

North Queensland

The Case for a Special Economic Zone

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Institute of Public Affairs**



Address to the North Queensland Resources Development Conference – July 19, 2011

Outline

1. North Australia is Different
2. The Current Economic Situation
3. Risks to Australia's Prosperity
4. The Competitive Advantage of the North
5. A Special Economic Zone

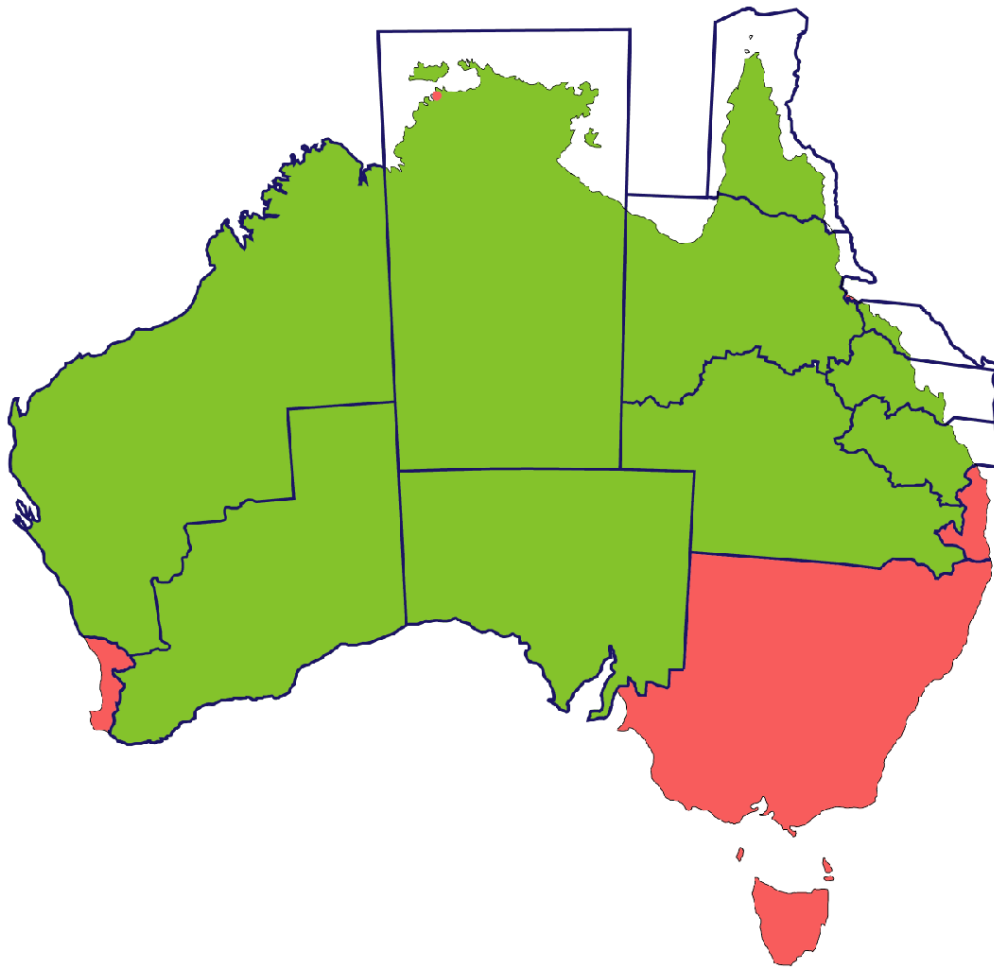
North Australia is Different



The Australian taxation system recognises the difference between the realities of living in remote areas – particularly in northern Australia by providing tax concessions for residents within remote areas.

Source: Australian Tax Office

North Australia is Different

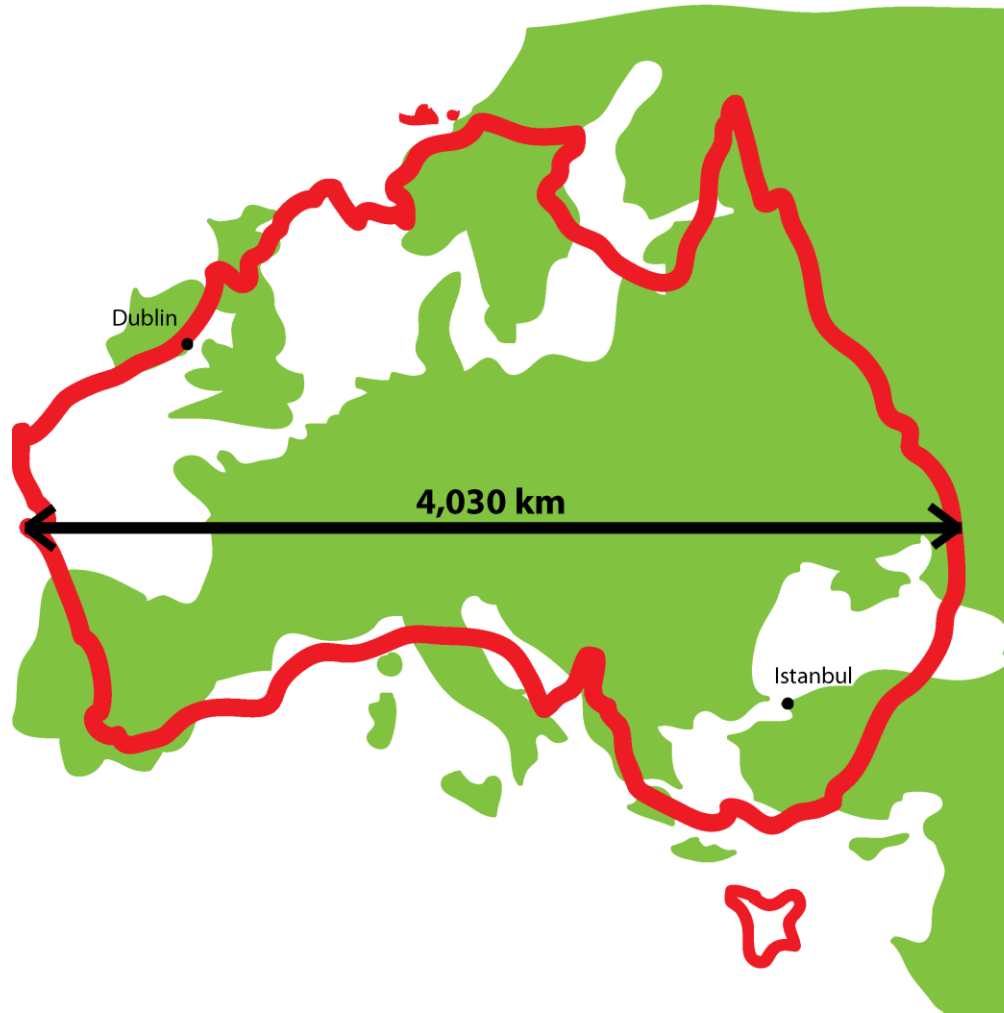


Ten electorates in the Commonwealth Parliament, predominantly in the north, make up:

- Approximately 6,442,299km²
- Approximately 83% of Australia's land mass
- 6% total representation in the Lower House

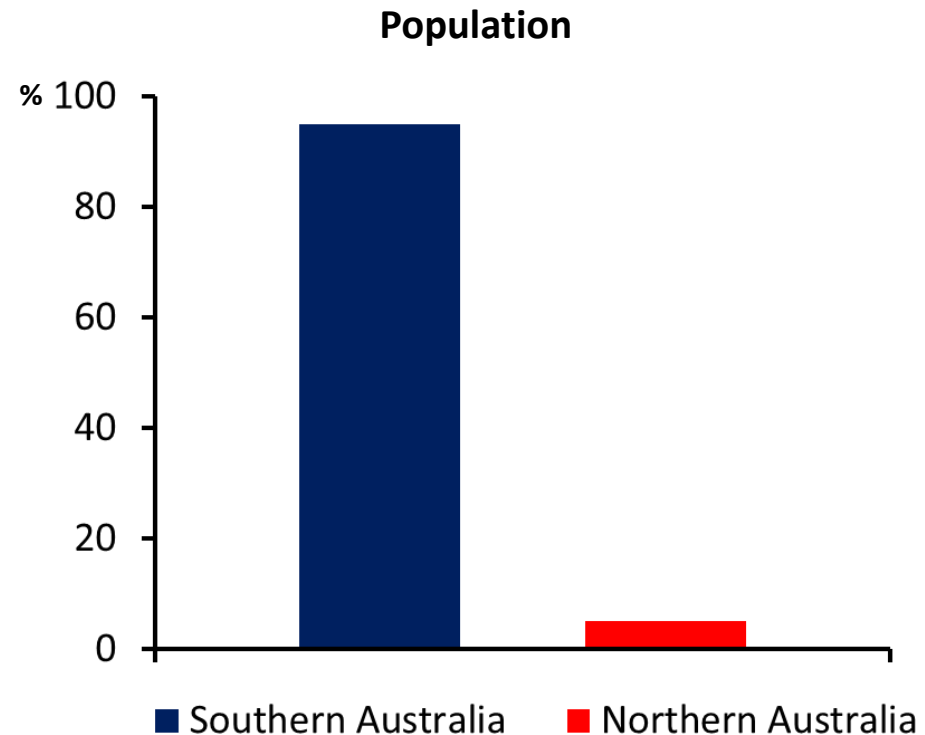
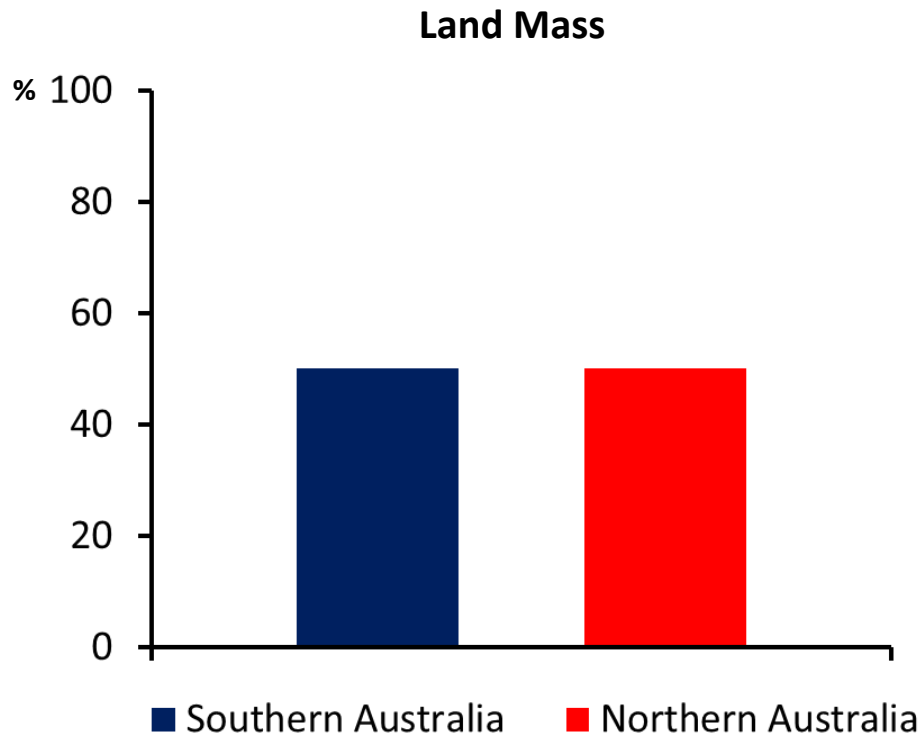
Source: Australian Electoral Commission

