

Hon. Peter Tinley MLA  
Chair  
Economics and Industry Standing Committee

Sent by email

## **INQUIRY INTO INTERGENERATIONAL CHALLENGES AND OPPORTUNITIES FOR THE WESTERN AUSTRALIAN ECONOMY**

Thank you for the opportunity to provide a submission to the Economic and Industry Standing Committee's Inquiry into intergenerational challenges and opportunities for the Western Australian (WA) economy.

The Department of Primary Industries and Regional Development (DPIRD), along with the nine Regional Development Commissions (RDCs), acknowledge the importance of the WA's export sector and work collaboratively to cultivate the sustainable economic development of regional WA.

WA's economy is primarily driven by a small set of export-oriented industries, with our nine regions accounting for almost all the state's exports – 83%. This specialisation has protected WA's economy during COVID-19 and has enabled WA to achieve significant population and wages growth over the last 20 plus years. In the future, increased demand for our secure, sustainable, and ethically sourced exports are expected to grow. WA is well placed to meet this demand, but significant challenges exist.

To meet these challenges the state government is taking steps to improve the diversification of the economy, maintain and strengthen our biosecurity, sustainability, and ethical credentials, and address intergenerational challenges in our regions. Working together, opportunities exist for WA's industries in areas where we have clear comparative advantages – mining, energy production and primary industries – to not just increase exports, but to play an increasing role in meeting local demand and to replace increasing expenditure on imports.

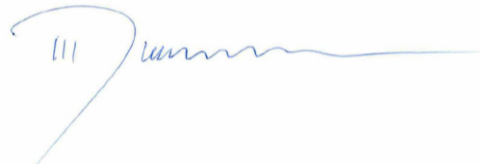
Thank you for the opportunity to provide a submission to the Economics and Industry Standing Committee. DPIRD and the RDCs have an active role in supporting our primary industries and regions and would welcome further engagement with the Committee on the issues and recommendations raised in this submission. Should you require any further information on the above submission, please contact Alison Wilson, Executive Director Strategy and Coordination on 0436 803 852 or [Alison.Wilson@dpird.wa.gov.au](mailto:Alison.Wilson@dpird.wa.gov.au).

Yours sincerely



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Ralph Addis  
**DIRECTOR GENERAL**  
Department of Primary Industries and  
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Tym Duncanson  
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Chair WA Regional Development Alliance

13 September 2021

## Committee inquiry into challenges and opportunities for the WA economy

Terms of Reference: The committee will inquire into and report on identified intergenerational challenges and opportunities for the Western Australian economy, out to 2041.

The committee will take into consideration:

- the current structure of the WA economy
- key factors driving current demand for WA exports
- key factors that will affect demand for WA exports into the future
- actions being undertaken by relevant stakeholders to plan for identified trends in demand for WA exports
- key factors affecting inbound investment in major sectors of the WA economy.

### *Members conducting inquiry*

Members: **Hon. Peter Tinley MLA**  
**Mr Vincent Catania MLA**  
**Mr David Scaife MLA**  
**Ms Emily Hamilton MLA**  
**Dr Jags Krishnan MLA**

## TOR1 - THE CURRENT STRUCTURE OF THE WA ECONOMY

### Key points

- The Western Australian (WA) economy is primarily driven by a small set of regionally based, export oriented industries and a small set of markets.
- Specialisation has protected WA's economy during COVID-19 and has enabled WA to achieve significant population and wages growth over the last 20 plus years. However, WA's deep specialisation can crowd out innovation, constrain local diversity and result in income stagnation (particularly in areas outside of the deep specialisation).
- To avoid the negative effects of over specialisation, the state government is taking steps to improve the diversification of the economy and WA's markets.
- Opportunities exist for WA producers to not just increase exports, but to play an increasing role in meeting local demand and to replace increasing expenditure on imports.

## WA – A SPECIALISED ECONOMY

WA has a highly concentrated and specialised economy<sup>1</sup>. This is especially so in our traded sectors—these are the export oriented sectors that bring new wealth into the state. Western Australia's specialisation and concentration occurs at multiple levels – what we produce, where we produce and to who we export.

### Specialisation and concentration in what we produce

WA is an export-oriented economy, underpinned by mining, which employs over 116,000 Western Australians, adds \$135 billion to the state economy<sup>2</sup> and \$9.3 billion in Royalties to the state budget<sup>3</sup>. Other significant export oriented industries include the agrifood sector (58,400 jobs<sup>4</sup>), tourism (53,784 jobs<sup>5</sup>) and energy. Currently and historically, these export industries (with the exception of tourism) are dominated by raw materials, which in 2020, accounted for approximately 90% of exports<sup>6</sup>.

### Specialisation and concentration in where we produce

WA accounts for over 56% of Australia's exports. Within WA, our nine regions account for almost all the state's exports – 83%<sup>2</sup>, with the Pilbara alone accounting for more than 60% of exports. While as shown through the regional snapshots provided in Attachment 1, as drivers for the state and national economy each region is different, almost half of Australia's exports come from WA's nine regions.

### Specialisation and concentration in where we export

Over 76% of WA's exports go to just three destinations: China, Japan and South Korea<sup>7</sup>. The WA economy is now more concentrated, both in absolute and relative terms, than it has been in the past 25 years<sup>8</sup>.

## OPPORTUNITIES TO DIVERSIFY THE WA ECONOMY

As identified in the Center for International Development's 2020 report into economic complexity<sup>6</sup>, WA is a small economy based around a small and disparate population base. Australia, while a larger economy and population, is similarly small comparative to our main trading partners and the majority of our competitors. As a small economy this presents particular challenges for diversification, particularly as firms look to achieve the economies of scale required to underpin exports and achieve international competitiveness from a relatively early stage. For WA firms, this means looking for ways to make use of existing domestic demand as a base for expansion into exports, to make use of partnerships and interdependencies across supply chains to penetrate and

maintain market share and capture a competitive advantage and/or achieve premium prices as a result of being in WA.

