
Challenges for resource rich states: the case of Western Australia

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There is no doubt about it Western Australia is a big player in the global resources economy, a powerhouse in fact. It produces 21 per cent of the world's iron ore; 15 per cent of alumina; 12 per cent of nickel and 7 per cent of gold. Other important exports include tantalum, zircon, garnet, ilumenite, LNG, rutile and diamonds. It's Australia's major source of merchandise exports and is linked to the growth economies of Asia - China, Japan, Korea and India. Indeed, when Premier I always used to describe Western Australia as not just "a state within a nation" but "an economic region within the global economy". As a result the State has tended to be more outward-looking and Asia- focussed when compared to other parts of Australia.

Some might say, of course, that I am being overly generous in the way I describe resource development in Western Australia by focussing on numbers and dollars. The industry does have its critics - and does have its questions to answer on a range of topics. However, it is hard to dispute the positive impact it has had - both direct and indirect - on the economy and society. In fact I would argue that one of the reasons for that success is that the critics have kept the public and private sectors that are involved on their toes. It's called accountability and it can never be underestimated as a force for good.

Today I intend to look at some of the factors, including accountability, that have contributed to that success story of resource development. My question is this: Was it a case of policy focus on the special needs of the resources sector or a case of good governance and investment attraction more generally? Or, indeed, was it a case of both the "particular" and "the general"?

INDUSTRY POLICY- WHAT IS THE KEY?

This leads me to make an observation about policies for particular industries, whether extractive or otherwise. They always run the risk of undermining that much heralded principle of "the level playing field" which is linked to that even more important principle "the rule of law". What all this is telling us is that government should be about "the public interest" and not just about "particular interests".

To emphasise the point let me provide a definition of these concepts:

LEVEL PLAYING FIELD

"Economic and legal environment in which all competitors, irrespective of their size or financial strength, follow the same rules and get equal opportunity to compete". (Business Dictionary.com)

RULE OF LAW

"The modern concept of rule of law has developed as a concept as distinct from the 'rule of man', involving a system of governance based on non-arbitrary rules as opposed to one based on the power and whim of an absolute ruler". (United Nations Rule of Law)

PUBLIC INTEREST

"The public interest refers to the 'common well-being' or 'general welfare'. The public interest is central to policy debates, politics, democracy and the nature of government itself". (Wikipedia)

What is at stake in debates around these concepts is the idea that the common good must come first and that means protecting and promoting human rights as best one can in the circumstances and producing the greatest happiness for the greatest number of people to the greatest extent possible. There is always a temptation, of course, particularly in a nation with plenty of minerals, oil and gas to put all the eggs available in one basket called "a resource state". What follows is the appearance of development (higher rates of investment and growth) but not its reality, on the ground and in the cities and communities where life is lived, children are born and jobs created.

THE SUSTAINABILITY PRINCIPLE

It follows that our starting-point should always be the sustainability principle. When Premier of Western Australia this manifested itself as Hope for the future: The Western Australian State Sustainability Strategy (2003). Our definition was as follows:

Sustainability is meeting the needs of current and future generations through integration of environmental protection, social advancement and economic prosperity.

In respect of the resources sector the vision not just local but also global:

A Western Australian resources sector that underpins a sustainable global economy, by consistently enhancing its technological edge and the development of the State through continuous improvement in safety, health and environmental management, superior product, excellence in risk management, transparent governance, and in-depth engagement of communities across Western Australia.

Put simply we wanted to see all of our major resource projects as demonstrations of what could be done - and what should be done. They should produce appropriate returns for the community, be technically, socially and environmentally sound and also responsive to global issues like climate change, resource depletion and biodiversity management. Setting your sights high in this way creates an internal discipline and a consciousness of excellence.

Now I wouldn't say that every government or resource company in Western Australia has worked according to these principles but I think I can say that sustainability is a powerful component in the intellectual and policy environment and does exercise influence in the private and public sectors. That means two things - and these are generally shared views across the political spectrum: that our resource base needs to be known and, where appropriate, developed and that such development should be properly managed and regulated in the public interest, as defined both locally and globally.

These two issues are linked, support for extractive industries being dependent on its positive role in the State. There are times when this link is questioned and the wider community (or particular communities) feels that "development" comes at too high a price - socially, environmentally and sometimes economically. In other words, the extractive industries have to establish their credentials in a society where NGOs are active and critical voices can be found in the State Parliament. This can be annoying to governments, investors and operators but is a good thing if it leads to the general public believing that "the right thing" will be done. This is the trust factor in modern political economy.