Does Dublin govern Istanbul?



North Australia is Different

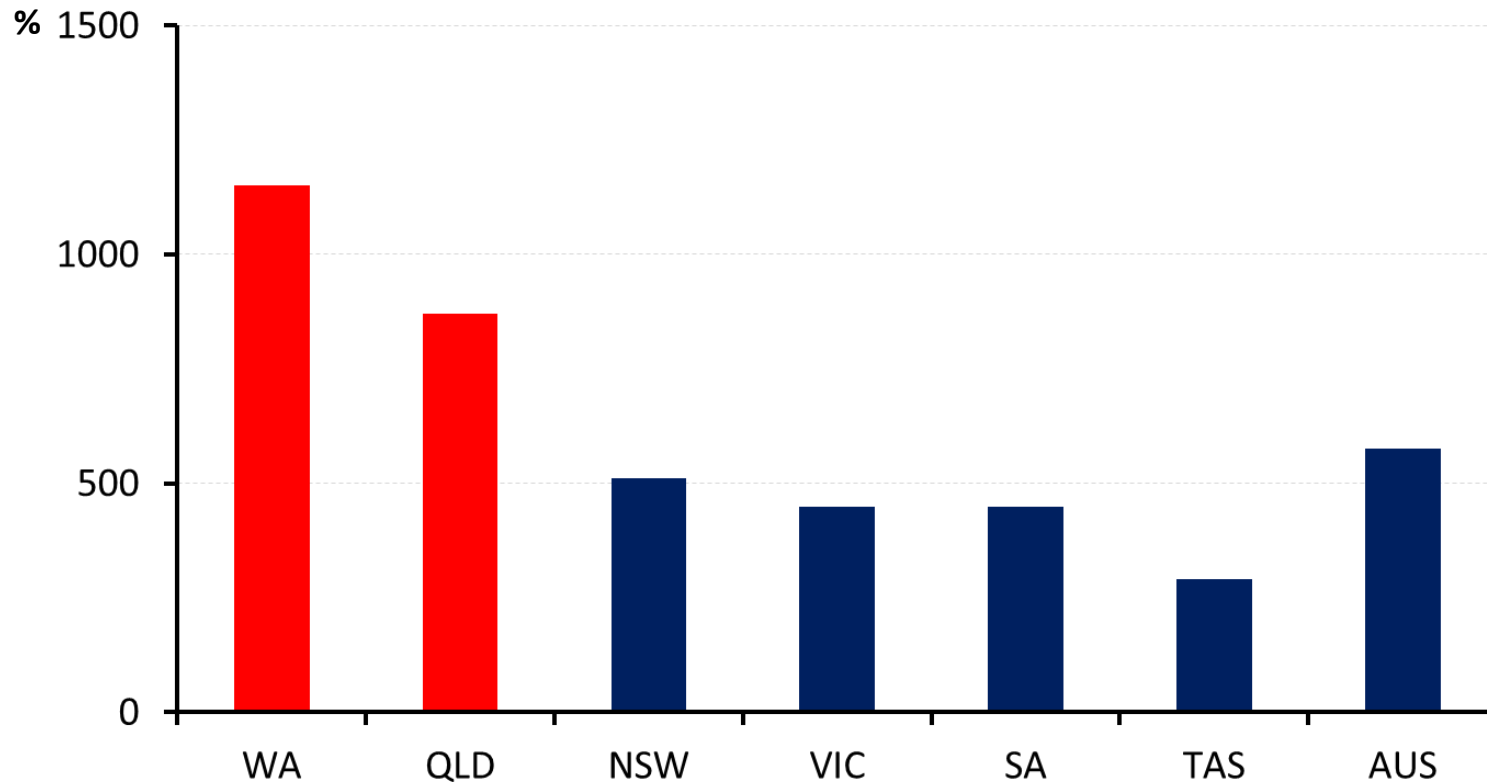
Despite comprising 50% of the land-mass, the northern half of the continent contains approximately 5% of the population



Source: Australian Bureau of Statistics

North Australia is Different

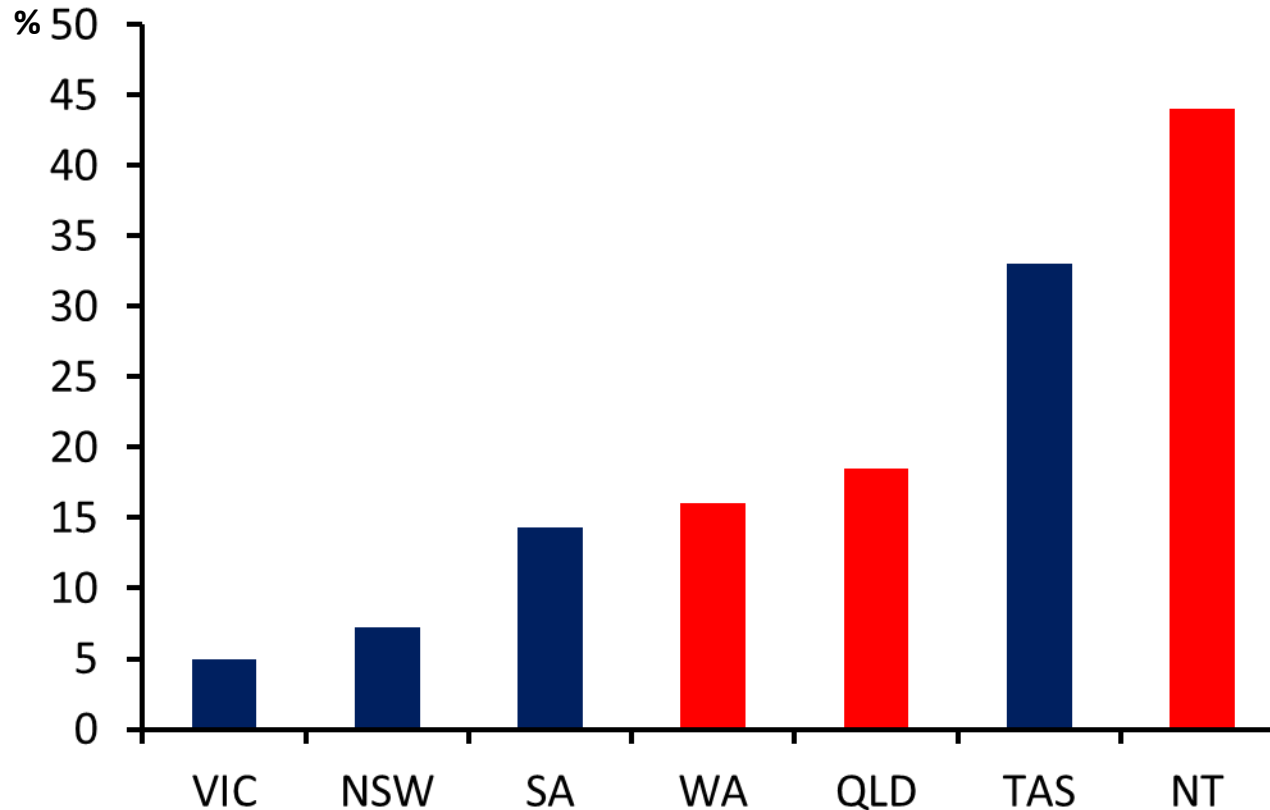
Australian States % Population Growth 1901-2009