While WA is an export oriented economy, outside of mining, the value of WA's domestic economy typically far exceeds exports. For example, while around \$8.3 billion of WA's primary industry production was exported last year, this was dwarfed by WA \$15.8 billion domestic food consumption<sup>9</sup>. This domestic WA consumption includes an increasing reliance on imported goods – with around 80% of canned and processed goods imported from overseas or the eastern states<sup>10</sup>. This predominance of the domestic and an increasing presence of imported goods is replicated across the economy. Overall Australia imported US\$202.8 billion worth of goods from around the globe in 2020, up by 7.2% since 2016<sup>11</sup>.

As identified in the Western Australia Investment and Trade Plan 2020-21, opportunities exist to expand exports, increase local supply and displace expenditure in domestic and global supply chains in key areas of food value add, machinery and equipment production and energy<sup>11</sup>.

#### **Key issue the Committee may wish to consider**

**The Committee may wish to consider how, and to what extent the state government should assist firms looking for ways to make use of existing domestic demand as a base for expansion into exports, to make use of partnerships and interdependencies across supply chains to penetrate and maintain market share and capturing a competitive advantage and/or achieve premium prices as a result of being in WA.**

#### **MINING EQUIPMENT, TECHNOLOGIES AND SERVICES (METS) SECTOR**

Western Australia is a leading resource exporter with world class expertise in resource extraction and management. The mining sector has been growing steadily since 2005, and in 2020, with over \$135 billion in activity, employed around 116,060 people and was the single biggest contributor to Western Australia's real GSP growth in 2019-20<sup>12</sup>. In 2019-20, Western Australia had 123 high-value, export-oriented mining projects and 13 major mineral processing operations transforming bauxite into alumina; gold ore into gold bars; nickel ore into nickel concentrate, matte, powder and briquettes; rutile into titanium dioxide pigment; zircon into fused zirconia; and silica sand into silicon metal<sup>12</sup>. Sitting alongside and enabling the resources sector is the \$114 billion mining equipment, technologies and services (METS) sector<sup>13</sup>.

#### **DIVERSIFICATION CASE STUDY – METS**

Despite METS activity being worth an estimated \$144 Billion, only around 10% of Australia's METS activity is export oriented. With significant domestic activity, Australian METS companies are well-placed to leverage their dominance in the domestic sector to export machinery, research, development and intellectual property to the world. There are significant opportunities for future export growth as the Australian METS and resources sector harnesses the opportunities of automation and technology to increase productivity, improve safety and reduce the environmental footprint of our resources projects.

In support of diversifying the METS sector and increasing its export focus, the WA government is supporting the sector through initiative such as participation in the Federal Government's METS Ignited Industry Growth Centres and WA's METS Digital Mining Export Hub, and the promotion of WA capabilities in upstream and downstream mining and energy sector services across the Middle East. Through these initiatives the state government is supporting the sector to expand its global market share, enhance the sector's value proposition and create new collaborative links across the METS, resources and research sectors.

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**WORDS** | Mia Lacy, Peel Development Commission  
**IMAGES** | Office of Minister for Regional Development

**A Peel business is leading the state in the development of a hybrid underground mining truck and specialist fabrication.**

Pinjarra advanced manufacturing company Murray Engineering recently hosted a visit by the Hon. Alannah MacTiernan MLC, Minister for Regional Development, who was keen to learn more on how the business is expanding and producing innovative solutions for mining enterprises.

**Ms MacTiernan said she had followed the fortunes of the business since they first moved into the region a decade ago.**

"Murray Engineering are going from strength to strength. A business like this proves we can do world-class manufacturing right here in regional WA," she said.

The Minister was accompanied by Robyn Clarke MLA, Member for Murray-Wellington.

"Local manufacturing is something that I am very passionate about, and Murray Engineering is the perfect example of what manufacturing opportunities are available in the Peel region."

Murray Engineering and Byrnecut Group representatives Craig Lindsey-Rae and Steve Coughlan briefed the visitors and took them on a tour of the premises at Pinjarra Industrial Estate.

The company's 55,000 square metre purpose-built headquarters includes a complex of fabrication, electrical and mechanical workshops supported by a stand alone wash bay, paint

*The Hon Alannah MacTiernan MLC and Robyn Clarke MLA with Murray Engineering apprentices.*



shop, warehouse and administrative building. It also has 12 heavy vehicle bays, crane capacity of 60 tonnes and floor with ground bearing capacity in excess of 100 tonnes with 12.6 metres undertook height.

Murray Engineering has recently received AS/NZS 5131 certification under the National Structural Steelwork Compliance Scheme (NSSCS) which enables them to tender on major mining works with multi-national enterprises. Staff are also working closely with a team from Edith Cowan University's engineering department to link skilled students and graduates to their latest innovation projects.

The firm employs 250 people, of which 10% are apprentices, and is part of the larger Byrnecut Group which is very active in research and the development of on-shore Australian innovation and technology.

As a group, Byrnecut provides a comprehensive service including mine development, mine production, international contract mining, project management, shaft sinking, raise drilling, mine design, mechanical and electrical engineering, workforce injury prevention solutions, and indigenous training and employment.

### MORE INFORMATION

**Murray Engineering is located at 54 Munday Avenue, Pinjarra WA or visit [www.murrayengineering.com.au](http://www.murrayengineering.com.au)**



## PRIMARY INDUSTRIES

At an export value of \$8.3 billion in 2020<sup>4</sup>, agrifood is WA's largest non-minerals and petroleum export sector. Production is dominated by broadacre and mixed farming systems, including grains, meat and livestock, and sheep and wool. WA also has an active fisheries sector, with the total value of commercial fisheries and aquaculture production being \$468 million in 2019–20<sup>14</sup>. The agrifood sector employs over 58,400 people with 39,300 jobs in the Agriculture, Fisheries, Aquaculture, Forestry sectors and 19,100 jobs in Food and Beverage, and Forestry manufacturing<sup>4</sup>.

