6 January 2020

Mr Michael Barnes
Under Treasurer
Locked Bag 11
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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. CME is funded by member companies responsible for more than 90 per cent of the State's mineral and energy production and workforce employment.

The value of royalties received from the sector totalled $6.8 billion in 2018-19,[1] accounting for 21 per cent of general government revenue.[2] [3] In addition to contributing 40 per cent of the state's total industry Gross Value Added,[4] commodity export earnings from the sector have helped Australia withstand the global financial crisis and post-recovery period of 2007-10.[5] [6] Despite recent escalation of US-China trade disputes and rising US interest rates forecasted to slow global economic growth, investment in the resources sector is expected to materially contribute to growth in Australia's Gross Domestic Product.[7] The sector is therefore a key driver of growth in local, state and Australian economies.

In preparing this 2020-21 pre-Budget submission (the submission), CME has consulted with member companies of various sizes operating across different commodities, project lifecycles and geographic regions. We have combined the sector's concerns regarding the Government's fiscal strategy and budget priorities into the following three key areas:

1. Collective cost and regulatory burden of doing business in Western Australia;
2. Cost recovery charging for agency services, resourcing and corresponding correlation with regulator efficiency and effectiveness; and
3. Royalty rates and expenditure of higher-than-forecasted royalty revenue.

To facilitate ongoing competitiveness and economic growth of the Western Australian resources sector, CME recommends the Government – including the Department of Treasury (Treasury), relevant Ministers and agencies – consider the issues highlighted in this submission as part of the annual Budget process.

### Context

The McGowan Government's strong economic record and disciplined expense management is commendable. Given the current macroeconomic and domestic outlook, CME encourages the Government to maintain this trajectory to reinforce Western Australia's attractiveness as a stable and competitive region for investment. Continued growth and resilience of the state's major commodity and services exports also depends on retaining predictable, efficient and outcome-focused policies and regulation.

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[1] Government of Western Australia, *Annual report 2018-19*, Department of Mines, Industry Regulation and Safety, November 2019, p. 77.

[2] References hereafter to government refer to the Government of Western Australia, unless otherwise indicated.

[3] Government of Western Australia, *2018-19 Annual report on State finances*, Department of Treasury, September 2019, p. 8.

[4] Duncan, A. and Kiely, D., *BCEC Briefing note: WA Economic update*, Bankwest Curtin Economics Centre, November 2019, p. 4.

[5] Commonwealth of Australia, *Resources and energy quarterly*, Office of the Chief Economist, Department of Industry, Innovation and Science, December 2018, p. ii.

[6] Commonwealth of Australia, *Resources 2030 Taskforce,* Department of Industry, Innovation and Science, December 2018, p. 20.

[7] Reserve Bank of Australia, *Statement on monetary policy,* quarterly release, November 2019, p. 70.

Ongoing significant capital investment across the Western Australian resources sector will be required to sustain current production levels and establish or increase market share in emerging commodity sectors. As of September 2019, an estimated $25 billion of projects were committed or under construction across the resources sector, with a further $82 billion of planned or possible projects subject to a Final Investment Decision.[8] Due to challenging global economic headwinds and the long-term nature of these investments, perceived uncertainty or increased prescription in Western Australia's policy, regulatory, legal or taxation regimes can influence a proponent's decision to plan and commit. The Government's priorities for a strong and resilient economy are more likely to be achieved if these arrangements are unaffected. Any proposed changes should yield a net benefit, such as making it easier to do business, encourage effective risk-based regulation or wiser agency spending of taxpayer funds.

Noting the Treasurer's comments from the recent Economic Reform Statement[9] and no commitment in the current term of Commonwealth Government to cut corporate income tax rates, CME does not support the imposition of higher or new economic costs on the Western Australian resources sector. A material increase to taxes, royalties, levies, tariffs, fees and charges will increase the disproportionate burden of costs borne by the sector, reducing the sector's global competitiveness compared to its competitors in low-cost regions such as South America and Africa.

