

# DEVELOPING WA's future

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CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA



THE CHAMBER OF  
MINERALS AND ENERGY  
OF WESTERN AUSTRALIA INC



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## Developing WA's Future:

### Key principles for developing and sustaining tomorrow's industries in Western Australia

This document is a joint initiative between Chamber of Commerce and Industry of Western Australia and the Chamber of Minerals and Energy of Western Australia Inc.

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Economic welfare is only one component of a society's quality of life, but it is an essential one. A high and rising material standard of living is a legitimate aspiration for West Australians and for the governments and institutions that serve them.

## Priorities For Western Australia

Western Australia is one of the fastest-growing economic regions in one of the most prosperous countries on earth. It shares with the rest of Australia one of the best standards of living in the world<sup>1</sup>. Its prosperity has created and sustained some of the highest standards of social equity and environmental stewardship in the world.

In the past 100 years WA's population has risen tenfold, from less than 200,000 at the time of Federation to almost 2 million at the time of the Centenary. In that time, WA has undergone waves of economic and social change that laid the foundations for our high living standards.

Even more than any serendipity of geography or geology, the capacity to adapt and capitalise on resources and opportunities allowed WA to become what it is today and is what will continue to deliver for future generations.

Economic welfare is only one component of a society's quality of life, but it is an essential one. A high and rising material standard of living is a legitimate aspiration for West Australians and for the governments and institutions that serve them.

Furthermore, the capacity of society to meet its social, environmental, political, humanitarian and cultural aspirations depends on the resources – human, technological and natural – at its disposal.

So a high and rising level of economic welfare is not only an important and legitimate objective in its own right, it is also a necessary component of progress across most if not all of the activities that contribute to Western Australians' quality of life.

Around the world, growth in prosperity is associated with cleaner and healthier natural environments, better opportunities for education, safer conditions at work, in the community and in the home, longer life expectancies and generally better well-being in almost all senses of the term.

For these reasons, the Chambers believe that government should embrace objectives explicitly supportive of growing economic prosperity for Western Australians.

Specifically, its objectives should include:

- Sustained and sustainable growth in economic activity and living standards.
- High and rising real wages.
- A healthy natural environment.
- Low unemployment.
- An acceptable balance between taxation and government services.
- Adequate safety nets for those unable to achieve an acceptable living standard from their private wealth and income.
- A world class education system that allows the state to participate fully in the knowledge economy.
- The development of viable and efficient infrastructure.

The Chambers believe that the sustained and sustainable economic growth that will enable WA to meet these aspirations is attainable. But this demands a clear understanding of the policies necessary to support such economic growth and the political courage to implement those policies.

It requires a renewed commitment to economic policy and, specifically, a new approach to industry policy.

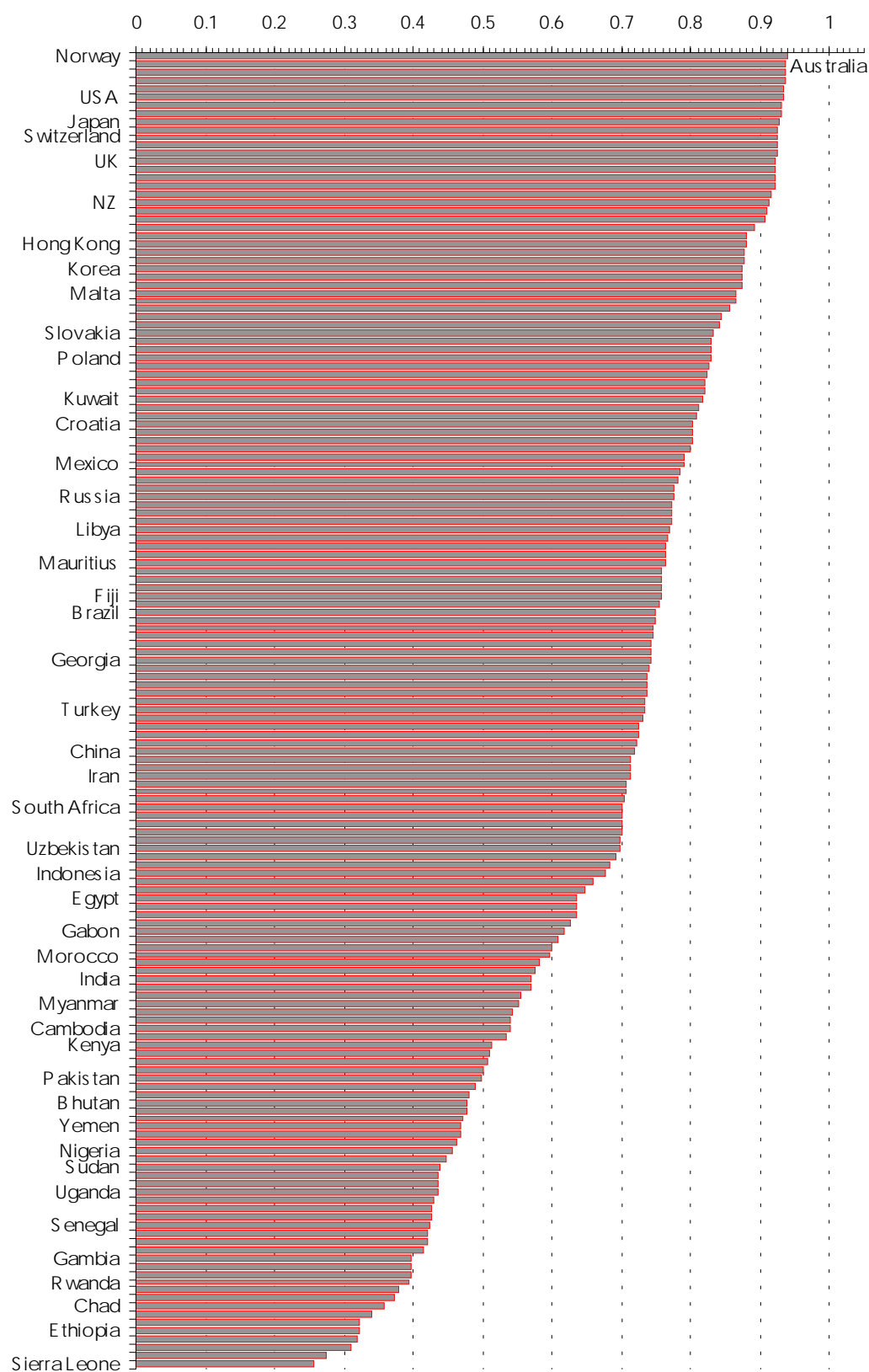
In the past, industry policy has included a narrow and often uncoordinated series of assistance and protection programs.