Approximately 80% of WA's agricultural production is exported, primarily as a raw commodity<sup>4</sup>. While agrifood exports are increasing, our share in the global market is both concentrated<sup>15</sup> and declining<sup>4</sup>. At the domestic level, Australian consumers source most of their food (85%) domestically, with the food and grocery is the largest manufacturing sector (at \$127 billion) in Australia<sup>10</sup>.

### **DIVERSIFICATION CASE STUDY – Plant Protein Processing Business Opportunities<sup>16</sup>**

Over the next 10 years the plant-based protein, milks and nutraceutical sector is expected to grow by around \$240 Billion dollars. To meet this growing demand companies will require a high quality, trusted, traceable, reliable supply of ingredients. Western Australia is ideally placed to supply this growing market demand with innovative new and emerging products. Western Australia has efficient supply chains with world-class quality control and assurance systems at all stages of production. WA is close to key markets in Asia and the Middle East – ten day shipping to Indonesia, twelve days to Singapore and sixteen days to Southern China. Multiple firms have already invested in significant value-added processing facilities in the state and WA firms have the export experience - WA is the number one producer of wheat, barley, oats, canola and pulses in Australia and the second biggest Producer of oats in the Southern Hemisphere.

There is a clear opportunity to diversify production beyond raw inputs and to develop consumer facing, highly functional plant based protein powder, milks brands and nutraceutical inputs. The challenge for the sector is in leveraging what amounts to small local demand as they expand to an export capacity while remaining price competitive.

Most economies pursue support for food and grocery manufacturing within the context of a free trade framework. So called Green subsidies (as opposed the trade distorting Red and Amber subsidies) enable our competitors in the European Union to subsidise agriculture producers at a rate of around \$0.42 per dollar of export. In comparison, WA's Green subsidies amount to less than \$0.02 per dollar of agricultural export<sup>17</sup>.

The Green class of support for primary industry producers include<sup>10</sup>:

- Financial: Tax incentives, Land incentives, Investment incentives, Access to trade finance.
- Innovation: Innovation clusters or hubs including technical and scientific research support, Wage subsidies for scientific and research staff. The Australian Export Grains Innovation Centre in WA is a leading example of government working with industry to deliver market insight, innovation and applied technology in the grains industry
- Economic zones: Special Economic Zones (SEZs) or Foreign Trade Zones (FTZs) that will provide a suite of support mechanisms including tax incentives and relief, investment incentives, collaboration assistance, and innovation support.
- Coordination: Whole of government policy platform to navigate multiple departments and levels of government. Whole of supply chain policies that promote collaboration from the farm to the factory to the retailer.

## ENERGY

With the world shifting to a low-emissions future, demand for energy is shifting from petrochemicals to clean energy. Currently, renewables account for around 24% of WA's energy production<sup>18</sup>. As energy technologies rapidly evolve, renewable energy is becoming more cost competitive and local generation solutions are becoming increasingly workable<sup>19</sup>. WA has one of the world's highest uptakes of roof-top solar and added 124MW of green energy to its production in 2020<sup>18</sup>.

### RENEWABLE ENERGY PENETRATION BY STATE<sup>2</sup>

| STATE           | TOTAL GENERATION (GWH) | FOSSIL FUEL GENERATION (GWH) | TOTAL RENEWABLE GENERATION (GWH) | PENETRATION OF RENEWABLES AS PROPORTION OF GENERATION | PENETRATION OF RENEWABLES AS PROPORTION OF CONSUMPTION |
|-----------------|------------------------|------------------------------|----------------------------------|---|--|
| TAS             | 10,956                 | 90                           | 10,866                           | 99.2%   | 100.6%   |
| SA              | 14,285                 | 5763                         | 8523                             | 59.7%   | 60.1%  |
| VIC             | 49,390                 | 35,705                       | 13,685                           | 27.7%   | 28.4%  |
| WA              | 19,171                 | 14,528                       | 4643                             | 24.2%   | 24.2%  |
| NSW             | 68,158                 | 53,846                       | 14,312                           | 21.0%   | 19.1%  |
| QLD             | 65,426                 | 54,537                       | 10,888                           | 16.6%   | 18.0%  |
| <b>NATIONAL</b> | <b>227,386</b>         | <b>164,469</b>               | <b>62,917</b>                    | <b>27.7%</b>  | <b>27.7%</b>   |

WA also has substantial reserves of the minerals required for green energy production and storage, including lithium, nickel, cobalt, manganese, vanadium and alumina<sup>20</sup>. These renewable and low-emission opportunities exist almost exclusively in the regions. With the world shifting to a low-emissions future there is an opportunity for WA to move beyond simply the extraction of minerals to contributions to the green energy supply chain domestically.

### DIVERSIFICATION CASE STUDY – Energy

Western Australia has some of the best wind and solar resources in the world and is richly endowed with many of the metals, non-metals and mineral elements considered necessary for a green energy future. Growing interest in 'green' energy investment, resulting from increasing pressure from stakeholders and investors, creates a significant opportunity for WA's regions. The opportunities in this sector for companies looking to do business in Western Australia are exemplified by efforts to expand local downstream processing, thereby becoming an integral part of global supply chains and further diversify into related industries.