If Western Australia is to capitalise on the growth of emerging and developing customer economies in the Indo-Pacific, there should be no material increase in the burden of doing business. Current efforts to progress public sector and regulatory reforms – including, but not limited to Streamline WA and the Government Trading Enterprise (GTE) Reform Program – should be further prioritised to tangibly reduce the burden from both viewpoints of regulator and business. CME recommends these key reforms demonstrate meaningful and timely improvement in public sector efficiency, including reduced approval timeframes and removal of unnecessary regulation. In doing so, clear progress against defined metrics will increase industry's confidence in the regulatory regime's robustness and attractiveness of doing business in Western Australia.

## 1. Burden of doing business in Western Australia

### a. Cost burden

CME understands agencies are required to undertake a high-level review of annual fees and charges as per the Treasurer's Instruction 810. In stark contrast to the Government's focus on achieving record low increases in household fees, there is no stipulation to consider the cumulative impact of non-household tariffs, fees and charges on the cost of doing business and overall competitiveness of industry. Individual agencies are only required to undertake a full review of fees and services every three years or if there are significant organisational changes that affect the cost of service.

The costing and pricing of these services is done individually and not collectively considered from the viewpoint of business or an agency or the whole-of-government's overall efficiency. This has partly contributed to an increasing and unreasonable volume, magnitude and range of costs levied on business, which is a growing concern amongst CME members. The Economic Regulation Authority's (ERA) final report on its inquiry into business licensing schemes substantiates these concerns, identifying broad problems:[10] [11]

- No consistent culture across agencies in actively managing schemes, governance or continuous improvement, particularly for schemes already established;
- Lack of whole-of-government information on licensing hampering review and reform; and
- Limited transparency and stakeholder input into Regulatory Impact Assessments.

CME supports the ERA's recommendation that a senior Minister should be responsible for regularly assessing duplication and reviewing the cumulative burden of schemes across agencies. Prior to introducing a new or increased cost to be imposed on business, CME supports agencies being required to show due diligence in

[8] Government of Western Australia, *Industry activity indicators,* Department of Mines, Industry Regulation and Safety, September 2019: https://www.dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx.

[9] Government of Western Australia, *Economic reform statement,* annual report by the Hon. Ben Wyatt MLA (Treasurer; Minister for Finance; Aboriginal Affairs; Lands) to Parliament, tabled paper no. 3057, 28 November 2019.

[10] Schemes includes licences, registrations, notifications, authorisations, accreditations, permits, approvals and certifications.

[11] Economic Regulation Authority, *Inquiry into reform of business licensing in Western Australia*, final report, February 2019, pp. 5-7.



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reviewing, and where possible, removal of existing schemes. This would align with the Commonwealth Government's guide to regulation.[12] A culture of continuous improvement would ensure other options such as efficiency improvements are exhausted prior to imposing new or increased costs, rather than pursued by default.

A non-exhaustive list of the costs imposed by the Government and local government authorities include:

- Payroll tax – The resources sector contributes three times more to government's payroll tax revenue compared to other industries, with recent higher tax collections attributed to stronger employment in the resources sector and its supporting professional service sectors;[13] [14]
- Land tax and landholder duties;
- Transfer duties on dutiable high value commercial transactions, e.g. mining tenements, other property, infrastructure rights and farm-in agreements;
- Annual Mining Tenement Rentals and securities;
- Environmental application assessments, e.g. operating licences, works approvals, water licences and clearing permits;
- Light and heavy vehicle charges, e.g. vehicle licence duties, motor vehicle registrations, oversize vehicle and load permits;
- Levy contributions to funds, e.g. the Waste Avoidance and Resource Recovery Account, Building and Construction Industry Training Fund Levy, Mines Safety and Inspection Levy, Petroleum and Geothermal Energy Safety Levy and Mining Rehabilitation Fund;
- Port Improvement Rates, port user charges on shipping, cargo and lease payments;
- Network tariffs, charges and utility fees to GTEs; and
- Local government differential rates, minimum payments, passenger head taxes, airstrip landing charges and road maintenance agreements.

Including royalties and payments to the Commonwealth Government, CME members report the effective tax rate on the Western Australian resources sector can be as high as 45 per cent.[15] Moreover, this effective tax rate does not capture the opportunity cost of lost government revenue (i.e. forgone royalties, taxes, dividends from GTEs, fees, charges and other costs) and lost employment arising from delays in environmental assessment and approval processes. The adverse impact of institutional regulatory burdens on the cost of business is high[16] [17] [18] and should be considered by all governments to make it easier to do business in Western Australia.

