

“Economic Zones Proposed for Northern Australia”

Vision for the Future

Rio Tinto’s decision to team up with a Chinese State Owned Enterprise to develop the massive high grade iron ore Simandou province in Guinea might sound attractive to Rio Tinto’s London based board. But this, and the emergence of 400,000 DWT ships and Asian ports being modified to handle, will dramatically affect and potentially damage the future of West Australia in ways that, regrettably, are getting little attention in the public domain.

Simandou is a very high grade iron ore province that, when developed, will be able to produce not only iron ore for decades at low cost, but once infrastructure is established in Guinea, will pave the way for other minerals in serious competition to Australia’s interests.

Rio are wanting to take advantage of Guinea’s relatively low labour costs to export iron ore in increasing quantities to Asian markets, markets that we would like to think of as Australia’s forever. These changes will occur in the near future – within four to five years – meaning that Australia has a very short time to prepare.

We cannot simply wish these developments away or ignore them.

Australia has been protected against its high costs for several decades by a freight advantage. It has been cheaper for Australia to ship resources to nearby Asia than for countries further away, like Brazil or countries in Africa. With our freight advantage disappearing quickly this makes it even more pressing for Australia to implement new measures to keep our own costs competitive, to endeavour to compete against Guinea and Brazil.

What can we do?

Firstly, we must recognise the problem. Far too often our focus as a country is on spending. But what we need before we spend is revenue, including having as much certainty as possible about Australia’s ability to continue to expand that revenue base. We need expanding revenue to be able to afford to improve our hospitals (which badly need it) and other necessary infrastructure, and to provide more for our elderly, for defence, our defence force and their families, for abused women and children, for police, and for those who are ill, all of which are only possible if revenue is increased.

In West Australia, as the Gorgon project and other resource developments occur, we must address a critical problem that is already becoming obvious again, that is, the shortage of construction workers willing to work in remote Northern areas. Australia can no longer cling to old policies that restrict the availability of temporary short term construction workers from overseas. Such old policies risk stopping or unnecessarily delaying development and can make Australian projects prohibitively expensive, while at the same time raising costs for other non mining businesses. We must recognise that long term jobs and revenue are more important than very short term construction jobs and the very real risk of losing projects and their long term revenue altogether.

The comparison with what is happening in Guinea is obvious given that its labour costs are so much lower, yet even they are planning to include Chinese workers to speed up infrastructure establishment and provide the required rail building skills.

Australians, particularly West Australians, are excited about the growing Chinese market, and think that as long as we keep supplying minerals to China, the resource and related industries employees can keep buying more expensive cars, homes, boats and holidays etc. But to be able to keep enjoying all this, we must get ready for the important changes immediately ahead of us, when Simandou will be developed and supplying higher grade ore with lower costs for decades to come, and our freight advantage will be lost. Competition from Guinea does not simply apply to iron ore, as once Guinea's infrastructure is improved, this will help to realise the potential for other minerals flooding from Guinea into Asian markets, (e.g. bauxite, diamonds etc), in fierce competition to our own minerals. Let's remember Asian markets will not want to buy more expensive minerals from Australia, their priority will turn to countries that can supply minerals competitively. Australia was able to go through the recent GFC and GEC with fewer problems than other countries largely because our mineral industry was able to continue to supply to the growing Chinese market. There will be more GFCs or GECs, and Australians and our politicians "burying their heads in the sand", will not protect us.

So we must look at the options before us as to what should we be doing.

For instance, we can of course, ask the Rio board in London to change its mind about developing Simandou given the effect this will have on Australia. Sadly, this is unlikely to happen. Rio may have grown to the company it is today on the back of Australia and the Pilbara in particular, and still make a major part of its profits from the Pilbara, but it is a multinational company with its own focuses.

The only real alternative is to make Australia more attractive to investors and more competitive.

Our suggestion is to set up special "economic zones" for remote or major projects in our remote North, be they "Brownfield" or "Greenfield". We must change the political attitude that focuses on prioritising a relatively small percentage of Australians undertaking short term construction jobs in remote regions and, instead, focus as a national priority on longer term jobs and revenue that come from enabling major projects in remote areas to actually proceed in order to have a better chance of being competitive in the world markets. Making our projects too expensive to compete internationally only jeopardises Australia's future. Hence, in these special Northern "economic zones", we should allow competitive and temporary short term workers to build our projects, say for a duration of up to two years nine months or so, which once built on Australian shores, earn revenue for Australia. An alternative to this option could be to modify so that our Government could choose, if such workers had proven to be good workers and potentially good citizens, whether to extend their stay to a longer period, or even after such testing period, to become immigrants, but not to give the temporary workers any prior commitments.

Temporary labour for a remote North in a special "Economic Zone" would be a "win, win and win" for:

- the revenue, to protect Australia's economy and improve our standards of living;
- the opportunity for longer term jobs after construction, for Australians, including Indigenous Australians, for decades;
- temporary workers, with the opportunity to provide for their families and then return to their own countries;
- assisting population growth in Northern areas, particularly if government regulations and approval processes are no more onerous than for established producers, and preferably recognise the need to encourage capital investment to earn revenue for Australia;
- reducing the growth strains on our expanding cities; and
- reducing the inflation factor which drives upwards our interest rates, and causes problems for the many Australians with home mortgages and other loans not able to benefit from construction jobs in Northern areas.

Special economic zones in Northern Australia would be particularly effective if governments recognise via the tax system (such as reducing pay roll tax) and via reducing regulations the absolute need to encourage capital investment in these areas.

The Government could also encourage individuals to move to and work in these Northern Economic Zones by reducing the levels of personal taxation while they are there.

Special economic zones, and/or temporary labour opportunities and fewer tax impediments to investment and fewer regulation impediments to investment, have worked very well in other countries, such as our neighbours in Singapore, and greatly benefited their people – why not let Australian's enjoy such advantages?

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and others, including David Humann, Vince Hyde, Tim Humphries, Nicholas Van Der Sluys, John Hancock and Bianca Rinehart.

May we ask readers their initial views on the above?

- a. Should we establish “economic zones” in remote Northern areas,
- to help to save costs;
 - to help us to compete on the world market;
 - enable more investment in Australian mineral projects and infrastructure;
 - to increase revenue for Australia and provide greater certainty of future revenue to improve our hospitals, our infrastructure, defence etc;
 - provide long term Australian job opportunities;
 - assist population growth in remote areas and lessen population strain on our major cities; and

- to lessen the impact of inflation and consequent rising interest rates?

If you agree with this please email “yes” to or if you disagree, do you have any better suggestions? (*Can the West Australian provide an email address?*)

- b. Should we not establish “economic zones” in remote Northern areas, and not allow temporary workers to competitively build projects in our remote North?
If you agree with this, please email “yes” to (*Ditto, or would the West prefer us to set up an email address.*)