The State Government supports efforts to diversify the state's energy production through:

- Future Battery Industry Strategy - aimed at attracting investment into the sector through identifying key players within priority markets, to better promote WA's comparative advantages and facilitate greater participation in global battery supply chains.
- Renewable Hydrogen Strategy – aims to boost the state's hydrogen industry across four areas – export, use in remotely located industries, blending in natural gas networks, and use in fuel cell electric transport vehicles. The Renewable Hydrogen Strategy includes a \$22 million investment in emerging technologies such as a 1.5 GW renewable energy hub north of Geraldton.
- Energy Transformation Strategy – to modernise policy, regulatory and planning frameworks, remove barriers to connecting new technologies and ensure grid stability
- Clean Energy Future Fund - supporting projects that are likely to deliver significant, cost-effective reductions in greenhouse gas emissions that are below projected (or baseline) emissions and provide broader community benefits.

**The Committee may wish to consider what effort should be made in identifying new and expanded non tariff based supports for the development of domestic and international markets in sectors like primary industries and energy.**

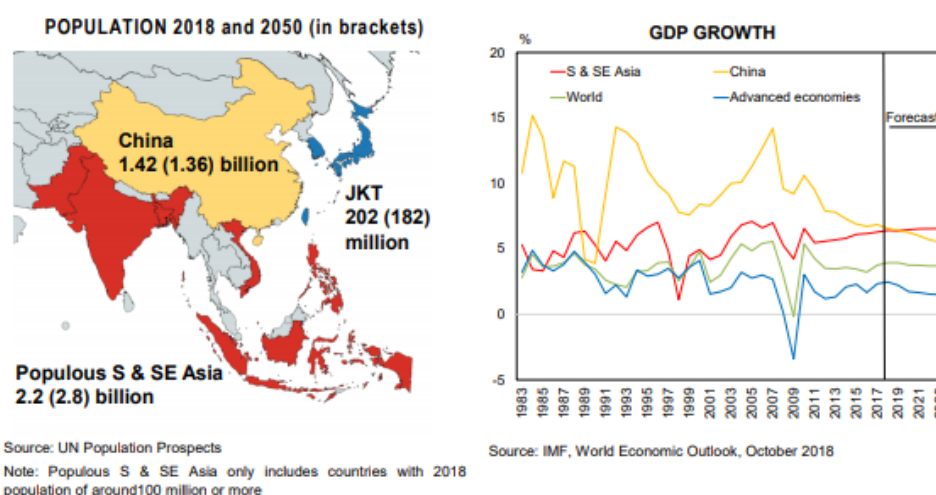
## TOR2&3 - KEY FACTORS THAT WILL AFFECT DEMAND FOR WA EXPORTS NOW AND INTO THE FUTURE

- Global economic growth presents WA with a set of opportunities to develop and build on our comparative advantages in key exports. Australia's trade efforts and the work of the State Government, including DPIRD (as lead for Agrifood and Fisheries trade and investment), in fostering trade links supports this opportunity.
- Increased demand for secure, sustainable and ethically sourced exports are expected to continue to grow. WA is well placed, but significant challenges exist.
- Efforts to manage COVID-19 domestically and across the world's economies will have an uncertain impact of demand to WA's exports. To date, the export impact for WA has mostly been positive, with negative impacts largely limited to tourism.

## GLOBAL ECONOMIC GROWTH

As a result of ongoing COVID-19 issues, the International Monetary Fund reported a 3% contraction of global economic activity over 2020, worse than the 2008 Global Financial Crisis<sup>21</sup>. For Western Australia, outside of some tourism operations and some premium food products, consumer expenditure patterns and big spending efforts by countries to fend off economic recession have shielded and even benefited exporters<sup>12</sup>.

Beyond COVID-19, over coming decades the location of global economic growth should prove favourable for trade in Western Australia. This is because a significant proportion of global economic growth is likely to come from the populous nations in our region as their per capita incomes converge with those in advanced economies<sup>22</sup>. The population of China, and the populous nations (with around 100 million or more) in south and south east Asia have generally been growing significantly faster than the global average over recent years with the IMF projecting that China will overtake the US as the world's largest economy by around 2030<sup>21</sup>.



## TRADE

With progressive reductions in tariffs from historical trade agreements and the completion of new trade agreements in train, WA's trade environment is expected to improve considerably over coming decades<sup>12</sup>. Expanded Free Trade Agreements offer opportunities, particularly in WA's agrifood and value add sectors, that will require resources and effort to explore and realise.



WA is not alone and not uniquely situated to take advantage of growing demand in Asia. Globally, Western Australia is a small agri-food supplier - the current \$8.3 billion value of agriculture and food exports is less than one percent of the international trade of USD \$1.6 trillion. Global trends include increasing yields, allocations of land to agriculture and forestry, investment in irrigation infrastructure, aquaculture and supply chains. Most of this new production capacity is from Eastern Europe, Asia and Latin America, which have lower production costs and proximity to large markets.

International supply chains will continue to connect producers to growing populations, creating opportunities for primary industries globally. These global supply chains though are under increasing stress. Air freight is expected to take over a decade to recover to pre-COVID levels, with sea freight impacted by a world-wide shortage of containers, port closures and access issues due to COVID-19 outbreaks, escalating prices, and for WA, low priority access for non-mining exports.

Consumer expectations of product, production systems and nutritional values will continue to grow. Climate change, including a drying climate in parts of the State, will affect production conditions while also creating opportunities for increased production of bulk grain commodities in colder climates in the northern hemisphere.

Geopolitical tensions and resurgent trade protectionism remain potential risks to WA's export industries. The heavy reliance on a small number of export markets remains a persistent risk in many of our export sectors. Exporting a narrow band of largely unprocessed products to a narrow number of markets means that the WA economy is highly exposed to global fluctuations in commodity prices and adverse changes in one or two markets.