Too often it developed without regard for the wider operating environment faced by the business sector and the community, or the likely consequences of selective assistance for those businesses not selected for assistance. It has pursued narrow and sometimes contradictory objectives.

It has focussed on trying to achieve the aspirations of planners or politicians, rather than fostering and encouraging individuals and businesses to capitalise on their advantages and opportunities to shape their own futures. And it has often proved futile, such as attempts to foster downstream processing and manufacturing which were

<sup>1</sup> For example, the most recent (2001) UN Human Development Report found that Australia's Human Development Index (a combined measure of real disposable income, life expectancy and education) was the second highest in the world, after Norway. See Figure 1.

**Figure 1**  
**UN HUMAN DEVELOPMENT INDEX**  
**2001 values**



The 2001 UN Human Development Report found that Australia's Human Development Index (a combined measure of real disposable income, life expectancy and education) was the second highest in the world, after Norway.



WA has a fundamentally different economy to that of the rest of Australia. It is resource and agriculturally focused and much more exposed to international competition.

doomed to fail when WA's economic fundamentals (such as high energy prices) meant that the hoped-for projects were not viable.

In spite of considerable effort, such policies have had no discernable beneficial impact on the State's economic performance and, in some cases, hindered growth.

Contemporary industry policy should be radically different from such industry policies of the past. It should focus on the following five key principles:

- It should create an overall environment for business success.
- It should promote rather than hinder economic change.
- It should focus on outcomes, not processes.
- It should be based on a sustainable approach.
- It should look beyond business assistance measures to encompass the whole of government's interaction with the whole of the business sector.

These principles are enlarged upon further in the paper.

### ***Building WA – A Strategic Partnership***

The Chambers welcomed the release on 4 September 2001 of the Government's broad outline for industry policy, *Building WA – A Strategic Partnership*.

The Government's emphasis on a realistic assessment of the capacity of government to shape economic development and its understanding of industry policy as a partnership between government, business and the wider community bode well for the development of a policy framework in which government focuses on doing the things which will most benefit prospects for growth.

While there are some relatively minor areas of disagreement, we believe that the approaches outlined in this submission and in *Building WA – A Strategic Partnership* are consistent and compatible.

In particular, the Government's first stated objective for industry policy, that of developing a true partnership between business, industry and the wider community, is broadly in line with the Chambers' view that industry policy should move beyond narrow business assistance to encompass

the whole of the relationship between business and government.

Its second objective, of developing an 'open for business' regulatory and fiscal environment, echoes closely the Chambers' objective of creating an environment for business success, rather than trying to pick winners.

And its third broad objective of working to build capacity for economic growth, concentrating on areas such as education, training and shared infrastructure, reflects views similar to those explored later in this submission.

## **Industry Policy**

As discussed in more detail in Appendix 1, WA has a fundamentally different economy to that of the rest of Australia. It is resource and agriculturally focused and much more exposed to international competition. This means that any industry policy for the State needs to be attuned to the needs of export industries and recognise the requirement for international competitiveness.

For WA, far more than the rest of the nation, ignoring the realities of international competition is not an option.

Traditionally, industry policy has comprised narrow assistance and protection programs targeted at businesses grouped by characteristics such as employment size, industry sector, location, market, or activity. It has often disregarded the consequences of selective assistance for businesses falling outside the realm of such initiatives, or of inconsistent approaches between agencies and government.

The Chambers see the most important industry policy role of government as providing an environment that will maximise sustainable economic growth and potential.

Industry policy must:

- Encompass all of governments' direct interaction with the whole of the business sector through the various means by which they affect business performance. These include taxation; industrial relations; regulation; the management and behaviour of government business enterprises; education, training and labour market programs; and planning and infrastructure policies. Government should focus on the things which only it can do, such as planning, approvals and regulation to ensure the common good.

- Create an environment in which businesses succeed on their merits, rather than selecting individual businesses or types of businesses for preferential treatment. No business should be penalised because its size, industry, location, market or product does not conform to the government's perceptions of where economic activity should be encouraged.
- Promote rather than hinder economic change. Past attempts to preserve industries and businesses that are losing the ability to compete, or preventing them from taking politically unpalatable measures that would improve their competitiveness have proven counter-productive and can do real economic damage.
- Encourage economic growth that promotes a healthy and sustainable natural environment. Far from being incompatible, economic growth can support and finance environmental values (see page 6).
- Focus on outcomes not processes - raising exports, attracting investment, promoting competition, privatisation, fostering innovation, extending training, and so on, should be encouraged, and judged, according to how far they contribute to the ultimate goal of sustainably improving citizens' quality of life. These are means, not ends.

Industry, too, must acknowledge that the ultimate aim of industry policies is to improve the welfare of people, not businesses. The two are, of course, inextricably linked. But creating a favourable environment for business is also a means to an end, not an end in itself.