INDIGENOUS RIGHTS AND INTEGRATED DEVELOPMENT

A good example of this can be seen in relation to indigenous rights. When the British colonised Australia the Crown took ownership of all mineral resources below the surface. With federation this meant that State Governments were the owners and custodians of our minerals. The traditional rights of Aboriginal people developed over many centuries were effectively overturned, not to be re-established in any meaningful way - except in the Northern Territory where the Commonwealth Government could take action - until the Mabo decision of the High Court and the Native Title Act that followed in the early 1990s. Before that Aboriginal people had to rely on the good will of governments and mining companies if their interests were to be heard and accommodated. Since 1993 they have had a Right to Negotiate (RTN) that has added another element to the approvals process. The capacity of the traditional owners to use this RTN is not without its limits but, along with a more enlightened attitude on the part of leading mining companies, it has led to some excellent agreements covering a range of issues, including education and employment - and community development more generally.

The pre-Mabo view that Aboriginal land rights were inconsistent with the development of our resource industry led to much time and effort put to work trying to hold back the inevitable. The truth was, in fact, that our resources were being developed at the cost of Aboriginal rights and interests - or at least in ignorance of what such interests might entail - and our community was the loser overall. Clearly this situation failed the test of sustainability and its reversal has been to the benefit of all - and has aided the legitimacy of governments and produced more support for the resources sector generally.

I'm not going to say to you that there aren't significant issues remaining in respect to the RTN. Indeed, it's still the case that the theory of native title isn't always backed up in practice. So too are there many other contentious issues on the table when it comes to resource development - the levels of local content in projects, the flying in and out of the workforce, environmental emissions and their impact, royalty regimes and the proper balance between public and private provision of infrastructure.

There is contention, and sometimes heated conflict, but it is now understood that the best way to manage these conflicts is to go to the higher ground of sustainability, that is to say economic, social and environmental development, and seek integrated and inclusive projects. In many ways, it is the questions we ask that are as important as the answers we reach. Firstly, it might be that due to ignorance or avoidance, we take some questions off the agenda. This is always dangerous if the public good is our objective. Secondly, we should note that good process is important if the results are to be seen as credible. It's all part of that process of involving and engaging the community in the projects up for consideration.

THE KEY QUESTIONS

In Western Australia this is the list of questions we ask with a view to ensuring a resource sector consistent with the public interest:

1. **Geoscience** - do we know all that we need to about our resource base? How up-to-date is our basic data? Is the data easily accessible?
2. **Investment Attraction** - what mechanisms are in place to attract investors to the state (domestic and foreign)? Do the government and the resource sector take their story overseas?
3. **Approval Processes** - how efficient is our approvals process? How much time is taken to get an exploration of mining licence? Are the criteria transparent and consistently applied?
4. **Approvals Criteria** - how extensive are our criteria for assessment? Do they fully represent community values about economics, the society and the environment? How sophisticated is our methodology for assessment?
5. **Revenue** - is the revenue regime appropriate and competitive? Does it produce adequate returns to the government and people?
6. **Regulation and Management** - how effective is the management of government responsibilities in technical matters, occupational health and safety, environmental protection, revenue collection and the monitoring of agreements more generally? Are the rules applied fairly and efficiently?
7. **Infrastructure** - how effective and efficient is the infrastructure that supports the industry, both physical and human, and including research and development as well? Who provides that infrastructure and who has responsibility for its maintenance?
8. **Community Input** - how extensive and effective is community involvement? In particular, are indigenous rights and interests properly respected and promoted? Does the law - and/or the agreements entered into - ensure consideration of the public interest?
9. **Local Industry** - Do the government and community do enough to maximise local involvement in the industry? Do the cities and towns do enough to attract Australian and overseas companies to set up offices in the State?
10. **Rehabilitation** - are proper steps taken to ensure the rehabilitation of mine sites? How does the system ensure rehabilitation happens?
11. **Accountability** - who regulates the regulators to ensure their work is efficient, effective and ethical?
12. **Leadership** - who takes responsibility for advocacy and who provides the leadership for sustainable development?

Policies and implementing agencies are needed in relation to each of these key questions. Sometimes it falls to government, sometimes to the private sector and sometimes to the community. Governments have to set the tone and negotiate on behalf of the public. Should the private sector work according to the principles of Corporate Social Responsibility it helps significantly. The community is needed to keep everyone honest and ensure all the issues are on the table. In other words a progressive resources sector will be - and seen to be - an integrated part of the community rather than an out of sight, out of mind exploiter of the resource base.

There is much I could say about all these issues and how they relate to WA - the history and tradition of public sector excellence, the use of research and new technology in the cycle of development from geological survey to operations to rehabilitation, the use of e-government, efficiency and transparency in approvals and revenue collection, and widespread community interest in the industry. Today I'm going to focus on five factors that I believe will be of interest to my audience today - geological survey, State Agreements, rehabilitation, services support and international promotion and marketing.