### b. Regulatory burden

Red tape reduction is essential to sustain the global competitiveness of the Western Australian resources sector, which has underpinned the state's economic health to date. Progressing tangible economic reforms to reduce regulatory burdens should be prioritised. In this context, CME welcomed the recent release of the Economic Reform Statement and its reported progress, noting more work is required to define outcomes and demonstrate realisation of the intended benefits – both in the short and longer term.

CME supports the Government's commitment to Streamline WA,[19] which seeks to improve regulation and its administration to encourage investment, growth and jobs. As a key beneficiary of proposed reforms to mining environmental assessments and approval processes, CME member companies support continued allocation of funds for Treasury to support the Government's implementation of this initiative.

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[12] Principles 2 and 3. Commonwealth of Australia, *The Australian Government guide to regulation,* Department of the Prime Minister and Cabinet, March 2014.

[13] Government of Western Australia, *Western Australian economic and fiscal update,* presentation by the Hon. Ben Wyatt MLA, Western Australian Treasury Corporation, June 2019, p. 12.

[14] Government of Western Australia, *Quarterly financial results report,* Department of Treasury, September 2019, p. 5.

[15] Reports and statements prepared by CME members in 2018-19 as part of their voluntary commitment to the Australian Taxation Office's Tax Transparency Code.

[16] World Economic Forum, *The global competitiveness report 2019*, insight report, October 2019, p. 67.

[17] Economic Regulation Authority, *Inquiry into reform of business licensing in Western Australia*, final report, February 2019, p. 4.

[18] Commonwealth of Australia, *Effect of red tape on environmental assessment and approvals*, interim report, Senate Select Committee on Red Tape, October 2017, p. 27.

[19] CME, *Streamline WA – Request for regulatory reform proposals*, letter to the Streamline WA Steering Committee, 22 March 2019: https://cmewa.com.au/wp-content/uploads/2019/08/Streamline-WA-Submission-1.pdf.



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However, to maximise the benefit of these reforms and effectively reduce the regulatory burden on both regulators and proponents, CME considers an increased appropriation to fund permanent improvements to information systems is needed. Without this appropriation, the Government cannot successfully deliver on:

- Streamline WA;
- Proposed amendments to the *Environmental Protection Act 1986* (WA);
- Environmental Bilateral Approvals Agreement (Commonwealth Government partnership); and
- Digital Environmental Assessment Program – Combines Environment Online, Index of Biodiversity Survey Assessments and the Digital Transformation Agenda.

CME asserts these step change improvements will have a self-reinforcing positive feedback loop, with the cost invested recouped through improved staff productivity and efficiency, reduced timeframes and increased economic activity. As suggested by the Premier, this will bring forward "billions of dollars' worth of new job-creating projects".[20] These improvements will reduce time and cost spent on duplicated processes, improve the value of disparate datasets, with benefits (tangible and intangible) for the public sector (intra- and interagency), private sector (all industries) and the wider community (intra- and intergenerational).

As articulated in our recent submission,[21] CME does not consider the proposed *Local Jobs Bill 2019* (WA), and the accompanying Skilled Work Agreement, in its proposed form will contribute to these desired outcomes. The proposal runs the risk of duplicating reporting and increasing the burden of administrative compliance on proponents. Adoption of the alternative solutions recommended in CME's submission could achieve the same intent without imposing a new, additional and prescriptive layer to the existing approvals process. Wherever possible, to reduce the cumulative administrative time on getting projects up and running, as well as maximise the benefits of reforms, CME supports non-prescriptive processes.

### c. Regional cost of business

Many of CME's members operate in regional and remote Western Australia, supporting nearby towns and communities. Attracting and retaining skilled long-term employment to these areas is difficult however. CME understands the preliminary findings by the Department of Training and Workforce Development's regional labour market reviews indicate a looming skills shortage across key industry sectors in WA. A tightening labour market across at a national level is further exacerbating these issues.