## Policy Development

The ultimate aim of industry policy must be getting the fundamentals of the business climate right. But this challenging task is made considerably more difficult by the fragmented nature of industry policy development in WA.

Several departments are involved in policy development or aspects of it, ranging from the Ministry of Premier and Cabinet and Department of Industry and Technology through regional development commissions to the Technology Industry Advisory Council.

While the Chambers welcomed the creation of the Department of Industry and Technology, and other recent streamlining and consolidation of agencies under the structure of government reforms, co-ordination issues clearly remain.

Input from a number of perspectives is likely to lead to better founded policy, and for this reason the Chambers welcomed the establishment of the State Development Forum announced as part of *Building WA – A Strategic Partnership*. But ultimately some process or structure to draw these disparate strands together for a common purpose will be necessary.

There should be a single body with ultimate responsibility for industry policy in WA, reporting to Cabinet. The obvious location for such a body would be within Treasury, as Treasury already co-ordinates economic policy issues across Government, and would be able to take a broad view of issues.

**RECOMMENDATION:** that industry policy be centrally coordinated by a body located within Treasury and reporting to Cabinet.

## Political And Economic Stability

A world of increasingly mobile global capital opens up opportunities for WA to raise funds for projects, but also highlights the internationally competitive nature of the investments on which WA depends.

WA competes for funds with other projects and other places, and investment will only proceed if the expected returns for investors are better here than in those alternatives. These returns are influenced not only by traditional industry policy approaches such as investment incentives, but also the wider economic, regulatory and taxation climate and fundamental political risk.

Australia and by extension, WA, has fared well in terms of risk ratings given the transparency of processes and adherence to the rule of law. It has proven successful in attracting foreign investment in the past with a sound reputation as an investment destination with relatively low sovereign risk. WA's AAA credit rating is a powerful symbol of this stability and its importance in securing investment should be recognised.

WA's sound sovereign risk profile is an invaluable asset and one that must be nurtured. To the extent

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Labour market policy should aim to make the most of human resources by removing disincentives to employment, encouraging businesses and employees to find new and more productive ways of working, and facilitating training and retraining.

that the Government's position on such issues can easily affect how sovereign risk is perceived, it is imperative that the decisions taken are made wisely otherwise they could do considerable damage to both the nation's and State's risk profile.

Shifts in the regulatory regime can similarly create uncertainty and perceived risk which may damage WA's reputation as a place to invest and trade. For example, any move to vest ownership of some mineral resources with individuals or groups rather than the crown will create a complex and inequitable two-tier system of mineral rights, and could generate huge problems and uncertainties for existing and prospective resource projects.

## Labour Market

The Chambers recognise that they are unlikely to ever be in complete accord with the Government on all aspects of labour market policy, but we hope there are some areas of broad principle on which there might be agreement.

Labour market policy should be conducted in a manner consistent with core economic policy objectives of economic growth driven through productivity growth; low unemployment; high and rising real wages; and low and stable inflation.

Rigid and over-regulated labour markets can result in higher unemployment, higher inflation, lower productivity growth, lower real earnings and vulnerability to economic shocks.

Labour market policy should aim to make the most of human resources by removing disincentives to employment, encouraging businesses and employees to find new and more productive ways of working, and facilitating training and retraining so that people can adapt to changing technologies and new ways of working.

It should encourage changes in the structure of industries in order to capitalise on opportunities created by new markets, new processes and new technology. This is clearly evidenced by the record of the mining industry, which has been the most enthusiastic adherent of the new flexibility and, as a direct result, has seen its productivity rise sharply while wages have been well above average.

It must ensure that employers and employees are free to negotiate mutually beneficial terms and conditions without unnecessary constraints, and to respond to the changes taking place every day in workplaces and industries.

Industrial relations reforms have helped to facilitate flexible work practices, improve workplace efficiency and reduce industrial disputes in WA, while at the same time delivering better working conditions and higher levels of safety.

Progressive improvements in this system should continue. Any attempt by governments at the Commonwealth or State level to reintroduce rigidity and excessive regulation into the workplace will wind back the successful reforms introduced into the labour market in recent years.

**RECOMMENDATION: Labour market policy should be conducted in a manner consistent with core economic policy objectives of economic growth driven through productivity growth; low unemployment; high and rising real wages; improved working conditions; better safety levels and low and stable inflation.**

## Environment

Environmental issues such as the sustainable use of natural resources, minimising pollution through a reduction in waste and greenhouse gas emissions are increasingly relevant to industry.

Environmental issues have in fact become an important factor for all businesses and a key operational risk factor for many companies. At the same time, such issues also present business in Western Australia with important opportunities.

It should be recognised that although human activity will inevitably result in the consumption of resources, emission of wastes and some changes to the environment, economic development need not be in conflict with environmental values.

Instead, economic development can make environmental protection easier and more affordable. Research by the World Bank, for example, suggests a strong, positive relationship between prosperity and environmental quality (Figure 2).

In most instances, a market-based approach is by far the most effective way of encouraging the sustainable use of resources as it allows resources to be directed to their most valuable uses through changing prices, encourages more responsible use of scarce resources and creates incentives to develop alternatives to these resources.

This has long been accepted in the use of licensing to prevent over fishing in our rock lobster industry,

for example, or more recently through tradeable emission permits.

Where a government regulates an activity for environmental reasons - whether in a market-based approach through licensing and price adjustments, or more directly by proscribing behaviour - it should do so in a consistent and equitable manner, ensuring that charges are proportional to the costs imposed on society and are levied on all parties imposing those costs.

Further, environmental and other regulations should be subject to rigorous analysis to ensure that the benefits of regulation exceed the costs, where costs and benefits are broadly defined in economic, social and environmental terms. And they should also be prioritised effectively, so that attention focuses first on measures which promise the greatest gain for the least cost.

