



TRANSITIONING REGIONAL ECONOMIES

A Productivity Commission Submission

by

Cairns Regional Council and Advance Cairns



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Preface

When Cairns Regional Council and Advance Cairns became aware of the Productivity Commission's Study into Transitioning Regional Economies, it was thought important to provide a submission from this region.

In the first place, Cairns is one of Australia's largest truly regional cities located some 1400 km in direct distance away from the nearest metropolitan centre.

The city of Cairns services one of Australia's largest geographical regions, an area 1½ times the size of Victoria.

The region is located deep into Australia's tropical far north with substantial differences in history and prospects to most rural cities and regions in southern Australia.

Most importantly for this study, while Cairns as a city and its region have been experiencing long-term growth well above most other non-metropolitan cities and regions in Australia, it has an economy that is highly non-government oriented, highly trade exposed and subject to economic fluctuations requiring, at times, strong adjustments but also strong regional initiatives to realise emerging opportunities.

Thus, while the immediate prospects for the Cairns economy may appear better than most other regions around Australia, we believe that:

- The experiences of the region in coping with past shocks including the Resources Investment Boom are highly relevant to the study;
- There is a need to recognise the policies and actions that will help the region make its undoubted substantial contribution to the nation's transition to growth and prosperity following the Resources Investment Boom.

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SUMMARY OF MAIN POINTS

- Cairns is one of Australia's largest regional cities with a capital/hub city role for a state-sized region (1½ times the area of Victoria), in Australia's Far North-East.
- The region it services is tropical, was late being settled and faced initial challenges.
- However, the region is not poor in underlying resources and major global underlying factors have been leading to strong long-term growth in earnings from outside the region laying the foundations for long-term population growth.
- The Tropical Far North Queensland region is one of a number of State-sized regions across tropical Australia and is now the largest in population.
- Cairns city has a comparatively low dependence on government employment and is highly trade exposed across a range of industries.
- Although less dependent on mining than some other northern regions, long-term growth while strong, has been volatile and the city has faced challenges of coping with shocks. Its experiences during the Resources Investment Boom and since are highly relevant to the Transitioning Regional Economies study.
- The region over its history has faced major challenges to diversify its economic base; from mining in the 1920s, from sugar in the 1960s and more recently while expecting continued growth from tourism, it has been facing a challenge to pursue other opportunities.
- A review of past challenges to develop new sources of income has highlighted the importance of adoption of new technology, the importance of appropriate and timely infrastructure development and the importance of local enterprise and initiatives.
- While experiencing some benefits from the Resources Investment Boom period through increased mineral production in the region from a low of about \$200m to close to \$1bn, its mining sector was an early casualty of lower commodity prices but has since recovered.

- The region, in a self-help effort, strongly and successfully pursued FIFO and mine supply business outside its immediate region; across the North and into the near North's Papua New Guinea and Papua Indonesia with, at its peak, FIFO income adding something like \$200m to regional earnings. Regional mining activity in FIFO was supporting a direct workforce of about 4,000.
- However, the excessive rise in the Australian dollar during this period, caused more negatives than positives with the region's large tourism earnings collapsing by about 25% in real terms. This combined with the impacts of the 2008 GFC on a previously strong construction sector, saw unemployment rise and previously strong population growth slow sharply.
- Some sectors, like Cairns' relatively large marine servicing sector, suffered a damaging loss of a skilled workforce to mines during the period.
- Fortunately, continuing expansion of a strong agricultural sector, the higher mining related revenues and a few larger public projects not specifically commenced as an offsetting measure, helped hold up population growth but well below trend. In the Federal Government's 2009 special capital works stimulus package, the region missed out on major special works. Since 2012-13, the region already experiencing low State Government capital spending in the region on a per capita basis, suffered the largest drop in State Government budgeted infrastructure spending in the State, an amount of about \$400m.
- More recently, with the lower dollar, "real" tourism earnings returned to mid-2000's levels by 2015. In 2016, the region's tourism earnings in "real" terms, moved through to new records.
- Visitor numbers, especially from the potentially huge Chinese market, have been climbing at rates above national average. Prospects for further tourism growth are excellent but with a need to open out new air routes, especially to mainland Chinese cities and expand accommodation and other tourism facilities.
- Major investment is taking place in expansion of mining in the region through the \$2bn Amrun project at Weipa and \$70m in a new zinc processing plant near Chillagoe.
- Agricultural production has been continuing to expand, especially in the Mareeba Dimbulah Irrigation Area, the new cropping areas behind Cooktown and in the Gulf.

- With major markets opening up in Asia, prospects for expanding beef production are excellent.
- The success of the Mareeba Dimbulah Irrigation Area (MDIA), is leading to optimism about expanding irrigation agriculture with studies being undertaken into proposals for expansion west of the MDIA, north in the Lakeland area and south in the Southern Tablelands.
- The marine servicing sector is recovering, especially superyacht business, and the government is making a \$24m investment in upgrading facilities. There are strong prospects for the aviation's maintenance and training sector to tap into the rapidly growing aviation sector in Asia.
- Previous relatively underdeveloped higher education and health sectors compared with population have room for expansion including in education tapping into international markets and in development as a research centre in the tropics.
- Policy responses are needed to ensure a smooth transition from the Resources Investment Boom and the region realising its potential to play a significant role in the transition. It is essential that the Australian dollar remains competitive. During the Resources Investment Boom period, the excessive rise in the Australian dollar caused major damage to trade exposed industries and the Cairns region.