KEY FACTORS IN WA'S SUCCESS

Firstly, let me start with the all-important issue of surveys as the first building blocks of the industry. The Geological Survey of Western Australia (GSWA) is a long-standing institution, having been established way back in 1886. It "publishes reports, maps and state-of-the-art databases documenting the geology of Western Australia" (WA Department of Mines and Petroleum). Such information can all be downloaded free of charge from the Department's online system and the GSWA is an active participant in local, interstate and overseas conferences.

When it comes to approvals processes and criteria Western Australia has a long history of attracting interest and satisfying the private sector with its approach. On the specifics of this there is too much one can say in a talk like this but I would like to draw your attention to the WA system of State Agreements. What are State Agreements?

State Agreements are contracts between the Government of Western Australia and proponents of major resource projects which are ratified by an Act of the State Parliament. They specify the rights, obligations, terms and conditions for development of the project and establish a framework for ongoing relations and co-operation between the State and the project proponent (WA Department of State Development)

There are currently 72 Agreement Acts in force in Western Australia and they have proved a good device to provide security for investors and a lever for governments to ensure standards are maintained.

The contents of such Agreements can vary according to the issues raised in each project proposal. For example the Gorgon LNG Project (A joint venture Chevron, Exxon Mobil and Shell) negotiated at my time at the helm deals with domestic gas reservation, local content, CO2 storage (geosequestration), nature conservation and other matters. In earlier times the remoteness of many of the projects like this one made the provision of infrastructure a key issue and it was the private sector that took up the challenge of building towns, railways, power generation and pipelines. You can see how times have changed by comparing these earlier agreements with agreements, like that with Chevron, today.

Thirdly, I would draw your attention to WA's recently legislated Mining Rehabilitation Fund which requires mining companies to make annual levy payments based on a percentage of their estimated rehabilitation liability for each tenement.

Currently all tenement holders are required to fund bonds as security; it being estimated that such bonds only cover 25 per cent of the total outstanding rehabilitation liability. That means if the mine operator can't meet its environmental obligations, the State has to meet a significant proportion of the rehabilitation costs.

Fourthly, I draw your attention to the way Western Australia has capitalised on its location in Asian time zones and its quality of life to attract companies to locate offices in Perth - and attract senior personnel to work there. For example, there are around 30 international oil and gas companies and more than 40 oil and gas service companies with offices in Perth. They support local initiatives in education and training as well as research and development on technical, economic, environmental and social issues associated with the resources sector. For example we can point to the University of Western Australia's Energy and Mineral Institute established in 2007 and involved in research, policy development and education. Four industry-sponsored chairs in energy and minerals research have been established as part of this initiation.

Fifthly, I would point to WA's pro-active approach to marketing the State and its potential. Western Australia has International Trade and Investment Offices in Japan, China, Korea, Singapore, Indonesia, India, the UAE and in Europe (based in London). This is a significant investment for a State Government but has paid off in terms of trade and investments, not just with respect to our resources but also a range of other industries like education and services generally.

GETTING IT RIGHT

I use these five examples as an illustration of what is possible in respect of sound public policy in geoscientific survey, agreement making, environmental rehabilitation, trade and investment attraction, and local industry. Ultimately it is the way the industry is developed and managed as part of the community that is the key factor. It's a question of maximising the benefits that can come in terms of local jobs, revenue for the government and community infrastructure and of the proper management of any costs, be they economic, social or environmental. Indeed being creative about costs can be the key factor in determining whether or not there is strong public support. We shouldn't forget that a rapidly expanding resources sector may put cost and wage pressures on other parts of the economy (the so-called "Dutch Disease") and may lead to disruption or dislocation for some citizens - and their environments - directly affected by projects. Starting out with the assumption that there is always a way through such challenges works best but that means acknowledging rather than ignoring the facts. Western Australia isn't perfect and doesn't always get it right in the "rush to develop" but it has set a good standard, and developed a range of policies and institutions from which we can learn.

What, then, are the key lessons? Think big and make sure no issues are swept under the carpet - they will always return to haunt you. The sustainability principle isn't just an analytical tool it is a political must. Make sure the government is prepared to carry out its role as manager and regulator efficiently, effectively and ethically - you can never learn enough about how this can be done. Make sure the community are in the loop from day one through to the end of the project. Don't ignore the potential of the resources sector to create new service industries and help develop towns and cities - think about the connections and networks that can be created. Make sure you are up-to-date with research findings and technology.