Source: ABS

North Australia is Different

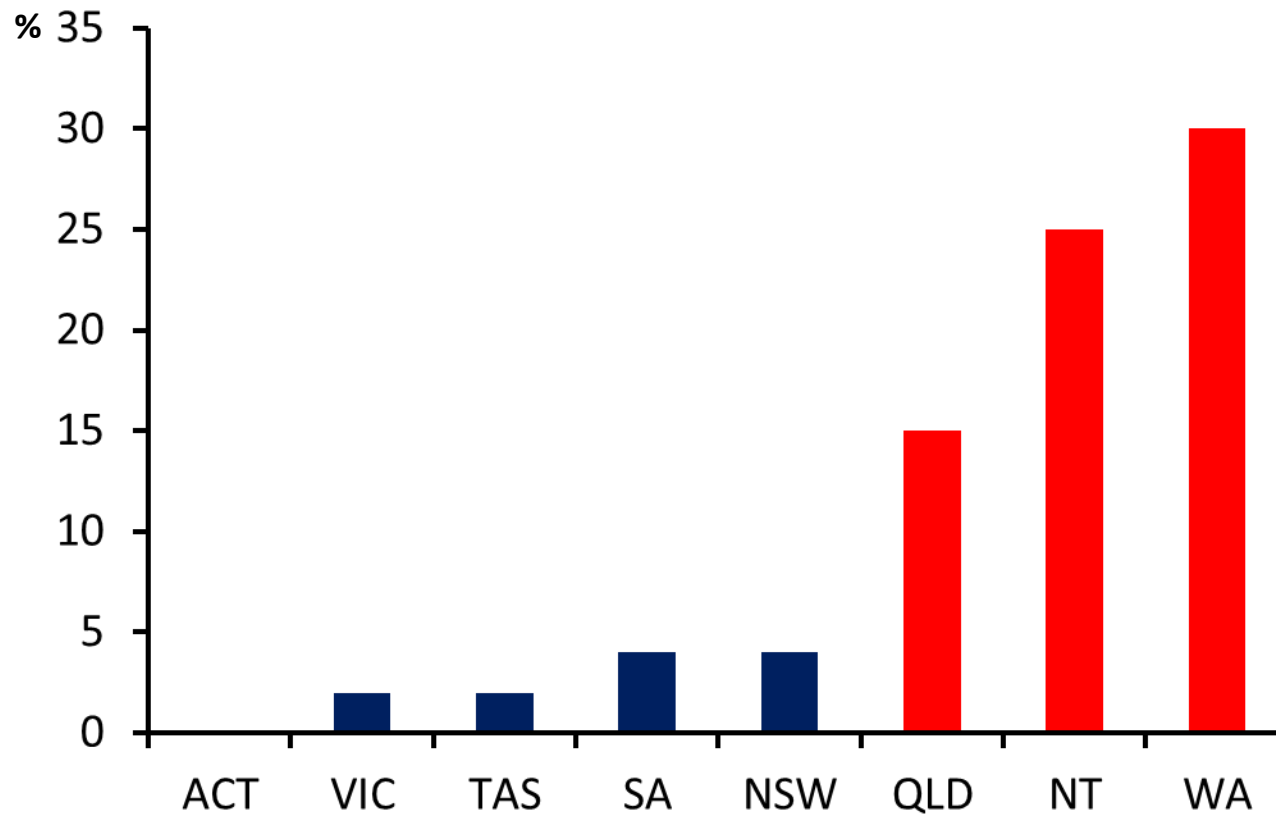
Percentage of residents living in Outer Regional, Remote or Very Remote Locations



Source: ABS Regional Population Growth 2009-2010 Cat. 3218.0

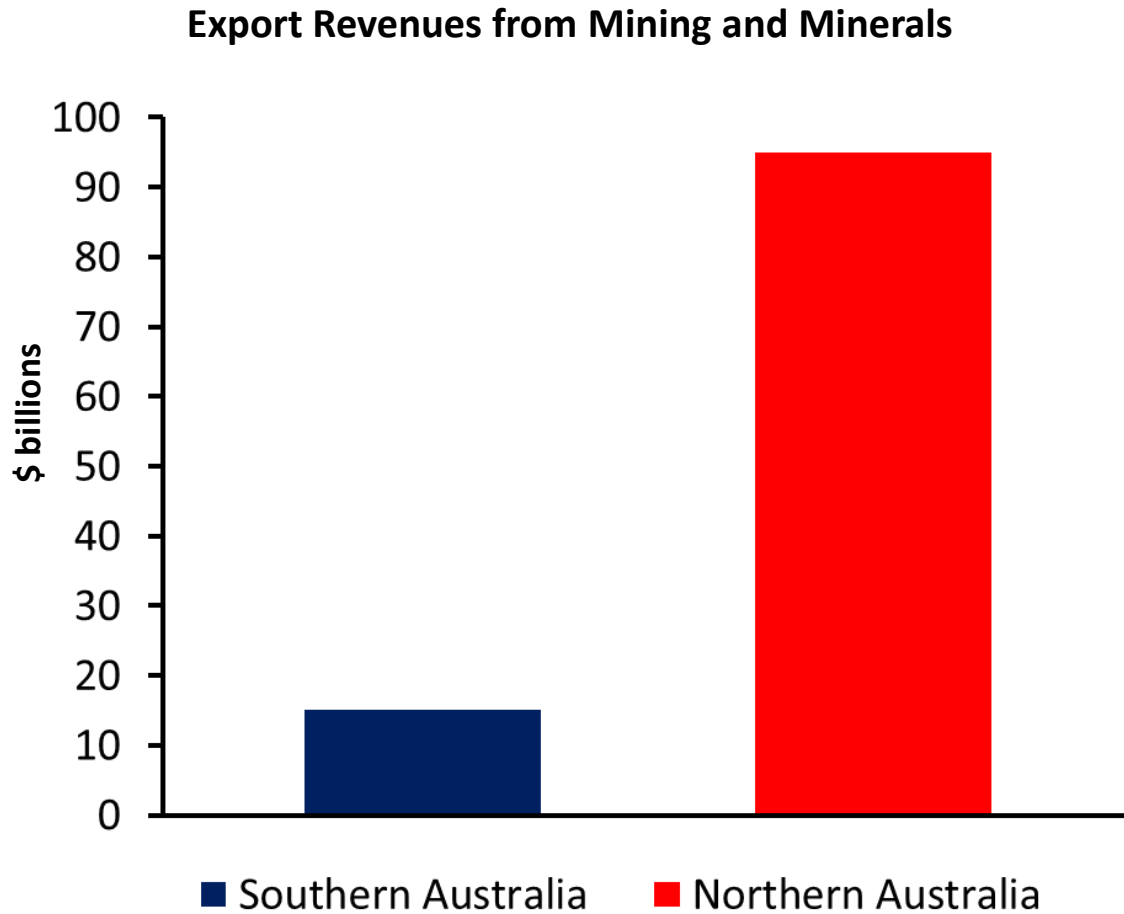
North Australia is Different

Gross Value Added to State Product by the Mining Sector 2009-2010



Source: Aroney, Prasser & Taylor "Federal Diversity in Australia – A Counter Narrative"

North Australia is Different

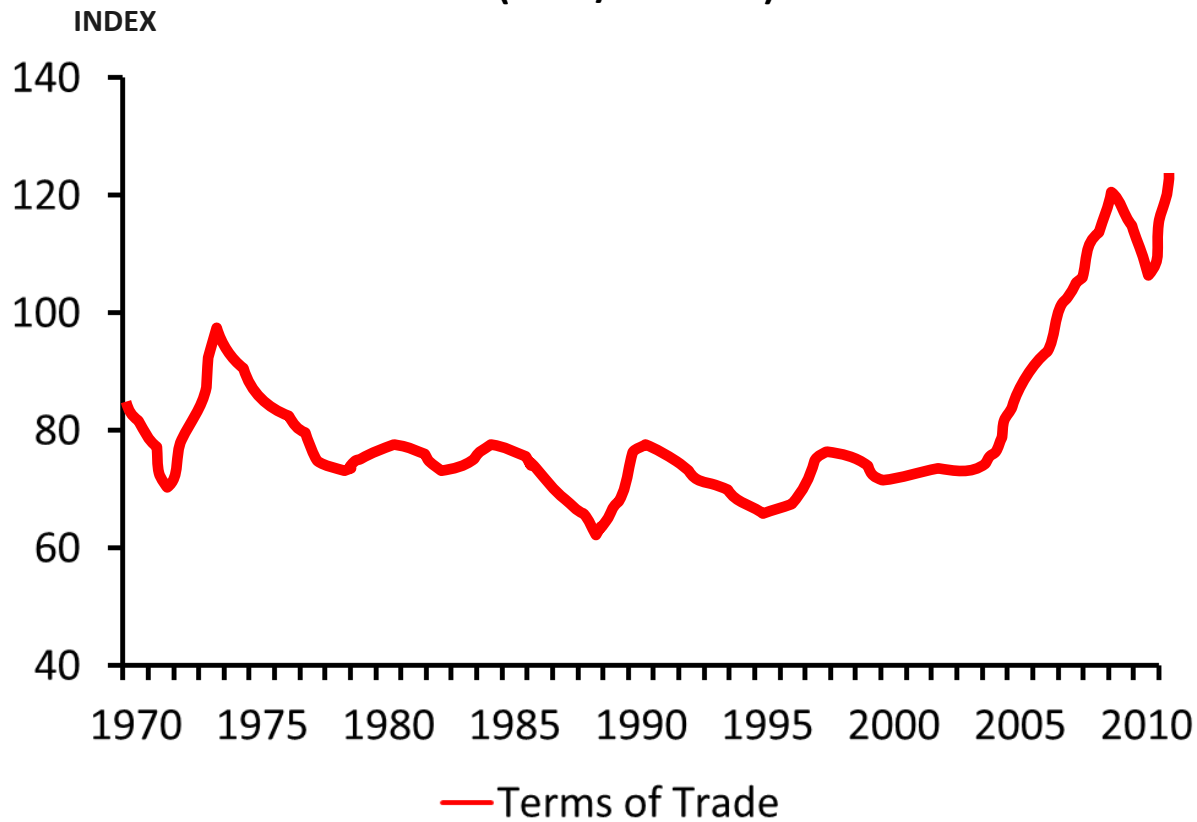


Source: Department of Foreign Affairs and Trade, Office for Economic and Statistical Research, Australian Bureau of Statistics and IPA Calculation