Working to address these vulnerabilities, DPIRD has the lead responsibility for promoting agrifood trade and investment. Working with industry, DPIRD efforts include:

- Developing WA's profile and increase visibility of WA's agrifood commodities and premium products in key overseas markets.
- Investigating key issues like carbon adjustment mechanisms and advocating for WA's interests in national consultations on trade, investment and international issues
- Improving and maintaining market access for WA agrifood produce and providing assistance to agrifood industries to improve or gain access to new markets. This includes administering Federal programs such as the International Freight Assistance Mechanism (IFAM) that aims to maintain global air connections and protects hard fought market share impacted by COVID-19 air-freight reductions.
- Delivering agribusiness grants, funding, programs and guidelines and managing programs that support the development of WA's ag-tech and food-tech ecosystems.
- Piloting industry growth partnerships to create partnerships between government and industry that promote and increase private investment.

## INCREASED DEMAND FOR SECURE, SUSTAINABLE AND RESPONSIBLY SOURCED EXPORTS

Premium product and production expectations are becoming increasingly sophisticated in emerging middle class and premium markets. This is resulting in higher demand for high quality, safe and ethically-produced products, supplied through supply chains which can demonstrate product quality and integrity, ethical and sustainable production. Almost all WA's exports face significant global competition. This competition is likely to increase as new producers improve their biosecurity, sustainability and responsibility credentials. WA's exporters must continue to build and demonstrate these product attributes into the future.

## SECURE

WA has strong regulatory frameworks to provide for high standards in biosecurity and a reputation for being free of many significant pest and diseases which supports 'area freedom' from pest status and enables trade and market access. The strong biosecurity system protects the States multi billion dollar agrifood sector, and its natural resources, which underpin the state's tourism industry.

Growth in trade and travel combined with changing disease vectors is increasing the incidence of pest and disease outbreaks worldwide and threatening Western Australia's biosecurity status. Demonstrating this point, there were four plant biosecurity responses in the six years to 2014, 17 in the following six years and in then six in 2020 alone. While these were successfully managed by DPIRD, they have had major and on-going impacts on producers. By managing biosecurity risks it is estimated that \$700 million in damages are prevented annually by DPIRD activities, approximately seven per cent of the total gross value of agricultural production in WA.

In recognition of the increasing biosecurity risk and to better protect the State's primary industries, environment and access to valuable export markets, in August of this year, the State Government has invested an additional \$15.1 million to reinforce Western Australia's biosecurity capabilities. The funding will enhance early warning and detection systems, boost biosecurity emergency preparedness, and build response capacity and capability.

## SUSTAINABLE

WA's export sector has a significant carbon footprint. In 2019, the state's emission rose to 91.9 million tonnes. While, for WA's 56% of exports, this 91.9 million tonnes is only around 17 per cent of Australia's total greenhouse gas emissions, it is 21% above emissions in 2005, the benchmark year for measuring whether Australia meets its Paris agreement targets<sup>23</sup>. This growth in emissions is primarily a result of the resources boom, which has led to a doubling of the size of our economy between 2000 and 2016, as well as increasing carbon emissions from the states agriculture sector (the only industry to experience an increase in emissions since 2008-09).

The State Government is working with industry to reduce carbon emissions and has recently announced the goal of being carbon neutral by 2050. Western Australia's and Australia's progress towards being carbon neutral will be vital in our ability to compete with key competitors in the European Union and elsewhere, where movement towards carbon neutrality is more advanced<sup>24</sup>.

## ETHICALLY SOURCED

Consumer and shareholder activism is moving rapidly to take consideration of how firms and governments manage their relationships with First Nations people. As demonstrated through the recent Rio Tinto Juukan Gorge incident, international press coverage and shareholder activism cost three top executives and two board members, including the chair, their jobs and investors worth \$10.2 trillion have stepped up pressure on mining companies, writing to the boards of 78 miners asking for more information about how they manage their relationships with First Nations people.

Australia's performance in addressing Closing the Gap outcomes is becoming a heightened point of focus with our trade partners and international consumers, with an increased the risk of ESG based advocacy for boycotts of Australian goods. DPIRD and the RDCs recognise the importance of Aboriginal economic development as a key means to deliver meaningful outcomes for Aboriginal people and to achieve enduring Closing the Gap outcomes. As identified in the following section, Aboriginal economic development is seen as a key strategic theme for DPIRD and the RDCs, with DPIRD identified as the lead agency for Aboriginal economic development in WA.

**Key issue the Committee may wish to consider**

In its inquiry the Committee may wish to consider the role of WA state government agencies such as DPIRD in trade and investment attraction and in supporting WA's exporters build and demonstrate their biosecurity, sustainability and ethical credentials into the future.

## TOR4 - ACTIONS BEING UNDERTAKEN BY RELEVANT STAKEHOLDERS TO PLAN FOR IDENTIFIED TRENDS IN DEMAND FOR WA EXPORTS

- Government has in place a range of plans and strategies to develop the ability of the WA economy to engage with and respond to changes in demand for WA exports.

Through *Diversify WA* and the *WA Recovery Plan* the State Government has an overall strategy and approach to recovering from the economic impacts of COVID-19 and moving the economy to a more diversified future. WA's regions and primary industries will play a significant role in that recovery and diversification. The following section provides a very brief summary of DPIRD's and the Regional Development Commissions' continued efforts to coordinate and plan activity in support the regional economy and the primary industry sectors.

As detailed in DPIRD's Strategic Intent 2018-21, DPIRD works to protect the sustainability of natural resources and accelerate ongoing economic growth, job creation and regional development. An important part of our role is to support the growth of strong regional communities that are desirable places to live, work and invest. Key goals in DPIRD's Strategic Intent are:

**Protect** – to manage and provide for sustainable use of our natural resources, water and soils, and to protect WA's brand as a reliable producer of premium, clean and safe food, products and services.

**Grow** – to enable the primary industries sector and regions to increase international competitiveness and grow in value and social amenity.