Finally, they should be applied at the appropriate Commonwealth or State level depending on the government jurisdiction in which the issue or activity of concern falls, thus eliminating overlap, duplication and inconsistency.

Appendix 2 suggests some 'golden rules' for efficient environmental regulatory design.

## Greenhouse

The growth of greenhouse gas emissions, and in particular, implementing the Kyoto Protocol, is one of Australia's most contentious and pressing environmental policy issues.

If implemented as originally envisaged, the Kyoto Protocol could cause severe damage to the Australian and especially the Western Australian economy.

Its approach of setting national emissions targets ignores the fact that the volume of greenhouse gases emitted or absorbed within a given country is not a good measure of that country's true impact on global emissions, which will also be affected by net trade in emissions-intensive goods and services.

This is why, for example, the world's highest per capita carbon dioxide emissions are recorded by the United Arab Emirates and Kuwait, while Switzerland's per capita emissions are a third those of Trinidad and Tobago, even though Switzerland's per capita GDP is almost four times larger.

National targets can be met by importing rather than producing emissions-intensive goods, but global emissions would not be reduced.

The measures adopted to reduce Australia's and WA's greenhouse gas emissions should be effective, least-cost and not fruitlessly damaging to the competitiveness of Australia's and WA's exporters.

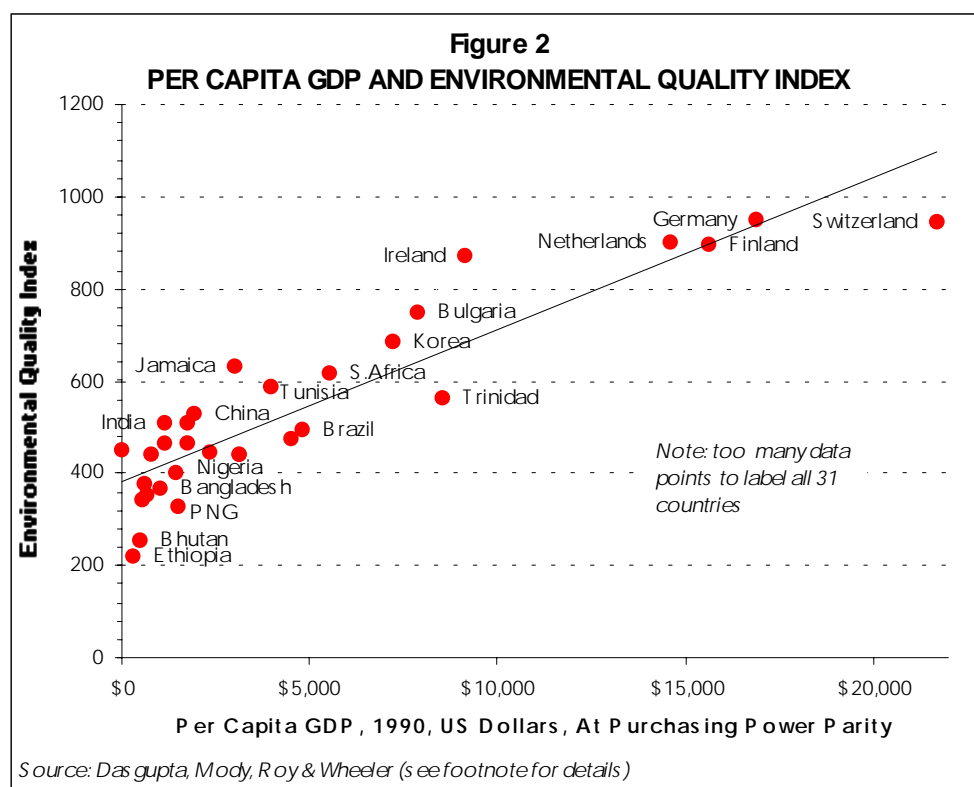


Figure 2 charts 1990 per capita GDP at purchasing power parity against a composite environmental quality index comprising measures of land, air, water and living resources. Australia was not included in the original study, but its GDP per capita would be towards the higher end of the scale. From Table 2A in Susmita Dasgupta, Ashoka Mody, Subhendu Roy and David Wheeler "Environmental Regulation and Development: A Cross-Country Empirical Analysis", Oxford Development Studies, 29(2): 173-187. Revision of Policy Research Working Paper 1448, The World Bank, Washington D.C., April 1995



To ensure WA electricity prices are at their lowest possible level, competition needs to be dramatically increased.

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This problem with national targets is greatly exacerbated under the Kyoto plan because targets apply only to wealthy countries. Penalising some countries but not others for emissions guarantees that emission-intensive activities will shift towards countries where penalties are not applied, but does not necessarily guarantee that overall emissions levels will fall.

The biggest losers under such a process will be countries like Australia, and regions like Western Australia, which are rich enough to be subject to the emissions targets but have industrial and export profiles dominated by emissions-intensive activities like mining, energy and agriculture.

This does not mean that nothing can or should be done to reduce Australia's and WA's greenhouse gas emissions, but rather that the measures adopted should be effective, least-cost and not fruitlessly damaging to the competitiveness of Australia's and WA's exporters.

**RECOMMENDATION:** Any measures adopted to address the level of Australia's and WA's greenhouse gas emissions should be effective, least-cost and not fruitlessly damaging to the competitiveness of Australia's and WA's exporters.

A response to the Greenhouse issue should incorporate the following principles:

- It must lead to an effective environmental outcome.
- It must not distort economic growth and development opportunities.
- It must result in a least cost global outcome.
- Mechanisms used must lend themselves to streamlined and efficient administrative arrangements.

## Energy Policy

With its dependence on energy intensive industry such as minerals extraction and processing, the State's reliance on reliable and low cost energy is at least as great as that of the rest of Australia. Yet electricity reform through the past decade has been concentrated in the Eastern States rather than WA.

