonged periods of low investment in capex and exploration budgets can mean the resources sector does not have the accessible capital to increase supply when global demand for commodities increases. Settings that do not encourage ongoing investment can lead to missed opportunities, especially when combined with approvals delay, as was the case with lithium in 2019.

As highlighted in our federal pre-Budget letter and in detailed pre-Budget submissions by federal industry peak bodies,²⁶ to promote capital investment, this may require reforms such as:

- Reducing the corporate income tax rate for all Australian businesses to the OECD average, noting the government is yet to formally announce plans to implement Australia's endorsement of the G20 OECD Inclusive Framework on Base Erosion and Profit Shifting tax reforms
- Increased clarity on foreign investment rules on mining tenements and openness to trade, given the sector is a relatively capital-intensive industry and relies on borrowing funds from overseas
- Expand the Research and Development Tax Incentive Scheme or similar programs for expenditure on commercial pilot demonstrations of energy transition or modern manufacturing technologies.

Conclusion

CME appreciates the opportunity to provide feedback to this inquiry and look forward to reviewing the Commission's draft findings and recommendations for productivity growth when the draft report is released for comment later in the year. Should the Commissioners intend to visit Western Australia as part of the inquiry, CME welcomes the opportunity to engage further and facilitate a forum with interested member companies.

Following our COVID-19 report, CME also intends to undertake further work with our members to quantify the opportunities for growth in the project pipeline and investigate barriers to productivity. Should timeframes align with the inquiry, we are happy to share these insights with the Commission.

Should you have questions in the meanwhile regarding the high-level views raised in this initial submission, please do not hesitate to contact Adrienne LaBombard, Manager – Industry Competitiveness.

Yours faithfully



Robert Carruthers
Director – Policy & Advocacy

Enclosed:

2022-23 pre-Budget submission – Letter of support, dated 1 February 2022

²⁴ CME and EY, [The WA resources sector – Navigating through COVID-19 and recovery](#), 22 March 2021, p 32.

²⁵ Between \$268 and 340 billion. DISER, [Resources and energy major projects 2021](#), figure 1.3, p 6.

²⁶ MCA, [Pre-budget submission 2022-23](#), submission to The Treasury, 25 January 2022; Business Council of Australia, [Unshackling the private sector – A business-led recovery](#), pre-Budget submission 2022-23 to The Treasury, 18 February 2022.