Over a decade of reviews and inquiries by various governments illustrate the complexity of the broader issues associated with attracting and retaining suitably qualified workers to reside in the regions. A combination of macro and micro factors exists such as regional amenity (liveability) and access to core services (education, health), increasing urbanisation and "coastal drift", decreased geographic labour mobility, ageing populations, "flight of youth", etc. All levels of government and regionally-based businesses have significant challenges to address these perennial issues.

The latest study by the Productivity Commission (the Commission) into remote area tax concessions and payments reviewed and identified a range of mechanisms for supporting regional economic development. CME was disappointed the Commission's draft recommendations focused on winding back current concessions, which CME considers are vital to supporting regional businesses. The report did not adequately explore opportunities to broaden the base of concessions. As highlighted in our submissions, broadening the base could amplify the scheme's positive impact on the regions and increase the availability and mobility of skills.[22] [23]

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[20] Government of Western Australia, *Commonwealth urged to sign agreement to fast track approvals,* joint media statement by the Hon. Mark McGowan MLA (Premier; Minister for Public Sector Management; State Development, Jobs and Trade; Federal-State Relations) and the Hon. Stephen Dawson (Minister for Environment; Disability Services; Electoral Affairs), 27 November 2019.

[21] CME, *WA Local Jobs Bill Consultation Paper and Skilled Work Agreement*, submission to the Department of Jobs, Tourism, Science and Innovation, November 2019: https://cmewa.com.au/wp-content/uploads/2019/12/WA-Local-Jobs-Bill-and-Skilled-Work-Agreements-Submission.pdf.

[22] CME, *Remote area tax concessions and payments – Issues paper*, initial submission to the Commission, 17 May 2019: https://cmewa.com.au/wp-content/uploads/2019/08/Remote-Area-Tax-Submission.pdf.

[23] CME, *Re: Remote area tax concessions and payments – Draft report,* post-draft submission to the Commission, 16 October 2019: https://www.pc.gov.au/__data/assets/pdf_file/0020/246404/subdr186-remote-tax.pdf.



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One positive mechanism noted by the Commission as having the potential to influence economic growth is Queensland's payroll tax discount. Up to a one per cent discount is offered to businesses with a principal place of employment in an identified regional area with a payroll that employs more than 85 per cent local, regional employees. CME recommends consideration of state-based mechanisms like Queensland's scheme for businesses with workforces located in regional and remote Western Australia.

Combined with the Government's recent increase in the payroll tax exemption threshold to $1 million and the continued rebate on wages paid to new Indigenous employees, a payroll tax rebate to support businesses with a regional principal place of business and workforce would partially offset the higher cost of doing business in the regions. This would support the Government's priorities of sharing prosperity and building of stronger and diverse regional economies. The cost of the rebate could be funded from the Royalties for Regions program (RfR), providing a positive feedback loop in aligning expenditure with derived revenue.

CME recommends the Government consider:

- Appointment of a senior Minister or equivalent to be responsible for providing whole-of-government oversight, regularly assessing duplication and reviewing the cumulative burden of costs and regulation imposed on business by one or more agency;
- Continued allocation of funds for Treasury to support the Government's public sector reform implementation and reporting of progress on Streamline WA to ensure high impact, high economic value outcomes are prioritised;
- Additional allocation of funds to support information systems development that will improve coordination and transparency of government services (including approval applications); and
- A nominal payroll tax rebate for employers with a regional principal place of business to incentivise regional employment of locals, generating sustained wealth for regional towns and communities.

## 2. Cost recovery charging of government services

CME recognises, but does not wholly endorse, the justification for cost recovery. Its premise is acknowledged if it ensures agencies have dedicated funds and resources to deliver an appropriate level of service.

The 'customer experience' that project proponents experience under government approval processes are inconsistent, opaque and highly contingent on the assessing officer (rather than informed by evidence risk-based decisions). As a result, CME members are strongly motivated to work alongside the Government to improve the efficiency and outcomes of assessment and approval processes, and, in turn, bring forward the economic benefits associated with timelier commencement of projects.