Current Economic Situation

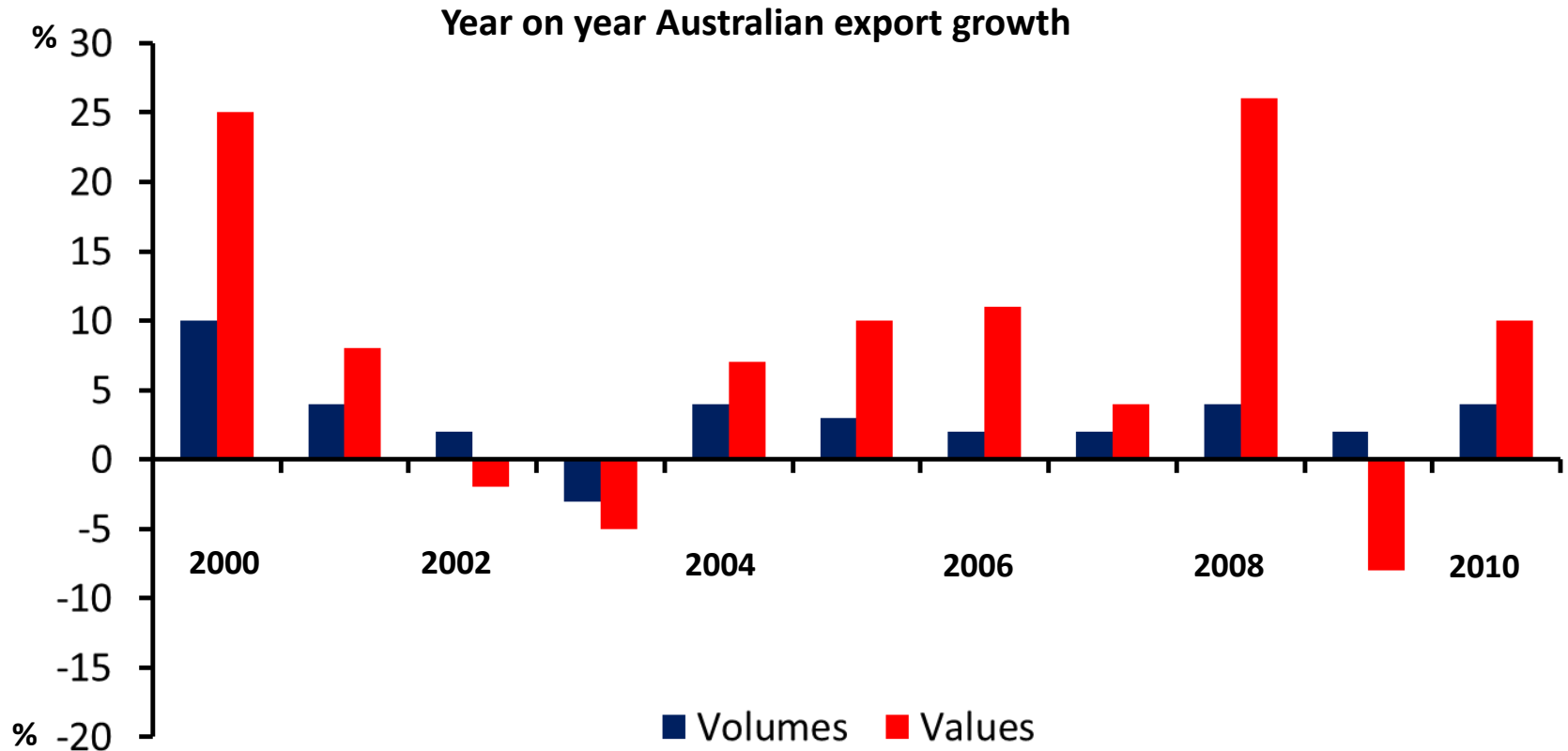
Australia's Terms of Trade

(2008/09 = 100)



Source: ABS, RBA

Current Economic Situation

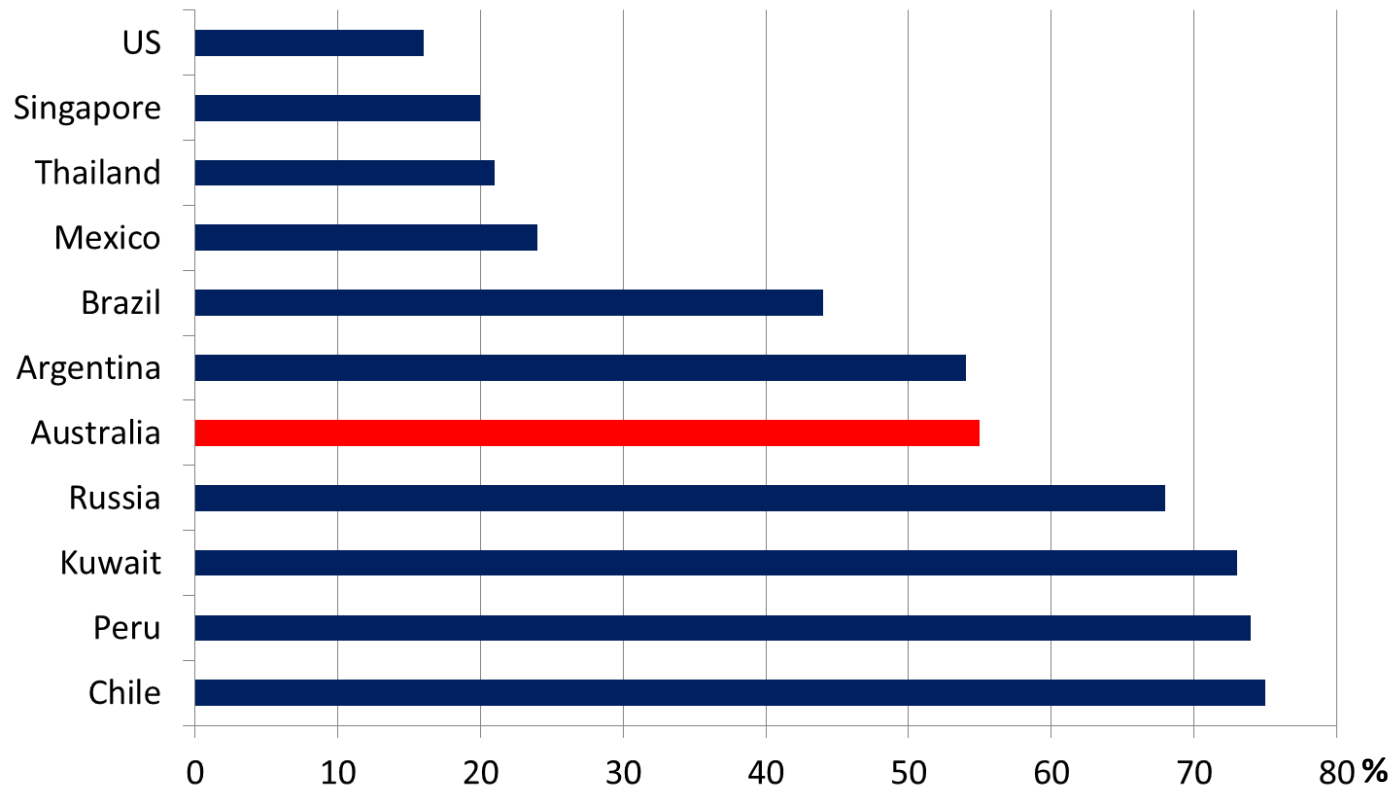


Source: DFAT Composition of Trade in Australia Report 2010 based on ABS Catalogues 5368.0 & 5302.0

Current Economic Situation

Australia is ranked fifth highest in the world in terms of dependence of our current account receipts upon primary products