Western Australia made an early and impressive start with the Carnegie Report, but then proceeded to ignore most of its recommendations concerning electricity.

WA's record on gas reform has been sound. Through separation and then sale of the State owned transmission and distribution assets (the Dampier to Bunbury Natural Gas Pipeline and AlintaGas respectively) the State now enjoys competing gas suppliers selling via an independently owned pipeline to end use customers and a retailing/distribution company.

In electricity, progress has been far more restricted. In the Eastern States, all jurisdictions moved to separate their electricity supply industries, establish independent regulators and third party access and introduce competition. Despite a limited form of third party access in WA, the State's electricity system remains vertically integrated and the vast majority of electricity produced in WA is either through the State utility, self-generation or off grid.

The ultimate test, however, is in electricity prices. In the Eastern States, users enjoyed significant price falls as competition was introduced, while in WA prices have been fairly constant.

The Chambers welcomed the announcement of the electricity reform taskforce, which will look into structural reform of the WA electricity industry.

**RECOMMENDATION:** To ensure WA electricity prices are at their lowest possible level, competition needs to be dramatically increased. This will require vertical separation of the transmission facility, ensuring fair and open third party access, a range of competing generators and an independent regulator.

## Project Approvals

The time taken to gain approval for development proposals in WA has a major impact on the State's attractiveness as a destination for investment. The intensity of international competition means that investment will go elsewhere if proponents can gain faster and less cumbersome approvals.

Unfortunately, factors including the growing complexity of environmental legislation such as the Environment Protection Act, ever increasing local planning approvals, and the operation of native title provisions, mean the regulatory burden in WA has grown considerably in recent years.

Chamber members report that environmental approvals alone take twice as long to gain today as they did five years ago, with no demonstrable improvement in environmental outcomes. Nor can industry any longer rely on a 'one stop shop' to provide advice on and to facilitate approvals.

On top of the State's regulatory requirements, the Commonwealth approvals regime is also growing. The Environment Protection and Biodiversity Conservation Act promises to add significant hurdles to the already considerable regulatory burden facing the industry.

In the absence of any bilateral agreement on environmental assessments between the State and Commonwealth Governments, and with the potential for greenhouse and heritage triggers to be added to the Act, the implications for project proponents are considerable.

Regulatory approvals also affect established businesses in a similar if not quite as high profile way. Carrying on a business is subject to a range of regulations designed to achieve a series of ends, be they environmental, consumer protection or health and safety. Where such regulations are too onerous, cumbersome or duplicate other processes then there will be a net cost rather than benefit to society.

In addition to efficient and timely approvals processes at both Commonwealth and State level, regulations must meet the community's expectations that all legitimate issues have been addressed.

**The Chambers welcomed the review of project approval processes announced with the launch of *Building WA – A Strategic Partnership*. A reduction in the uncertainty, time and costs associated with getting projects up and running in WA might help to reverse the dramatic decline in WA business investment since 1997. The Chambers look forward to co-operating with the Government in this initiative.**

## The Knowledge Economy

The recent interest in the development of the 'knowledge economy' and the role of information technology and communications should be seen in the context of an overall industry policy.

The Chambers believe strongly that knowledge, innovation and new technology are crucial to the State's future. But we are concerned that their role is often too narrowly understood as the development of domestic capacity in information technology and related activities and industries. While these may prove significant, there are at least two other strands to the impact of technology which need to be given greater weight in policy development.

Firstly, most of the innovations which contribute to our productivity and quality of life originated beyond our shores.

Few of the new or expanding communications technologies are Australian inventions nor, in many cases, are they manufactured in Australia. By and large, our citizens benefit from the use of the internet, faxes, cellular phones, which were invented, developed and probably produced overseas.

However adept we become as the 'clever country' or 'knowledge nation', the share of the global pool of innovation and knowledge which comprises Australians' intellectual property will remain small. And while we certainly benefit from domestic innovations, we benefit far more from the freedom to tap that pool at will.

It follows that innovation policy should maximise Australian citizens' and businesses' access to new ideas and technologies emerging overseas, which are more important than domestic innovations in delivering sustainable economic growth in Australia. This requires free trade in goods and services, removing impediments to international investment and communication, and appropriate treatment of the international flow of skilled and experienced personnel.

Secondly, the key contributions of knowledge and innovation are likely to be in their capacity to transform the things we already do as well as in doing new things. This is already evident in the impact of innovation in industries ranging from mining to tourism to education, a trend likely to become more evident as people find new uses for new technologies in established industries and occupations.

This analysis was confirmed by a recent OECD report<sup>2</sup> which found that Australia is at the forefront of innovation-driven productivity growth despite having a relatively small IT industry. It found that, to encourage the development of the new economy, governments should adopt a comprehensive growth strategy built across several key areas. While none of these broad areas can be taken in isolation, as part of a mutually reinforcing package of measures they help to promote growth.

This should be based on a combination of actions:

- Strengthening economic and social fundamentals, by ensuring macroeconomic stability, openness, and effective markets and institutions.

Most of the innovations which contribute to our productivity and quality of life originated beyond our shores. Few of the new or expanding communications technologies are Australian inventions nor, in many cases, are they manufactured in Australia

<sup>2</sup> The New Economy: Beyond The Hype. Final Report On The OECD Growth Project. 2001

Education will play a vital role in determining the extent to which Western Australia can participate in the knowledge economy and sustain its competitiveness.

- Facilitating the diffusion of information and communication technology, fostering innovation by giving greater priority to fundamental research, and improving the effectiveness of R&D.
- Investing in human capital, by strengthening education and training.
- Stimulating business creation, by improving access to high-risk finance, reducing burdensome administrative regulations and instilling positive attitudes towards entrepreneurship.

## Education

Education will play a vital role in determining the extent to which Western Australia can participate in the knowledge economy and sustain its competitiveness.