It is apparent that current funding from the Consolidated Account has been inadequate in equipping agencies with the resources required deliver a continuous level of service that meets the reasonable expectations of industry. However, this does not justify the introduction of cost recovery. For some schemes that have transitioned to industry-funded cost recovery, CME members have not seen a corresponding increase in the quality or consistency of service delivery, and in some cases, a decline has been observed.

In other instances, cost recovery has not been levied equitably on all users, creating a market failure where the resources sector incurs a disproportionate incidence of the Government's cost in providing that service. Cross-subsidisation is not equitable, efficient nor sustainable for agencies. This limited transparency misleads 'free riders' on the costs of these externalities, breaking the link between expense and revenue. This has led to unreasonable year-on-year and cumulative increases well above any index[24] for the various costs of doing business outlined above. It is also not appropriate to seek full cost recovery for all government services, especially those with public good characteristics.

Some relevant case examples CME members have experienced include:

- Limited evaluation by agencies of alternative charging models, favouring administrative efficiency and perceived capacity-to-pay (or conducting "rent-seeking" behaviour) rather than equity and users pay, i.e. new fee structures up to 40 times higher for clearing permits are proposed;

[24] Local Government Cost Index, Perth's Consumer Price Index, Producer Price Index and Wage Price Index.



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- Narrowed base of mandated payers which can distort both intra- and intergenerational equity, i.e. application assessment fees for water licensing is borne by only two sectors (the mining sector and public water supply) with little consideration of past or likely future users;
- Above inflation annual increases to Mining Tenement Rentals, directly escalating local government differential general rates and exponentially increasing payments to Traditional Owners. There is no requirement for agencies to consider cross-agency, effects on a proponent's project lifecycle or whole-of-government priorities; and
- Where a Special Purpose Account is not required, there is a lack of separate ledgers or cost centres to substantiate spending of the increased cost recovered revenue on their purported uses. Although the Exploration Incentive Scheme (EIS) has become industry-funded, there is no transparent and separate record keeping of revenue and expenditure available to those funding the EIS.

As these various cost increases are in addition to existing taxes, royalties and fee payments made to the all levels of government, this contributes to the negative perception of a 'death by a thousand cuts' scenario whereby industry becomes less competitive and at the same time subsidises inefficient government services. This affects the degree to which industry is prepared to accept new cost recovery mechanisms, particularly if they are purported to deliver better outcomes for existing government services.

### a. Transparent stakeholder engagement

Where cost recovery is planned to exceed the expected rate of inflation, agencies should be transparent and accountable in engaging with stakeholders to demonstrate how charges will be calculated and where the increased revenue will be used. It is our member's experience that inconsistent and, at times, inadequate consultation with affected stakeholders has contributed to the overall increase in the cumulative burden of both cost and regulation imposed on the Western Australian resources sector.

Recent consultation[25] on the *Building and Construction Industry Training Fund and Levy Collection Act 1990* (WA) (CTF) highlights a lack of meaningful engagement commensurate to the likely magnitude of impact on affected stakeholders. The imposition of the CTF levy on the resources sector will materially increase the fund's revenue, whilst also disproportionately increasing the burden of cost and regulation of doing business in Western Australia. While CME welcomes the Government's commitment to expand the CTF Board to include representation from mining and energy, further structural reforms are required to ensure the CTF functions equitably and effectively in response to the resources sector's construction training needs.

For cost recovery based on fee-for-service or a user pays principle, CME recommends the Treasury's public sector guidelines[26] is updated to reflect the following principles of cost recovery and regulatory stewardship. [27] [28] [29] This would require agencies to illustrate:

- Transparency and accountability – in their scope of activities, areas of regulator focus, decision-making processes and link towards achieving the Government's goals and priorities;
- Economic efficiency and effectiveness – of their services, ensuring services are priced at cost recovery on a sustainable basis without cross-subsidising other underperforming services and/or compromising overall allocative efficiency of finite resources;
- Ongoing stakeholder consultation – a vehicle to provide meaningful dialogue to explain cost volatility, provide assurance on cost containment, advise of expected changes in levied rates and provide guidance on upcoming reviews; and
- Cost Recovery Impact Statement – requiring development of such a statement would increase transparency of whether there is structural over- or under-recovery charging of government services. It would encourage a culture of continuous improvement and fiscal responsibility in delivering effective regulation-based outcomes.