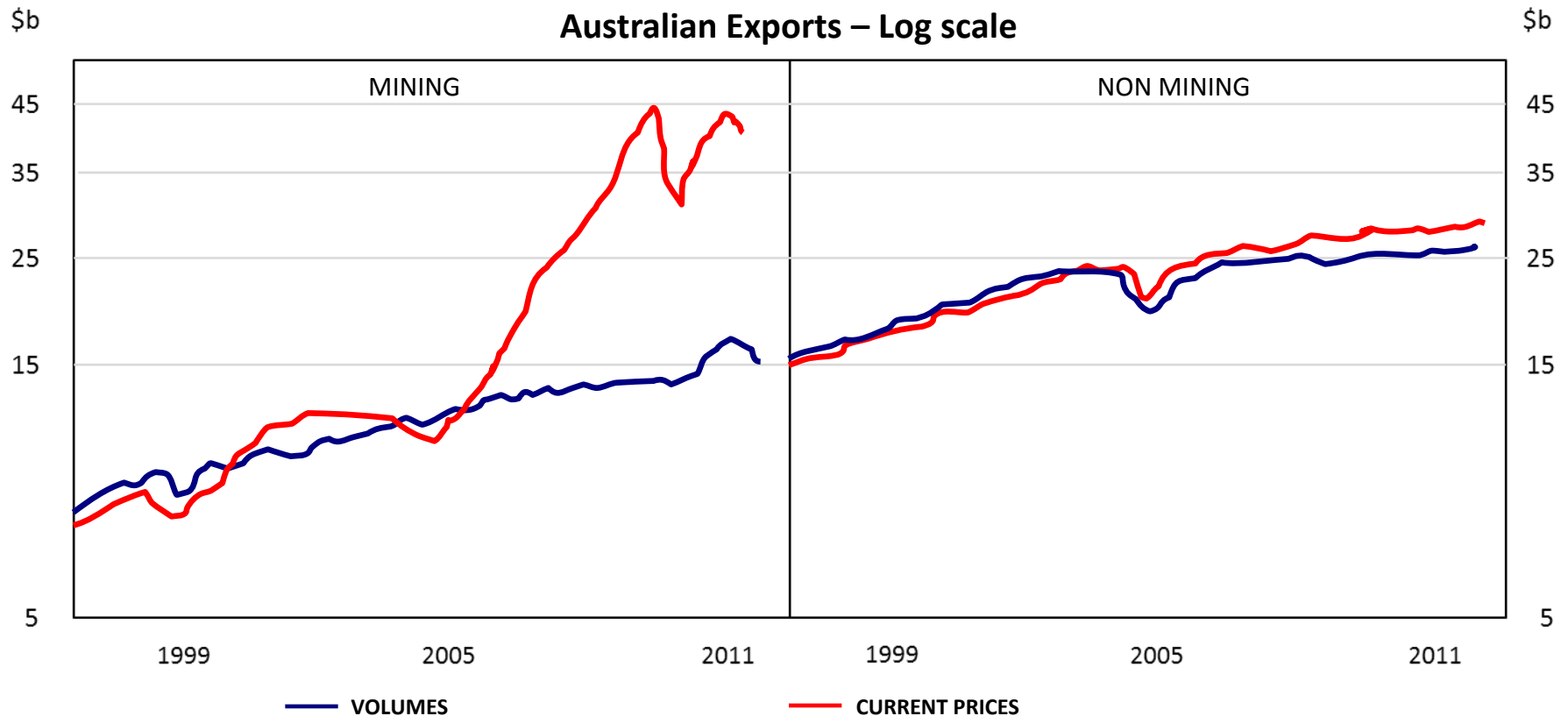
% Of Current Account Receipts Relating to Non-manufactured Goods



Source: Fitch, World Bank

Risks – Price Falls

As recently as June 2011, Ratings Agency Standard and Poor's warned of their concern that commodity prices might soon face price "corrections" as severe as 30-40% - if there were an economic downturn of global significance.



Source: ABS, RBA

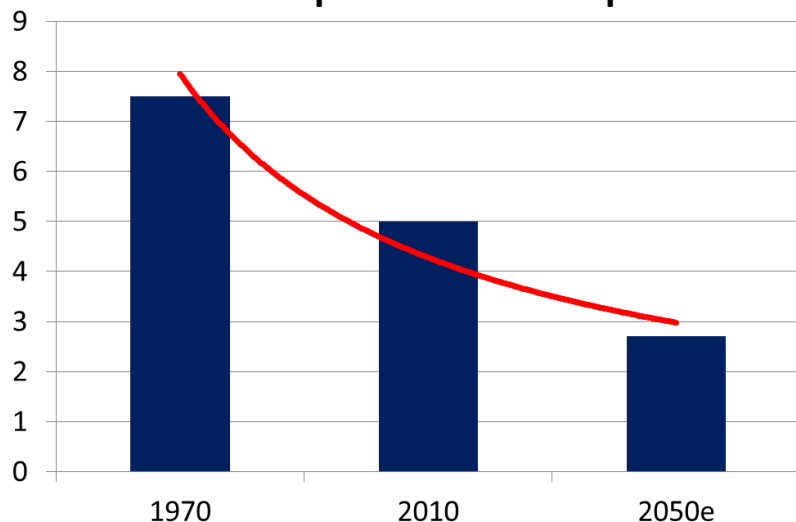
Risks – Complacency

Forty years ago only 3% of working age Australians depended on welfare payments as their main source of income. Today it is 16%. Today 5 workers support each person on welfare.

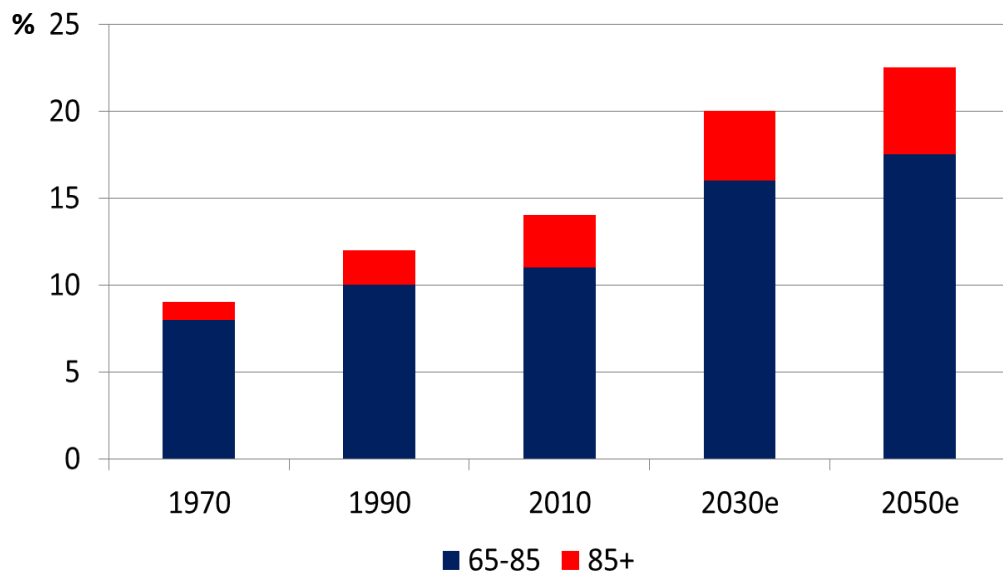
Government projections indicate that by 2050 it will be 2.7

For each older person in 2007, there were five working-age people, while in 2056 there will be less than three working-age people for every older person.

Workers per Welfare Recipients



Percentage of Australians 65+



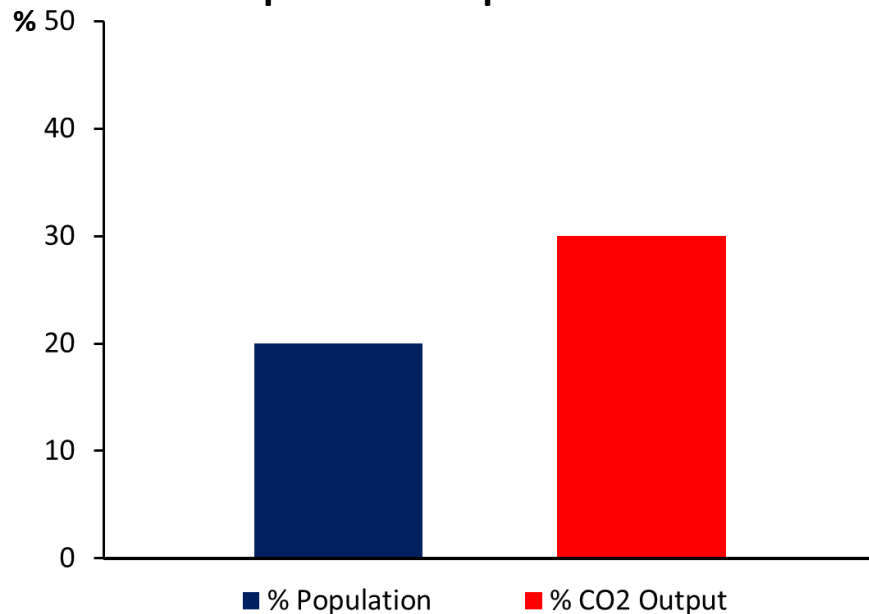
Source: Intergenerational Report 2010

Risks – Taxation

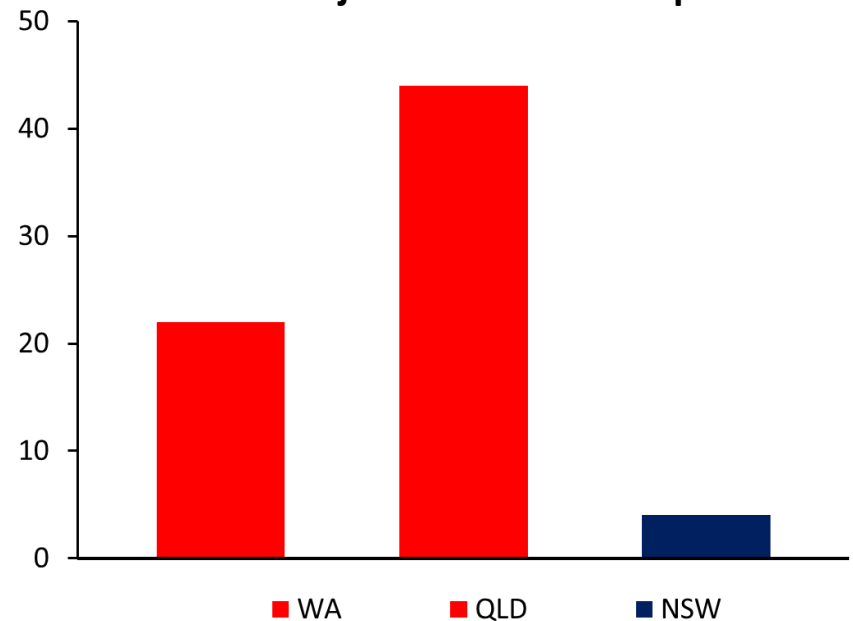
The combination of carbon and mining taxes will disproportionately impact upon industry operating in the north of Australia and in particular the coal projects within Queensland.