It is essential that WA's education system delivers high quality, accessible and relevant education.

This must encompass all parts of the education spectrum, from a sound primary and secondary school base through to post secondary education, particularly in areas where the State has competitive advantages.

## Research and Development

Modern economic theories increasingly recognise the importance of innovation, technology and new ideas in generating sustainable economic growth. Research undertaken by the OECD shows that countries which experienced a pick up in productivity growth in the 1990s had large intensity of business research and development (R&D) to GDP and the share of business R&D to total R&D.

While Australia was cited as one such country in the OECD study, more recent trends show a decline in its business expenditure on R&D, both as a proportion of GDP and as share of total (private and public) R&D (Figure 3(b)).

Likewise, business investment in R&D has been declining in Western Australia since reaching a peak in 1996-97. In 1999-00 WA accounted for just 8.5 per cent of Australian R&D expenditure, compared to a population and GDP share of around 10 per cent.

This decline in business R&D followed the Commonwealth Government's decision to reduce the tax concession for R&D from 150 per cent.

While that decision may not have been responsible for all of the subsequent decline in R&D activity, it is responsible for some, and the Chambers urge that the decision be reversed.

Recent changes to the R&D concession provide an inferior alternative to an improved across-the-board concession, with a concession rate of 175 per cent for increases over prior year expenditure. But rewarding companies for R&D levels over and above the base threshold may also encourage unproductive over-investment in research, and it may be that bringing non-innovators up to a basic level of R&D could yield greater results than encouraging existing innovators to do more.

Finally, while government has a role in creating an environment conducive to encouraging R&D, it has no role in actively directing the research and development activities of particular industries or businesses.

## Exploration

Exploration, essentially the mineral and energy sector's R&D, is critical for the sector and, given the importance of the sector to the State's economy, to Western Australia itself. Even the largest and most productive mine will eventually be exhausted.

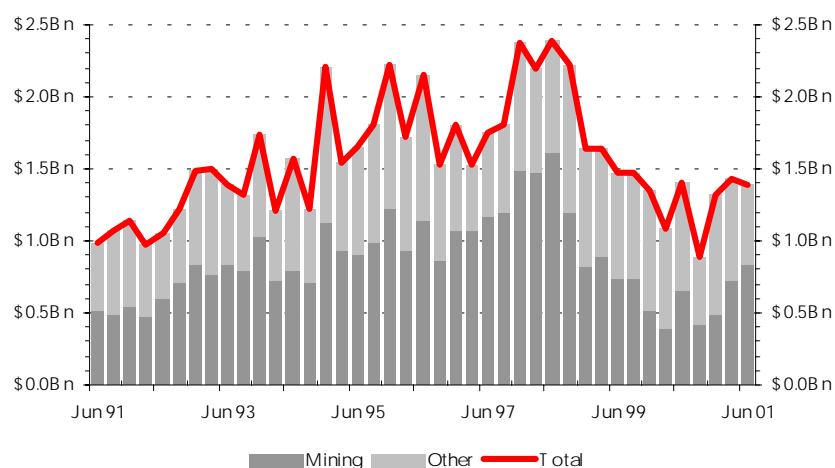
If current mines are not replaced, the industry will eventually contract as existing mines are used up and too few new resources found. Looking into the future there is a dearth of large-scale projects to attract investment and continue to build the State's resource base.

A key contributor to this situation has been low levels of exploration and a focus on brownfields (exploring in areas of already known mineralisation) in contrast to greenfields exploration, which, while riskier, offers a greater prospect of discovering major new deposits.

As Figure 3(c) shows, exploration in WA has fallen by around 40% since it peaked in mid 1997. While the slide does now seem to have bottomed out, there is little sign of an increase and current exploration levels are simply too low to sustain let alone grow the industry.

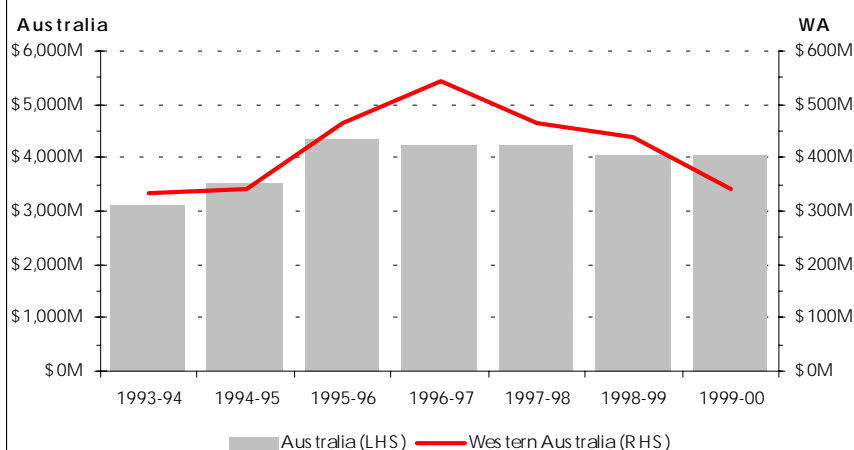
There are various reasons for the fall in exploration, but difficulties imposed by the native title regime and problems accessing capital, particularly at the smaller end of the market, are significant among them. From a State Government perspective it is vital that native title procedures relating to exploration particularly are simplified to minimise impediments.