**Innovate** – to support a culture of scientific inquiry, innovation and adaptation across primary industries and regions to boost industry transformation, sustainability, jobs and economic growth.

In advancing this strategic intent, DPIRD, working with the nine Regional Development Commissions, and through the leadership of the WA Regional Development Trust is focusing and aligning activity around five strategic themes:

- Grow existing, and find and develop new, non-renewable resource and related industries.
- Grow existing, and find and develop new, other alternative industries.
- Normalise regional living standards.
- Increase the economic participation of Aboriginal people.
- Deliver organisational excellence.

Reflecting this strategic intent and the broader five regional development themes, DPIRD has developed specific planning around support for the diversification and expansion of WA's agrifood and fisheries sectors. These Plans aims to support an increasingly sophisticated and globally competitive primary industries which make a significant contribution to, and create prosperity across the state.

- Primary Industries Plan (Attachment 2) - sets clear priorities for investment and establishes a platform for strengthened collaboration between government and primary industries. It sets out how DPIRD and other Western Australian Government agencies, Commonwealth Government, industry, communities, and other stakeholders will work together to diversify and sustain the prosperity of the State's primary industries.

- Aquaculture Development Plan (Attachment 3) – assist Government to focus and prioritise resources towards a strong, well developed aquaculture industry that creates upstream and downstream businesses such as feed manufacturing, equipment manufacturing, processing and value adding, particularly in regional areas.

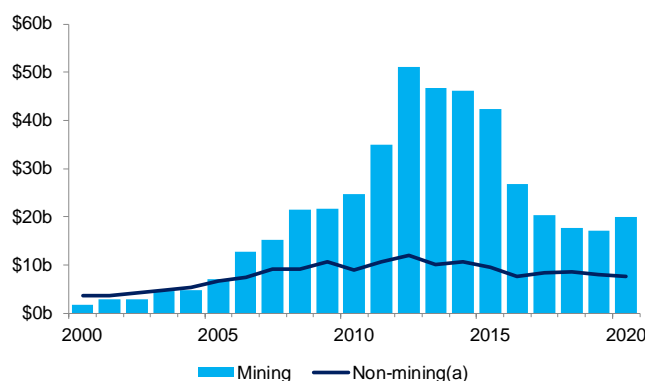
## TOR5 - KEY FACTORS AFFECTING INBOUND INVESTMENT IN MAJOR SECTORS OF THE WA ECONOMY.

- WA is not a major destination for inbound investment into capital.
- This reflects in part the limited focus on exports (outside of mining), the small and targeted nature of much of our industry, and key elements of risk and return that either promote or discourage investment.

### INBOUND INVESTMENT LANDSCAPE

WA is a small supplier to large and growing markets with increasing competition. Without an ongoing and high level of investment WA industries and regions risk being left behind. With around \$28 Billion of inbound new capital investment in 2020, WA accounted for less than 19% of inbound capital investment to Australia. Within that \$28 billion investment in WA is dominated by mining, with WA receiving only 9% of Australia's non-mining industries new capital investment in 2020<sup>12</sup>.

**Figure 3: Western Australia's private new capital expenditure: Calendar years**



Nominal or not adjusted for price changes. Original series. (a) All industries other than mining; agriculture, forestry and fishing; public administration and safety; and superannuation funds.  
Source: ABS 5625.0 Private New Capital Expenditure and Expected Expenditure, Australia (Quarterly).

Australia is low on the destinations for foreign investment, ranking 14th of the list on countries in 2020<sup>12</sup>. At less than 9% of Australia's non-mining share, in diversifying our economy there is potential to increase investor awareness and appetite for investment into WA. Two such efforts funded by the State Government include:

- Invest and Trade in WA – this program facilitate investment and trade, providing access to services, programs and initiatives designed to assists WA businesses find a path to secure investment and identify local suppliers and partners in WA to help grow.
- Value Add Agribusiness Investment Attraction Fund – Now in its second round, this \$8 Million fund aims to support businesses to invest in new projects or expansion opportunities that build competitiveness, adopt innovative technologies and grow their operations.

## INVESTMENT RISK AND RETURN ISSUES

### LOW RISK OPERATING ENVIRONMENT

Western Australia's political stability, transparent regulatory regimes, and established governance frameworks underpin the global view of WA as a secure and low risk operating environment. While a rating specific to WA is not available, Australia is ranked third on the 2021 Index of Economic Freedom<sup>24</sup> and the 2020 World Bank Doing Business report judged Australia to be 14th amongst the top 10 most straightforward and affordable countries in which to start up a business and in terms of overall ease of doing business<sup>25</sup>. It should be noted though that the World Bank Doing Business report also rated Australia at a lowly 106 (from a total of 130 countries) for the ease of trading across borders<sup>25</sup>.

### COMPARATIVE ADVANTAGES AND DISADVANTAGES

Beyond our secure and low risk operating environment, Western Australian firms experience some distinct advantages. For example with approximately 67% of Australia's working age population having a university degree, diploma or trade qualification, in 2019 Australia was ranked 9<sup>th</sup> by the OECD on population with tertiary education 2019 and 3<sup>rd</sup> in Asia<sup>26</sup>.

Notwithstanding the advantages WA firms experience by operating in Western Australia, these compete with a range of acute and systemic disadvantages. The key to enabling a significant expansion of investment into Western Australia lies in creating an environment that maximises the competitive advantage to Western Australian firms and builds strong partnerships across the full supply chain to export markets will be key to attracting investment into new markets and supply chain replacement opportunities.