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[25] CME, *Review of Building and Construction Industry Training Fund and Levy Collection Act 1990 (WA),* submission to the Construction Training Fund, June 2019: https://cmewa.com.au/wp-content/uploads/2019/06/190628-BCITF-and-Levy-Collection-Act-Review-Submission-FINAL-v1.0.pdf.

[26] Government of Western Australia, *Costing and pricing government services*, guideline, 6th edition, Department of Treasury, June 2015.

[27] Commonwealth of Australia, *Australian Government cost recovery guidelines*, resource management guide no. 304, 3rd edition, Department of Finance, July 2014

[28] Commonwealth of Australia, *Application of cost recovery principles*, Auditor-General report no. 38 2018-19, Australian National Audit Office, May 2019.

[29] Government of New Zealand, *Government expectations for good regulatory practice*, The Treasury, April 2017.



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A framework based on the above principles will ensure cost recovery is successful from the viewpoint of both regulator and business, facilitating a culture of best-practice regulation. To reinforce this behaviour however, any efficiency gains achieved will need to be retained and 'ring fenced' by the agency, rather than returned to the Consolidated Account. Following on from the Service Priority Review, CME understands the Government will review adequacy of the annual Budget process in delivering government services.

In practice, this would be like how the *Mines Safety and Inspection Levy Regulations 2010* (WA) operates with a Special Purpose Account. For example, the introduced annual information session provides stakeholders with insights into the fund's spending and potential changes to the levy rate in the following financial year. This transparency enables stakeholders to query estimated inspection hours, co-design establishing of a sound governance framework and communicate the need to improve operational efficiency and management.

### b. Agency resourcing

CME considers it critical agencies are appropriately funded and resourced to carry out their functions as required under legislation. Insufficient resourcing undermines an agency's ability to efficiently and effectively deliver their required services, eroding public trust and confidence in best-practice regulation.

Current resourcing for the WorkSafe policy team, a division of the Department of Mines, Industry Regulation and Safety, appears insufficient to support the Commission for Occupational Safety and Health (COSH). COSH has a statutory role under *the Occupational Safety and Health Act 1984* (WA) to provide expert advice to the Minister on workplace safety laws, policies and programs. This includes providing input to the development of educational and other guidance materials aimed at promoting occupational safety and health standards across all workplaces. COSH stands to play a key role in assisting WorkSafe to prepare and review materials, and in particular, support the proposed *Work Health and Safety Bill 2019* (WA) that was introduced into Parliament this year. Without appropriate allocation of resources to WorkSafe to support this large body of work, COSH's ability to assist is limited.

The Government's strategic initiatives to improve efficiency of environmental assessments and approvals – including those encapsulated under *Streamline WA* – are cause for concerns for CME members. Whilst these initiatives are welcome and have the broader support of industry, as currently scoped the proposed benefits will not be derived in the short- or medium-term due to the inherently long-lead nature of Government's proposed response. They are also unlikely to relieve the immediate delays experienced by proponents nor resolve a regulators' chronic backlog under the *Environmental Protection Act 1986* (WA).

Until progress can be achieved in implementing the identified medium-to-longer term streaming reforms, CME maintains increased resourcing is needed – in targeted and potentially temporary areas – to ensure the resources sector can take timely advantage of current investment opportunities. CME recommends the Government continue to actively address resourcing constraints in key agencies that are the 'weakest link' in coordinating assessments and inter-agency processes. CME thus recommends that additional resources be immediately committed to ancillary agencies essential to the regulator's primary role - such as referrals to the Office of the Appeals Convenor and the Department of Biodiversity, Conservation and Attractions.

CME recommends the Government consider the following:

- Cost recovery charging should be implemented by agencies only if –
    - There is a continued commitment to reduce red tape and execute regulatory efficiency;
    - It meets the agreed principles of good governance, efficiency and transparency and consultation;
    - A Cost Recovery Impact Statement is produced at least once every three years to align with the Treasurers Instruction 810;
- Adequate resourcing allocated to the WorkSafe division to facilitate policy development and enable effective fulfilment of the Commission for Occupational Safety and Health's legislative functions; and
- An immediate increase in resourcing to the Office of the Appeals Convenor and Department of Biodiversity, Conservation and Attraction to address delays and bottlenecks experienced with interagency assessments.