Impact of Taxation on Queensland

Proportional Impact of Carbon Tax



Coal Projects Under Development



Source: Office for Economic Statistics and Research (QLD) & ABARES

Risks to Australian Prosperity

Big miner prefers Africa to Australia

THE AUSTRALIAN FINANCIAL REVIEW, JUNE 23, 2011

Mining tax 'will kill industry'

THE AUSTRALIAN, APRIL 26, 2010

CARBON MUDDIES THE WATERS FOR INVESTORS

THE AUSTRALIAN, JULY 13, 2011

EPA boss defends blocking mine bid

THE WEST AUSTRALIAN, MAY 4, 2011

Carbon tax places hundreds of WA businesses in jeopardy: survey

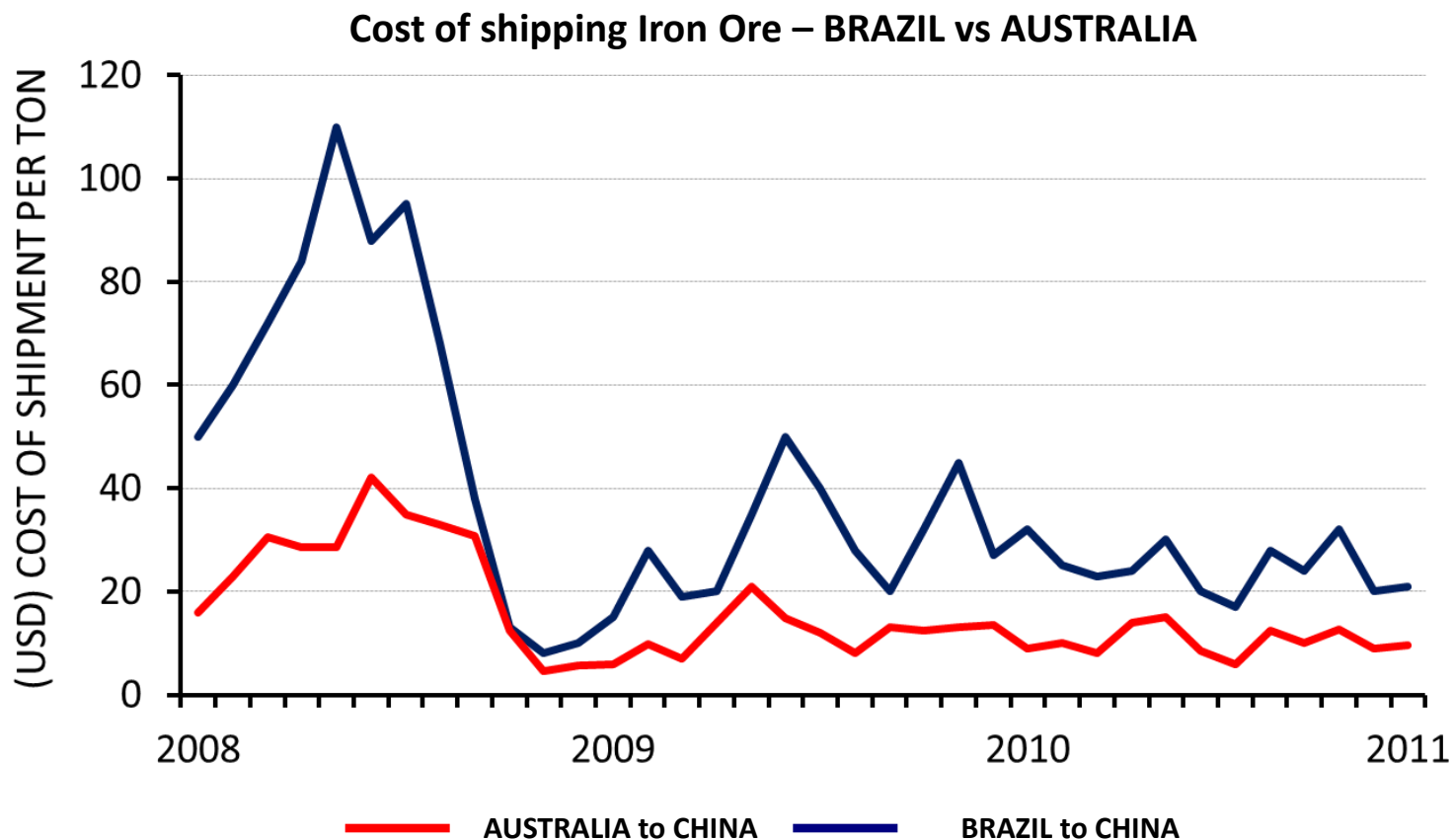
THE AGE, JUNE 30, 2011

Ban 'destroying' north Australia

KATHERINE TIMES, JULY 6, 2011

Risks – Shipping

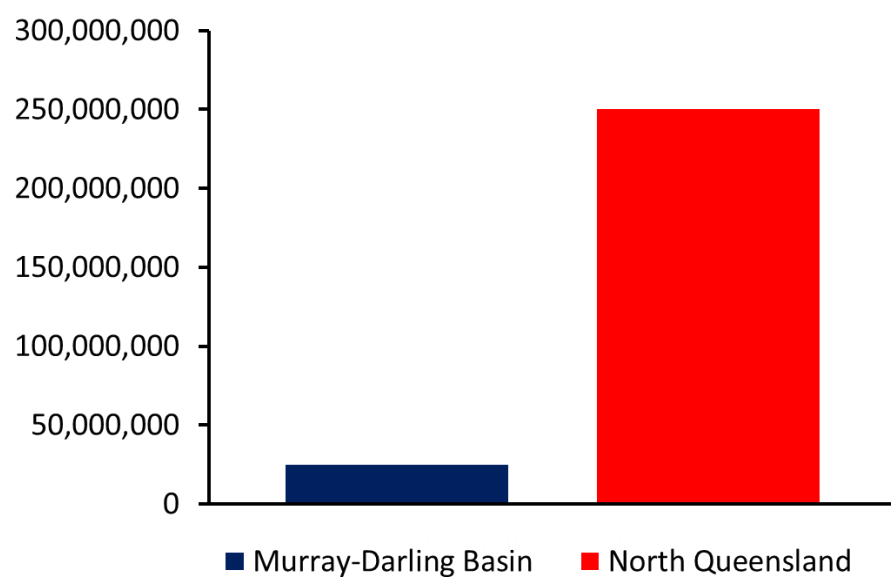
Australia's geographic proximity to Asia was once a significant advantage, however, with the acquisition of Very Large Ore Carriers (VLOC's) the relative cost of shipping ore from Brazil has decreased



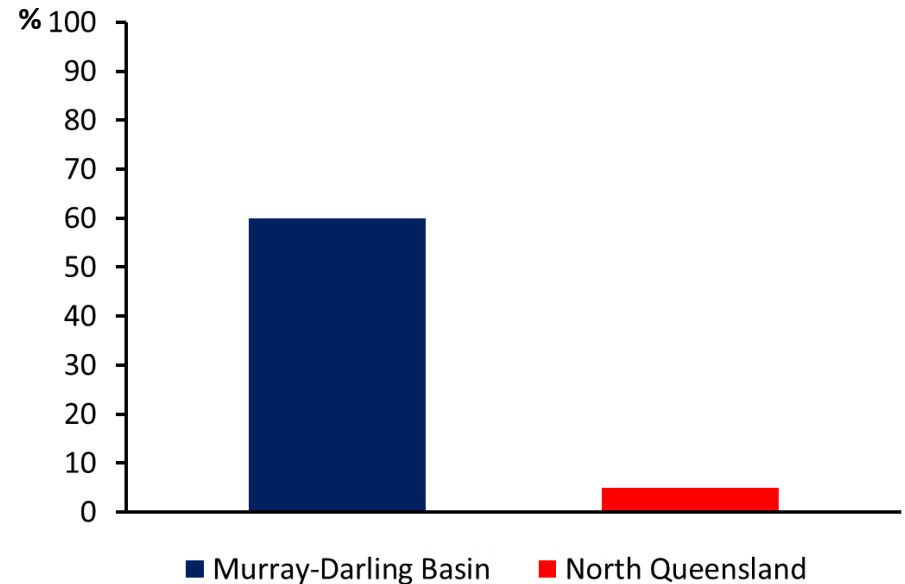
Source: International Shipping Reports

Competitive Advantage of the North

Rainfall in Gigalitres



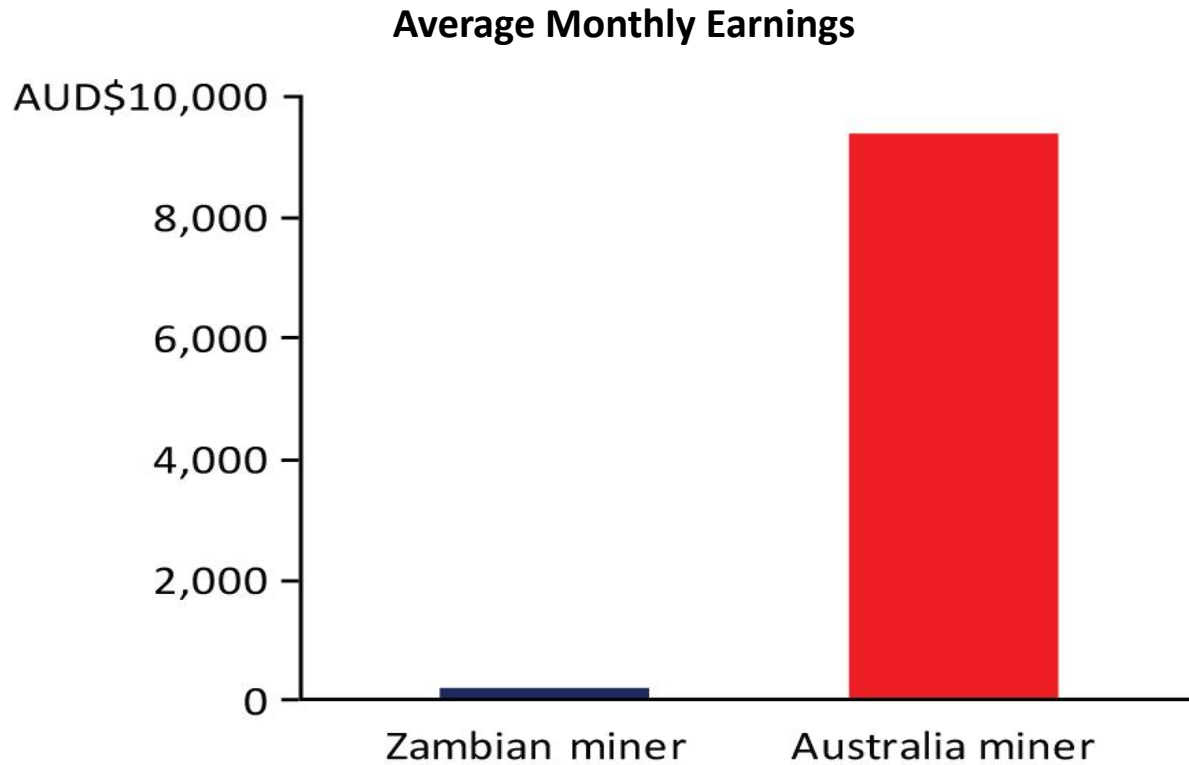
Percentage of Australia's Agricultural Production



