

30 June 2017

Horizontal Fiscal Equalisation Inquiry
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

HORIZONTAL FISCAL EQUALISATION INQUIRY

The Chamber of Minerals and Energy of Western Australia (CME) welcomes the opportunity to provide a submission to the Productivity Commission's Inquiry into Horizontal Fiscal Equalisation (HFE).

CME is the peak resources sector representative body in Western Australia (WA). CME is funded by member companies who are responsible for most of the State's mineral and energy production and are major employers of the resources sector workforce in the State.

In 2015-16, the value of WA's mineral and petroleum production was \$87.9 billion. Iron ore accounted for approximately \$48 billion of production value to be the states most valuable commodity. Petroleum production (including LNG, crude oil, condensate, natural gas and LPG (butane and propane)) followed at \$18.4 billion with gold third at \$10 billion¹.

In recent times, Western Australia has been a net donor of the Goods and Services Tax (GST). This redistribution away from the state has come at the expense of timely and strategic State Government investment in infrastructure and services, such as roads, ports and town development to support Western Australia's economic growth over the past decade and into the future.

CME considers that fiscal policy should reward productivity and economic growth. This is a sentiment that was also raised in the Chamber of Commerce and Industry of Western Australia's (CCIWA) submission to this inquiry. Under the current HFE policy, this is not the case. For example, if Western Australia reduces certain royalty rates, it could gain more in GST than it loses in royalty revenue, although to the detriment of other states.²

By delivering equitable government service delivery in every state, regardless of local economy and workforce participation, the HFE policy provides no incentive for people to move to areas of economic growth or for governments to enact policies to attract investment and encourage growth. This is a key concern for Western Australia's resource sector, which is still facing short-term shortages of specialised, highly skilled labour that could potentially be eased through domestic migration.

In order to facilitate the economic growth of other jurisdictions, CME would like to acknowledge and support the recommendation contained in the Mineral Council of Australia's submission to this inquiry, in particular the application of a 25 per cent discount to the mining revenue assessment in the current GST calculations.

¹ Department of Mines and Petroleum, 2016 *Mineral and Petroleum Industry 2015-16 Review*, <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Statistics-Release-4081.aspx> pg. 1

² See commentary and analysis in State Government submission to the Commonwealth Grants Commission 2015 methodology review at: https://cgc.gov.au/index.php?option=com_attachments&task=download&id=1874

CME is encouraged by the Western Australian Government and CCIWA's submissions also supporting the 25 per cent discount to mining revenue assessment.

CME looks forward to the release of the Productivity Commission's Draft Report later this year and the opportunity for further engagement on this matter.

Should you have any questions regarding the issues raised in this submission, please contact Ms Caroline Cherry, Manager Economic Competitiveness

Yours sincerely

Nicole Roocke
Deputy Chief Executive