**Figure 3**  
**(a) WA BUSINESS INVESTMENT - Original Data**

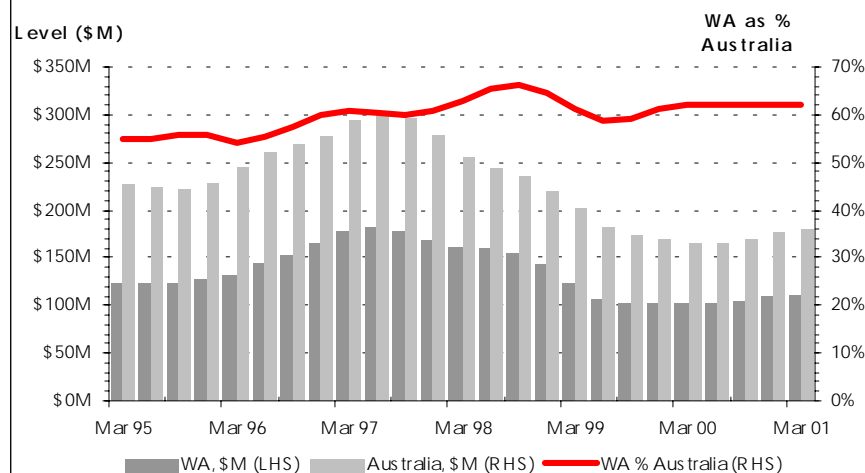


**RECOMMENDATION:**  
the Government should  
act to ensure efficient  
and timely access to  
land for exploration.

**(b) BUSINESS R&D EXPENDITURE  
WA and Australia**



**(c) MINERAL EXPLORATION  
WA and Australia, Quarterly, Trend Series**





As a general principle, it is far more important for government to get the economic fundamentals right so that every venture might succeed, rather than giving assistance which benefits some businesses at the expense of others.

## Financial Management

Management of the State's public sector finances affects its economy, its business sector and the living standards of the community as a whole. At the State level, the business sector contributes most of the own-source revenue raised through a range of taxes, levies and royalties.

Sound fiscal management is important not only in terms of competing for capital and investment with other states, but also to minimise the burden of business taxes and to improve tax competitiveness. Persistent budget deficits and increasing levels of debt would jeopardise the State's AAA credit rating, worsen the State's debt servicing burden and diminish WA's standing as a place to invest.

Fiscal responsibility involves the government of the day running the State public sector efficiently and to budget. Emphasis should be placed on strict fiscal discipline and prioritised spending. Necessary measures include controlling growth in outlays, ensuring that resources are used efficiently and establishing priorities so that any growth in outlays is directed to activities which both government and community most want expanded.

The Chambers see the reforms to the structure of government implemented recently as an important and necessary first step towards achieving those objectives. The next step is to capitalise on the resulting opportunity to streamline service delivery and prioritise spending.

The challenge for this year – and the medium term – is for the Labor Government to fulfil its election promises to maintain WA's AAA credit rating while not undermining WA's tax competitiveness, and simultaneously increasing the proportion of government funds flowing to high-priority areas of health, education and law and order.

In this respect, the Government's first Budget included sound fiscal objectives, although the Chambers were disappointed at the decision to raise taxes in order to meet some of them. For the coming year, the Government has set itself ambitious savings targets in non-core agencies in order to release funds for additional outlays in priority areas. It is vital to the State's fiscal future that these targets are met.

**RECOMMENDATION:** it is vital that the Government's savings targets are met.

## Business Assistance

Business assistance programs are just one aspect of a comprehensive industry policy, and a relatively minor one at that.

As a general principle, it is far more important for government to get the economic fundamentals right so that every venture might succeed, rather than giving assistance which benefits some businesses at the expense of others and, potentially, the community as a whole.

That said, the Chambers recognise the political reality that governments will continue to provide business assistance, and suggest the following guidelines to ensure that it is effective.

- Rigorous analysis demonstrating that the benefits expected exceed the costs should be adopted as the standard starting-point for all proposed government assistance. The various arms of government should adopt a standard method of cost-benefit evaluation.
- Government must minimise the distortion in markets and competition which inevitably arises from subsidies or other assistance. In particular, the WA Government should avoid assistance which provides competitive advantage to one WA business over other WA businesses.
- Assistance measures must have clearly-defined and measurable objectives reflecting demonstrable industry-wide needs and yielding identifiable benefits. Programs which fail to deliver the expected benefits should be eliminated.
- Before offering assistance, the government must demonstrate clearly and conclusively that markets are not working efficiently – that what economists call 'market failure' exists – and that intervention will actually improve the situation.
- Finally, all levels of government need to be accountable to taxpayers for the use of their funds. Whatever the form of the assistance, its nature and cost should be fully public: there is never any justification for hiding costs from taxpayers on the basis of 'commercial confidentiality'.

## Investment Facilitation

Private investment is crucial to sustained and sustainable growth in productive capacity in Australia and WA, and, therefore, it is important to continue to attract and encourage investment, because without it we would have lower economic growth and lower living standards.

Foreign investment has historically been a major source of funds, expertise and technology for Australian and especially WA business.

Capital controls, caps on overseas borrowing and restrictions on foreign ownership only work to undermine a major source of investment and the government should do nothing which could impede the inflow of foreign funds.

The Chambers see the main role for government in this area as being in removing impediments and creating an attractive environment for investment. However, they acknowledge that there will always be pressure on governments to take a more active role in investment facilitation.

There is an in-principle case for assistance in some special circumstances, but these are in practice very few. In most cases, if private investors are not willing to shoulder all the risks of the enterprises they propose, it is not appropriate for the taxpayer to carry them. Assistance is not costless – it diverts resources from other activities which will be constrained as a result.

**RECOMMENDATION:** as a general principle, it is far more important for the Government to get the policy fundamentals right so that every venture might succeed, rather than giving assistance which benefits some businesses at the expense of others. Where business assistance is given, it should be preceded by rigorous cost-benefit analysis, be transparent, and be offered on an open and accountable basis.

## Economic Infrastructure

Development of WA's economy in its areas of competitive advantage such as minerals and energy requires access to economic infrastructure such as roads, railways, ports, telecommunications and energy transmission facilities.

Even a medium scale minerals development, for instance, generates a substantial need for transport infrastructure for delivery of production inputs and export of product.