Source: Bradfield Scheme Papers

Competitive Advantage of the North

Chronic labour shortages have greatly inflated the costs of labour within the mining industry.
They are now many times higher than competing nations.



Source: ILO, ABS

Competitive Challenge

Australia also faces an increasingly competitive global marketplace with competition from previously unlikely challenges. In terms of mineral wealth and proximity to Asia.

Africa is shaping up as a likely provider of commodities.

According to the IMF, in the next 5 years, 7 of the worlds fastest growing economies will be in Africa, including:

- Guinea (Sundance!)
- Mozambique
- Congo
- Ghana
- Zambia, and others

Source: The Economist, 6 January 2011

Special Economic Zones

Special Economic Zones are widely used overseas

- The World Bank estimates that there are approximately 3,000 SEZ's currently operating
- China's Special Economic Zones are the source of its industrial growth: Shenzhen, Hainan, Zhuhai, and other ports
- Singapore and Hong Kong are free ports
- Urban development zones in the UK and USA
- Honduras is establishing "charter cities"
- Dubai and parts of the Middle East

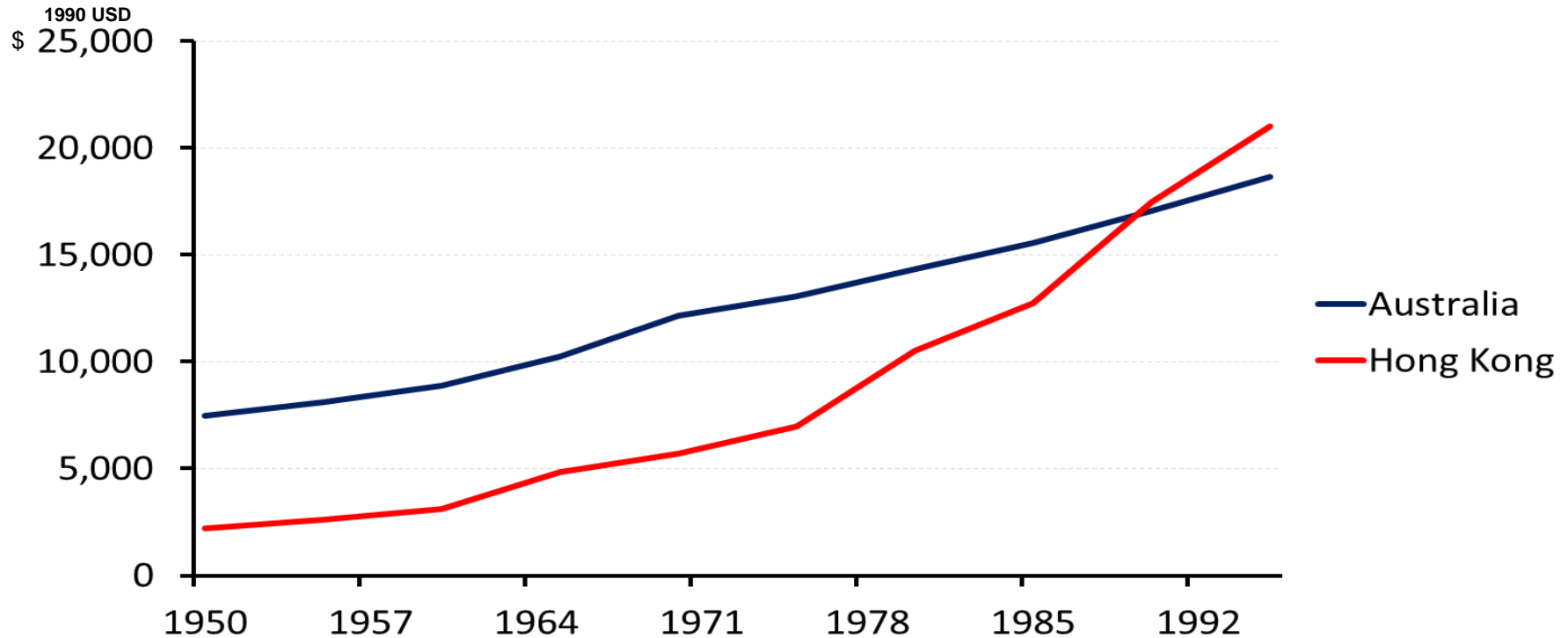
Special Economic Zones

- Lower tax rates, for example:
 - personal income tax (rebates)
 - payroll tax (abolish)
 - stamp duty (abolish)
 - fringe benefits tax (abolish)
 - tax on fuel (abolish or rebate)
 - state based royalties (made unclear by the MRRT)
- Regulatory Reductions for businesses operating within the Zones
- Foreign visitor temporary-worker programs

Special Economic Zone

Case Study – Hong Kong

GDP per capita Hong Kong vs Australia



Note: all the more striking, as great influx to Hong Kong of those seeking refuge from Communist China and arriving penniless.

Source: OECD Millennial Perspective Statistics

Special Economic Zone

Case Study – UK

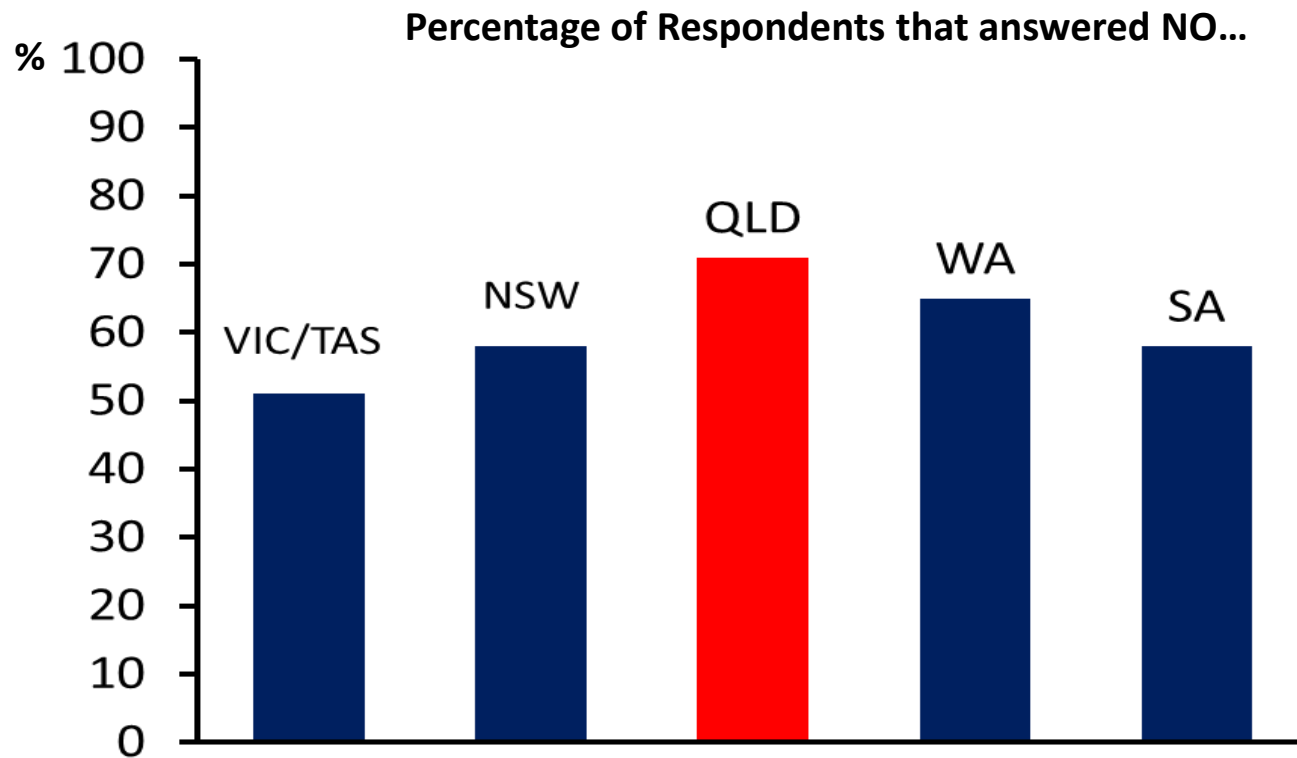
- **Budget 2011-2012 made provisions for 21 Special Enterprise Zone**
 - 11 zones designated by government and the remaining 10 open for tender
 - Designed to be implemented by local government
 - “Securing economic growth requires local business, the public sector, and communities to be able to act decisively to increase prosperity”
- **Simplified Planning Rules**
 - Local development orders allow development to be undertaken without planning permission needing to be obtained from local authorities
 - The absence of compliance costs and time delays are estimated to save businesses months of delays
- **Tax concessions**
 - Business rates discount worth up to £275,000 per business over a five year period
 - Local council in total control of the rate of business rate levied at companies within the zone
- **Emphasis on underutilised land and population**
 - First 11 zones are designated on the basis of government priorities and then a competitive tender process to get the best outcomes