### Diversification

WA is a large state, with a geographically disperse population. The regional economic landscape is characterised by a low density of firms, limited cooperation between firms and limited agglomeration opportunities. As a result, outside of some locations with intensive mining and broadacre farming activities, there are few locations where there are multiple firms working on diverse but related, complementary product spaces. If we take the cattle industry as an example – a pastoralist in close proximity to food processing plants, textile factories, fertilizer processing and cereal farms has the potential to take advantage of knowledge spillovers across firms, to maximise the potential for learning opportunities and growth, as well improved access to local sources of growth into new industries<sup>27</sup>. The pastoralist and all these other related firms are many times more likely to be successful than in locations where everyone is specialising in doing the same thing.

Locations and sectors with diverse but related activity are important to investors – they signal where success has already occurred, it identifies the capability of a region to produce a new industry by leveraging its existing capabilities in the production of other similar industries, and reduces the risk of investment in new capabilities as these are seen as more easily accumulated if they can be combined with others that already exist. Fostering investment in or to enable locations and sectors with diverse but related activity is also beneficial to the state as increasing related diversity and stimulating activity in related firms tends to achieve both regional employment growth and economic development – avoiding the specialisation trap of high wages for only a few.

### Wages and access to labour

Western Australia is currently in a jobs expansion phase, with over 15,000 jobs created over the last 12 months across our regional and primary industry sectors<sup>28</sup>. This regional job creation is occurring in a period where, due to COVID-19 restrictions, the number of available workers has declined. As a result, most sectors of our primary industries and regional economies report having more jobs than



workers, with deficits in both in low paid skilled jobs and in high paid skilled jobs. This lack of workforce has been a long-standing issue that has become more acute as a result of COVID-19.

WA's protracted labour shortage has resulted in significant wage premiums in WA – for example, premiums up to 30% in sectors such as mining and construction. WA also has higher total manufacturing costs than our main trading partners and competitors and WA's agriculture workforce in the highest paid in the OECD<sup>29</sup>. These premiums, combined with a relatively volatile Australian dollar, are a challenge to the international competitiveness of our exports.

Higher wages, while beneficial for living standards, are problematic for WA firms. WA's productivity growth has experienced a marked slowdown over the last decade<sup>30</sup> and sectors, such as mining, with high wages are cannibalising workforce and resources from other areas of the economy<sup>31</sup>.

### Intergenerational challenges

WA faces a range of demographic and other long-term challenges that are likely to have intergenerational implications for economic growth and fiscal sustainability.

As mentioned above, WA's regional and primary industry sectors are experiencing long-standing and now acute skills shortages. Historically, WA has had a strong focus on training as the solution to widespread skills deficits in the economy. However, there are major limitations to the ability of an economy to skill its way out of a labour shortage or to skill its way out of structural limitations. Training as a solution to skills deficits has a number of prerequisites – these prerequisites are largely structural. Diminishing these structural limitations can be a good way to rapidly increase the skill mix in an industry or region, it is typically longer-term and expensive to restructure an entrenched issues in a sector or region.

Structural features contribute to both labour shortages and wage pressures, especially remoteness, lack of connectivity between regions, and cost of living pressures<sup>32</sup>. Even with increased wages, ABS data and recent CCI surveys show that census data shows though that only around half of these high skilled workers remain in the regions more than 5 years<sup>33</sup>. So, while other states report a net inflow of 43,000 people from capital cities to the regions in 2020 this is not the story in WA. ABS regional internal migration statistics show that WA's regions have lost population every year since 2008. And while this loss declined in 2020, last year, 2133 more people left regional WA than entered it<sup>34</sup>.

Intergenerational issues for WA's export oriented regional and primary industries include:

- Limits to the number and nature of WA's skilled workforce - In the past WA's export oriented firms has overcome skills shortages by importing labour from overseas, from Perth to the regions, or from other States. With COVID-19, recruitment from these locations have ceased or greatly diminished<sup>34</sup>.

There is room for WA's export oriented firms to grow their appeal to and share of interstate and overseas migrants. Even during the recent investment boom, WA's per capital interstate and overseas migration was lower than other states. This is in part because WA has a heavy reliance on Skilled Migration Visas (which account for almost 70% of WA's migrants)<sup>35</sup> and in part because these skilled migrants do not remain in the regions. 2016 Census data shows that of the 12,014 visa holders living outside of Perth five years prior, only 6650 remained there. This 55% retention compares to 92% in the Perth metropolitan area<sup>36</sup>.

- Housing - A key employment issue in the regions is access to and the high cost of housing. A lack of housing stock, very low rental vacancies, high costs of housing and high living costs erode the benefit of higher wages in our export sectors. These cost of living pressures severely limit the ability of businesses to attract and retain lower skilled, lower paid positions. Access to housing

and cost of living is seen as particularly challenging for low-income service workers in hospitality and childcare and for seasonal agriculture workers. As a result most regions report major difficulties in attracting and retaining lower paid workers, with workers exiting regions or sector for those with high wages (mining) or lower costs (Perth).

Since the last economic downturn there has been little new housing built in the regions. With jobs now increasing rapidly there is a gap that will take considerable time to overcome. In the Great Southern for example, the Regional Development Commission estimates that new residential housing supply is unlikely to come online for at least two years, due to both labour and materials shortages. Local builders are now advising clients of a 2–3-year build timeframe

The lack of available workers' accommodation and rentals is restricting relocation of available or interested workers to the region and channelling mining and non-mining companies into increasing or commencing fly-in-fly-out arrangements. In most regions, mining companies and the government has been very active in securing private rentals and purchasing existing housing stock. This is crowding out private sector, non mining workers in key service industries such as childcare. This further restricts the ability of lower paid workers, both the workers themselves and those dependent on them, being able to be retained in the regions<sup>37</sup>.

The challenges and impacts of fly-in-fly-out (FIFO) and drive-in-drive-out (DIDO) are well documented in WA. Increasing the prevalence of FIFO and DIDO is known to have significant and widespread negative consequences in the regions receiving these temporary workers and in the communities from where they are sourced<sup>38</sup>.