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## 3. Royalties

### a. Expenditure of higher than budgeted royalty revenue

CME was pleased to see the recent 2018-19 Mid-year Financial Projections Statement acknowledge the resilience of exports such as iron ore in contributing to the Budget's return to surplus. CME appreciates there were no announced changes to royalty rates during the 2018-19 Budget and commends the Government's fiscally responsible and conservative adjustment of the modelled average long-run price of iron ore.

In addition to progressively applying windfall funds to the Debt Reduction Account, CME supports a proportion of higher than budgeted royalty revenue being appropriated for medium-to-longer term projects that deliver a stronger economy, jobs, and liveable prosperous communities. For example, in line with the intent of the *Infrastructure Western Australia Bill 2019* (WA), maximised and/or shared value should be accepted as a sound return on invested taxpayer funds. This includes existing priorities identified by the Infrastructure Priority List and Australian Infrastructure Audit 2019 that do not have committed funds by the Government or Commonwealth Government.

The Government should be encouraged to use its annual Budget process to consider longer-term strategic initiatives aligned with the priorities of securing future jobs and a stronger, more resilient economy. As a trade-oriented economy, such initiatives should inherently consider and plan for the cyclical nature of trade-related projects.  For example, CME supports use of the royalties to address barriers to future workforce productivity and economic growth, particularly in addressing skills shortages. Committing a nominal percentage of royalties to initiatives such as the Future Jobs, Future Skills: STEM Skills Strategy and Pilbara Collaboration's Digital Technologies Curriculum Project would be self-sustaining. These improved outcomes will be shared across all industry sectors, securing increased economic diversification and quality of life for younger Western Australians.

CME also recommends investing a proportion of royalty revenue on targeted public sector reforms that can improve regulator efficiency, effectiveness and stewardship. This would assist with prioritised implementation of reform proposals identified by Streamline WA, and in additional to existing capability building programs which currently receive grants from the Royalties for Regions Regional Reform Fund, e.g. the Local Government Capability Fund. Prioritised planning will assist agencies to be 'ready-to-go' with timelier risk-based implementation of new projects in response to increased activity across the resources sector fuelled by strong commodity prices.

CME also recommends royalties are reinstated as the primary source for funding the EIS, rather than escalating the Mining Tenement Rentals to cost recover the EIS. Use of the Mining Tenement Rental to cost recover the EIS effectively increases the cost of holding tenure, and disincentivising exploration. As outlined above, this further exacerbates the financial impact of local government differential general rates and Traditional Owner payments on exploration companies. This expressly defeats the objective of encouraging greater exploration activity. Furthermore, given the Government generates nearly $7 billion per annum in royalties alone, re-investing a nominal proportion into the EIS provides a self-reinforcing mechanism for the state's mineral wealth.

Investing windfall royalty revenue in these above priorities will address many of the key challenges and opportunities the State will face in the near future, whilst also underpinning the foundations for continued economic growth, productivity and quality of life.

### b. Royalty rates

With a positive net operating balance and a greater recurrent redistributed share of GST grants guaranteed, CME considers there is no justification for the Government to increase royalties on any commodity in the 2020-21 Budget, nor across the forward estimates period. CME also supports retaining the well-established 10 per cent benchmark on mine-head value as an appropriate gauge of royalty returns to community.

Any increase in royalty rates will be to the detriment of the sector's capacity to respond to future economic shocks, negatively affecting job creation and the prosperity of communities across Western Australia. Royalty increases are likely to result in a decreased mine life as companies strive to maintain investor returns, recouping the increased cost by prioritising 'high-grade' mining of deposits or accelerating depletion of economic reserves. Shortening the life of mines has implications for forgone taxes (income and employment), royalties and a welfare cost associated with redundancies. It also reduces investment attractiveness through



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a perceived increase in sovereign risk and potentially reduced competitiveness compared to other jurisdictions in Australia and overseas.