Source: UK Department of Local Government and Communities

Special Economic Zone

A Galaxy Poll conducted over the weekend 13-15 May asked 1063 Australians:

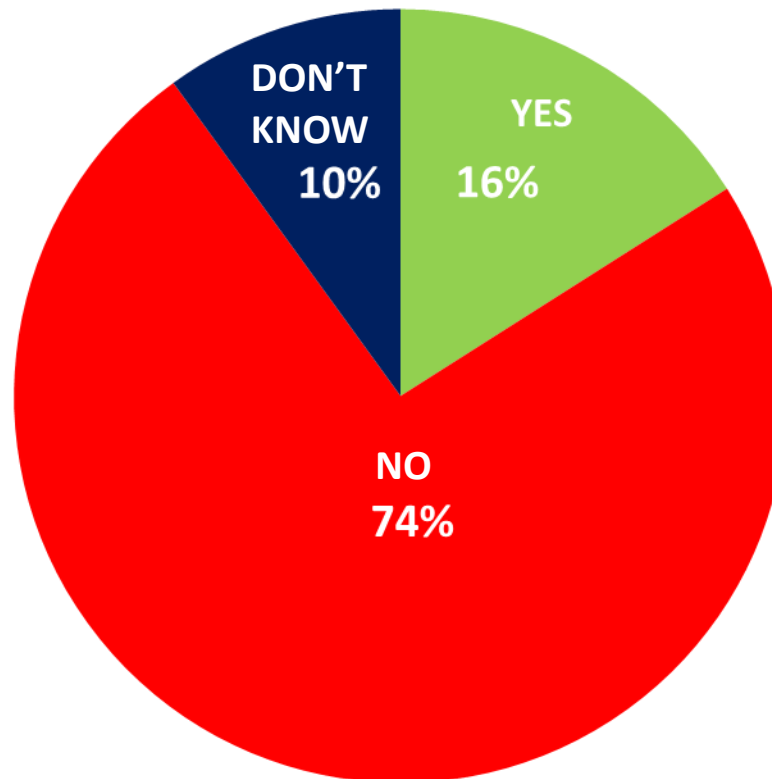
“In your opinion do decision makers in Canberra understand the needs of families and businesses in northern Australia”?



Source: Galaxy Poll 13-15 May

Regional Queensland & WA

“In your opinion do decision makers in Canberra understand the needs of families and businesses in northern Australia”?

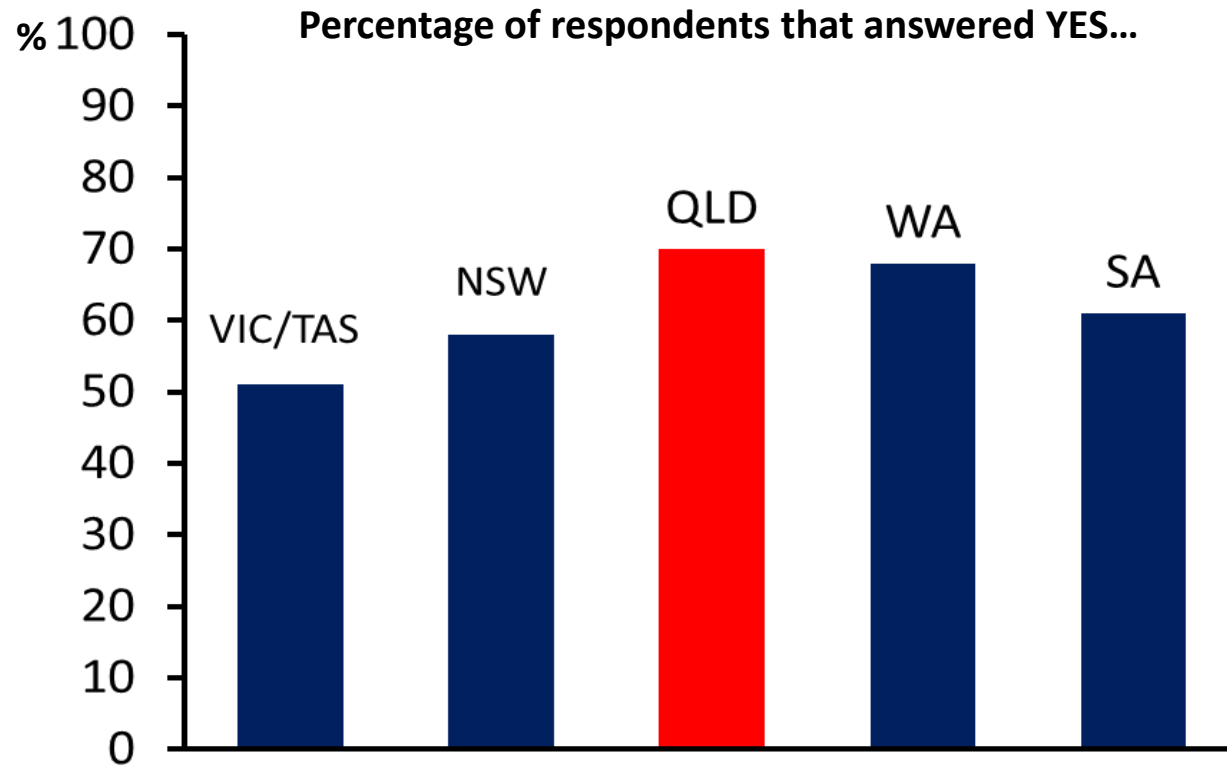


The percentage of respondents in regional Western Australia and regional Queensland who answered NO...

Source: Galaxy Poll 13-15 May

Special Economic Zone

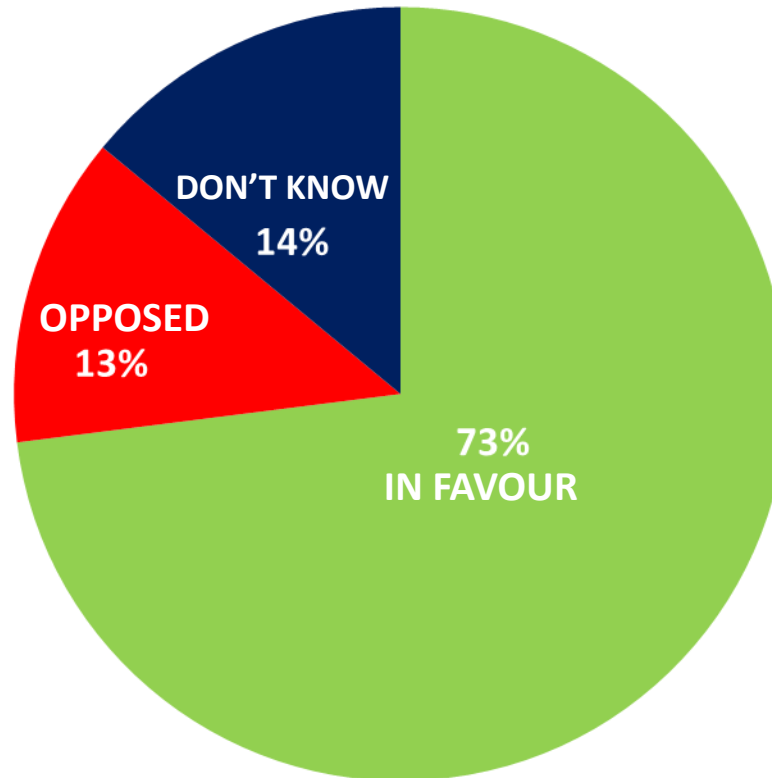
“Would you be in favour or opposed to a establishment of a Special Economic Zone with low taxes to stimulate growth in Northern Australia”?



Source: Galaxy Poll 13-15 May

Regional Queensland & WA

“Would you be in favour or opposed to a establishment of a Special Economic Zone with low taxes to stimulate growth in Northern Australia”?



The percentage of respondents in regional Western Australia and regional Queensland who answered IN FAVOUR...

Source: Galaxy Poll 13-15 May

Support for Northern Special Economic Zones

WAtoday
.com.au

Government backs tax cuts for northern WA

Courtney Trenwith
June 21, 2011

The state government has backed a proposal to further significantly reduce taxes for workers in northern Western Australia.

The Institute of Public Affairs has called for a special economic zone that would economically **cut WA in half**, with the north receiving financial benefits to attract more workers and encourage greater investment in infrastructure.

WAtoday
.com.au

Support for economic zone to split WA in half

Courtney Trenwith
June 20, 2011

NORTH QUEENSLAND
REGISTER

Poll shows support for economic zone

A PUSH for a low-tax, low-regulation economic zone to stretch across resource-rich northern Queensland. However, the idea of an over-arched zone across the state has been met with scepticism. The IPA's director of the North Australia Project, Hugh Tobin, said all levels of government need to work together in the next few years, or that it will be difficult to create a stable environment in the region. He can ensure that it is a success.

 **ntnews**
.com.au

Call for new tax zone

NIGEL ADLAM | June 29th, 2011

PLANS for a special economic zone across northern Australia were worth investigating, Chief Minister Paul Henderson said yesterday.

A Special Economic Zone for Australia



- The Institute of Public Affairs (www.ipa.org.au)



- Australians for Northern Development and Economic Vision
ANDEV (www.andev-project.org)