In the past a model frequently adopted was for the developer of such projects to fund the entire cost of infrastructure, either owning and operating it or providing it to the State, often at no cost. Under this model there has been substantial investment in railways and ports. However, declining commodity prices, increased international competition and the demand for investment in social infrastructure mean that few if any projects can incorporate such costs.

Where infrastructure is exclusively dedicated to one project, the benefits of that infrastructure are likely to be private and it is appropriate that the developer meet the costs. However, where infrastructure is multi use there may be a case for government involvement and, indeed, in some cases government provision.

It should also be noted that, where industry assistance is justified, the provision of multi use infrastructure may be preferable to other forms of assistance such as tax breaks and subsidies, which leave the State with nothing should the project fail. There are of course a very wide range of possible delivery mechanisms, including build-own-operate-transfer (BOOTs) and public/private partnerships.

**RECOMMENDATION:** In the first instance, a comprehensive infrastructure policy needs to be established by the Government, setting out the circumstances where infrastructure assistance may be justified and the mechanisms for delivery. It is also important that there should be consistency and fairness in the treatment of infrastructure investment projects.

Capital controls, caps on overseas borrowing and restrictions on foreign ownership only work to undermine a major source of investment and the government should do nothing which could impede the inflow of foreign funds.

## Conclusion

Western Australia has established a society which combines high living standards and high wages with environmental and social responsibility.

While maintaining and improving on this proud record into the future will be a challenge, there is no reason to suppose that challenge cannot be met. A key part of rising to the challenge will be developing a sound policy for the State's economic future.

The Chambers strongly advocate that the Government develop a comprehensive industry policy. It should to be developed on a whole of government basis, with a coherent, structured process.

The recently released document *Building WA – A Strategic Partnership* begins the process of developing the Government's program. The principles outlined in this submission take similar starting points on most key issues and develop them further.

The Chambers look forward to working with the Government as it develops policies and implements measures flowing from them, consistent with the partnership approach signalled in *Building WA – A Strategic Partnership*.

# Appendix 1:

## Western Australia's Economy

The most striking feature of the WA economy, in comparison with the rest of Australia and indeed in marked contrast to most developed countries, is the very large role of the minerals industry.

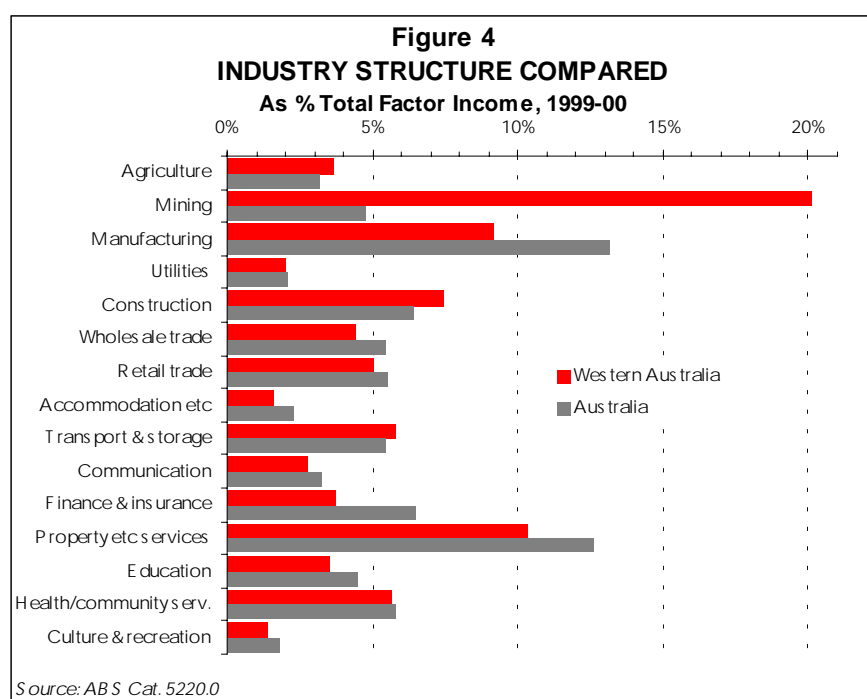
Mining is by far WA's largest industry sector by value, making up about 20 per cent of the state's economy in 1999 00. In contrast, mining contributes less than 5 per cent of the national economy.

This in turn has profound consequences for the direction of the State's industry policy. Just as the minerals sector is export focused, efficient and receives little in the way of protection, these features flow though to the State as a whole. WA for instance has exports representing 40% of its economy, compared to 14% for the rest of Australia.

The smaller role of manufacturing and greater presence of minerals activity also means that Commonwealth tariffs represent a more significant burden in WA than most other states: \$500 million annually, according to one estimate<sup>3</sup>.

The difference in the structure of WA's economy from the rest of Australia has significant implications for the development of an industry policy for Western Australia.

The State and Commonwealth Governments should be aware that a range of policies relating to the environment, tariffs and trade, foreign investment and regulation are likely to have a disproportionate impact on Western Australia due to its unique economic structure.



<sup>3</sup> Economic Research Centre, University of WA, *Looking Backwards or Looking Westward: A Regional Perspective on Tariffs*, October 1998.



## Appendix 2:

# The Seven Golden Rules of Environmental Regulation

- There should be an identified and real environmental issue to be controlled or managed. This precludes regulation for regulation's sake, but not application of a precautionary approach where a problem appears to be emerging.
- The regulation should have a basis at law, and regulators should not act beyond their powers.
- The objective envisaged should be achievable, and not set unattainable goals that inevitably engineer an operator into non-compliance.
- The regulation should be reasonable and practicable to comply with.
- The regulation should be enforceable
- Compliance and non-compliance should be measurable.
- The instrument should have proportionality and equity, treating all players alike regardless of sector, location or activity.