Consistent with the Government's drive to encourage long-term investment and downstream diversification of the economy, there are reasonable grounds to lower royalty rates to incentivise investment for specific commodities – particularly emerging downstream and 'new energy' commodities. Lowering royalties on selected commodities can support initiatives like Australia's Critical Minerals Strategy and Future Battery Industry Strategy. As global economic growth moderates and competitive supply of these commodities increases, there is merit in the Government considering fiscal incentives to attract investment into Western Australia.

Although rebates on royalties provide a welcome short-term relief, it provides insufficient certainty and inadequate stability for proponents in the longer-term. Instead, CME recommends the Government consider the alternative of marginally lowering rates on a permanent basis. Commodities that typically involve a higher level of capital investment and processing intensity to achieve grades suitable for further downstream processing and/or export would stand to benefit from such an alternative.

Consideration of different royalty rates below the 5 per cent tier for concentrate and 2.5 per cent tier for metal would incentivise the establishment and sustained development of downstream industries for commodities such as magnetite concentrate, heavy rare earth elements and other battery minerals.

CME appreciates that any consideration of adjustments to royalty rates will need to be evidence-based and considered on a case-by-case basis. Such analysis should also remain consistent with the State's long-established *ad valorem* methodology, while acknowledging that the existing tiers may not fully contemplate the processing complexity and costs associated with production of the saleable product.

Targeted rate adjustments and other non-royalty incentives will support the growth of strategic industries and be consistent with Government's priorities of economic diversification and sustainable job creation. This would also provide greater certainty in budgeting across the forward estimates period.

Until such an analysis is completed, CME supports a minimum six-month extension of the Magnetite Financial Assistance Program to provide current producers the much-needed assurance in challenging market conditions.

The Government's recent decision to apply a 5 per cent feedstock rate on lithium spodumene concentrate sold as carbonate or hydroxide for further processing provides welcome clarification to industry. This will ensure large-scale vertically integrated proponents are not liable to pay royalties more than once on the sale of "lithium minerals". While the proposed *Mining Amendment Regulations (No. 5) 2019* (WA) gives effect to this announcement, CME members do not consider this will effectively encourage further longer-term downstream processing and manufacturing. Given the recent deterioration in market conditions for lithium, every effort should be made to support this emerging industry to be sustainable and, in turn, ensure Western Australia is well-placed to take advantage of future pick-ups in demand for electric vehicles and lithium batteries.

CME recommends introducing non-royalty incentives to facilitate capitalising on the State's potential for further downstream processing of battery and critical minerals, as well as continued support for establishment of industry upstream. This could include targeted investment in shared multi-user, multi-purpose infrastructure near well-established strategic industrial areas, ensuring they are effectively "turn-key" ready for new and emerging industries.

CME recommends the Government consider the following:

- A proportion of higher-than-budgeted royalty revenue should be spent on capacity building measures with longer-term shared benefits, such as –
    - Infrastructure – Existing priorities identified by the Infrastructure Priority List and Australian Infrastructure Audit 2019 that do not have committed government funds;
    - Public sector reforms – Proposals identified by Streamline WA;
    - Education – Future Jobs, Future Skills: Stem Skills Strategy and Pilbara Collaboration's Digital Technologies Curriculum Project;



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    - Exploration Incentive Scheme – Reinstated as the primary funding source;
- A temporary extension of the Magnetite Financial Assistance Program to enable work to be undertaken to support consideration of a permanent royalty rate reduction on magnetite concentrate; and
- Strategic investment, including non-royalty incentives, that is warranted to encourage downstream diversification of the economy.

## Conclusion

In summary, CME asserts there should be no material increase in regulation or taxation levied upon the resources sector. Cost structures and compliance burdens should be maintained as they are, ensuring the sector can capitalise on current and future opportunities in commodity prices. This will facilitate the sector's ongoing contributions to job creation and continued recovery of the State's finances.

CME looks forward to the Government achieving the economic benefits of an ambitious economic and public sector reform agenda. CME also consents for Treasury to share this submission.

For further information or to discuss the budgetary concerns and recommendations raised in this submission, please contact Mr Robert Carruthers, Director – Policy & Advocacy.

Yours sincerely

Paul Everingham

**Paul Everingham**
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