- Industrial land - WA has a lack of 'turn-key' industrial estates that are offered to major project proponents in other competing jurisdictions. Industrial projects in WA continue to encounter uncertainty and delays in project approvals and require significant investment in headworks and other infrastructure - a situation that does not typically occur in 'turn-key' industrial estates in other jurisdictions globally. This serves as an impediment to investment, industry growth and job creation.
- Energy – disparate and limited energy infrastructure and high energy costs are a factor in terms of the “price premium” faced by WA exporters compared to those operating in other jurisdictions<sup>38</sup>.
- Declining rainfall - Water has long been a naturally scarce resource in WA. Reducing rainfall trends have put significant pressure on water security in regional areas where desalination of seawater is not a viable. For example climate change modelling for the reduction in the recharge of aquifers in the Mid West has progressed much faster than anticipated. In response, the Department of Water and Environmental Regulation has revise and decreased its water allocations<sup>39</sup>.

In terms of our major exports in mining and agriculture and food production, the decline in natural water resources has direct ramifications. Scarce water and high market prices represent a reality that will remain in Western Australia long into the future.

#### **Key issue the Committee may wish to consider**

**Given the range of acute and intergenerational challenges facing WA's regional and primary industries, the Committee may wish to consider the work of DPIRD and the Regional Development Commissions in attracting and retaining key workers, identifying skills gaps, and increasing access to industrial land.**

## End notes and references

1. Specialisation and diversity refer to the extent to which an economy focuses on a small number of industries (specialisation) or spreads its efforts around (diversification). Specialisation and diversity within an economy are important contributors to incomes and jobs. Generally, specialisation results in higher incomes, and diversity, more jobs. High levels of diversity can protect an economy from shocks and through areas of related diversity, stimulate new areas of specialisation. However, deep specialisation can crowd out innovation, cannibalise local diversity and result in income stagnation.
2. ABS 5368.0 International Trade in Goods and Services, Australia.
3. Western Australia State Budget 2020-21 Budget Paper NO. 3 Economic and Fiscal Outlook
4. Department of Primary Industries and Regional Development. Primary Industries Plan 2020-2024.
5. Figure derived from REMPLAN's Tourism Analysis Module
6. Harvard University's 2020 Center for International Development in their 2020 Economic Complexity Report for Western Australia.
7. ABS exports by destination - ABS 5368.0 International Trade in Goods and Services, Australia
8. Bankwest Curtin Economics Centre. Future-Proofing the WA Economy 2019
9. DPIRD calculations based on ABERS and ABS 5368.0 International Trade in Goods and Services, Australia
10. Australian Food and Grocery Council (AFGC). Sustaining Australia – Food and Grocery Manufacturing 2030
11. Western Australia Investment and Trade Plan 2020-21.
12. Department5 of Jobs, Tourism, Science and Innovation. WA Economic Profile July 2021
13. Australian Government Department of Industry, Science, Energy and Resources. Commonwealth of Australia National Resources Statement - Mining Equipment, Technology and Services (METS) growth opportunities 2019.
14. Department of Primary Industries and Regional Development. Aquaculture Development Plan for Western Australia (November 2020)
15. 60% of agrifood export are derived from six Asian nations. China remains WA's largest agrifood export market, with exports in 2019-20 (provisional) valued at \$2.4 billion. This represents 30% of WA's total agrifood exports, primarily consisting of cereal grains, wool, meat, edible offal and crustaceans.
16. Content taken from the Department of Primary Industries and Regional Development Western Australian Plant Protein Processing Business Opportunity Outline 2021.
17. Based on DPIRD World Trade Organisation reporting for the 2019 reporting period
18. Clean Energy Council. Clean Energy Australia Report 2021
19. WA Department of Treasury. Energy Transformation Strategy 2019.
20. Source: ABS 5368.0 International Trade in Goods and Services, Australia; and WA Department of Mines, Industry Regulation and Safety, Resource Data Files (Bi-annual).
21. International Monetary Fund. World Economic Outlook, July 2021: Fault lines widen in the global economy. July 27, 2021.
22. WA Department of Treasury. International Trade: Emerging Development and Prospective Outlook, February 2019.
23. Department of Environment and Energy. National Greenhouse Accounts 2019.
24. Miller T., Kim AB., Roberts J (2021). 2021 Index of Economic Freedom. The Heritage Foundation Washington USA.
25. World Bank (2020) Doing Business 2020. Washington DC.
26. <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>

27. Asheim, B., Boschma, R., & Cooke, P. (2011). Constructing Regional Advantage: Platform Policies Based on Related Variety and Differentiated Knowledge Bases. *Regional Studies*, 45(7), 893-904.
28. ABS Labour Force, Australia, Detailed, Quarterly
29. Harvard University's 2020 Center for International Development in their 2020 Economic Complexity Report for Western Australia; and, Western Australia Investment and Trade Plan 2019-20.
30. Harvard University's 2020 Center for International Development in their 2020 Economic Complexity Report for Western Australia
31. As reported by Regional Development Commissions and in the CCIWA July Survey 2021.
32. Harvard University's 2020 Center for International Development in their 2020 Economic Complexity Report for Western Australia
33. ABS Census of Population and Housing 2016; CCI Surveys
34. ABS: Regional internal migration estimates (May 2021)
35. Department of Home Affairs. Visa Statistics 2018-19; 2019-20
36. ABS Census of Population and Housing 2016
37. Reports provided by the Regional Development Commissions
38. McKenzie F and Hoath A (2014). Fly-In/Fly-Out, Flexibility and the Future: Does Becoming and Regional FIFO Source Community Present Opportunity or Burden?. *Geographical Research* September 2014.
39. As reported by the Mid West Development Commission