During a period of excellent terms of trade, Australia's net indebtedness to the world rose to high levels and government debt expanded from nothing to about \$600 billion. Instead of drawing back strongly after the post-GFC need to stimulate the economy, major deficits were continued with the Reserve Bank trying to control the economy through increasing interest rates well above other advanced economies, further inflating an already high Australian dollar. Initially the major damage being done to non-mining trade exposed regions and industries was ignored.

It is essential that it is made plain that this situation will not occur again, that the government will keep deficits under control. It is essential that there is a recognition of the limited role of interest rates in controlling the economy independent of what is happening elsewhere in the world. There is still a hangover of lack of confidence in investing in the region for fear the situation will be repeated.

- There is currently a problem with policy attitudes to the region in financial circles. There are tendencies to "one policy fits all" attitudes that do not recognise regional differences. This is affecting investment in the region.

Local investors are reporting it is still hard to obtain finance and the city has come to a conclusion that it will need to look to overseas investors to meet needs for expanded accommodation and other facilities.

- There is a major continuing need for appropriate and timely government infrastructure investment in the region, especially at this point of time, in Cairns seaport, in major road upgrading, rail, water resource developments, higher education and health facilities.
- The region is one of the most biological rich regions in Australia with a long history of environmental best practice. But extremist environmental views from ill-informed groups in metropolitan areas and not supported by science are causing unnecessary major restrictions and at times, cost blow-out on infrastructure developments. The seaport, roads, water resource and agricultural developments have all been targeted.

It is essential that opportunities to transition the economy are not held back by political reactions that are not based on sound science.

- Many of the services delivered to trade exposed regions by government and from metropolitan centres do not face the rigours of international competition. It is vital to the trade exposed regional economies that these services are delivered efficiently and at low cost.
- It is vital to tropical Australia's continuing major contribution to national progress that the Northern Australia Policy initiatives are delivered.

Much of the North, especially the Far North, is at a stage of development that southern Australia passed through long ago. We expect there will not be a different set of rules for the North to those that applied in the South at a similar stage of development in relation to the funding of government infrastructure.

1. BACKGROUND ON CAIRNS AND TROPICAL (FAR) NORTH QUEENSLAND

1.1 City and Regional Population Size and Long-Term Growth

Cairns is ranked as number 14 of Australia's 15 major cities list (see **Table #1**).

Table #1: Australia's Major Cities

<u>Rank</u>	<u>City</u>	<u>Type</u>
1	Sydney	Metropolitan
2	Melbourne	Metropolitan
3	Brisbane	Metropolitan
4	Perth	Metropolitan
5	Adelaide	Metropolitan
6	Gold Coast/Tweed Heads	Metropolitan Fringe
7	Newcastle/Maitland	Metropolitan Fringe
8	Canberra/Queanbeyan	National Capital
9	Sunshine Coast	Metropolitan Fringe
10	Wollongong	Metropolitan Fringe
11	Hobart	Regional
12	Geelong	Metropolitan Fringe
13	Townsville	Regional
14	Cairns	Regional
15	Darwin	Regional

Source: Australian Bureau of Statistics (ABS) Significant Urban Areas Populations.

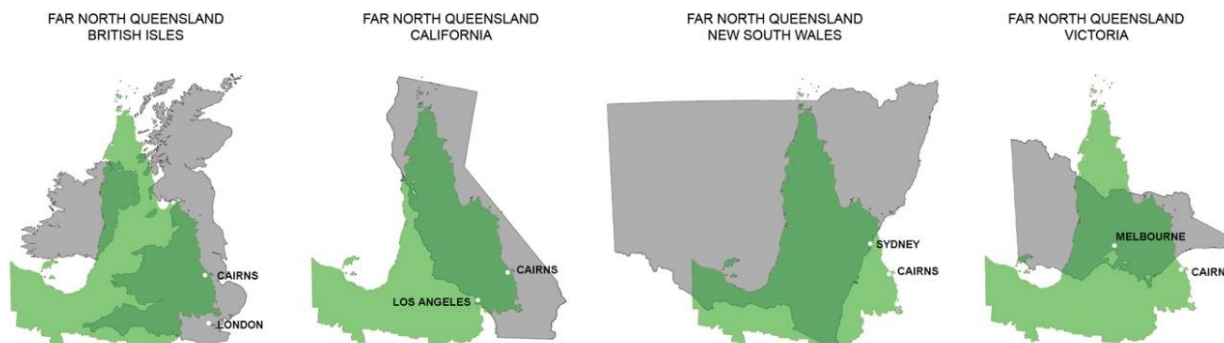
Of the ten largest non-metropolitan cities, some five are fringe cities close to the metropolitan centres and Canberra is a government city.

Of the four remaining that are some distance from the metropolitan centres, Hobart, Darwin and Townsville have larger government and defence sectors and Cairns stands out as a regional private enterprise and highly commercially oriented city.

Although the city has a strong tourism image, and tourism is a major industry in the region, the primary economic role of the city of Cairns is as a regional capital (a transport, distribution, manufacturing, administrative and services hub), for a large region stretching south to Cardwell (and a line of competition with Townsville), west to the Gulf of Carpentaria and the Northern Territory border and north to the Torres Strait Islands and an international border with Papua New Guinea, and close to an international border with Indonesia.

The region's land area from north to south is as deep as the rest of Queensland and as deep as New South Wales. The area covered is 1½ times the size of Victoria and is as large as the British Isles (see **Map #2**).

Map #2: Comparative Size of Regions



Source: Cummings Economics

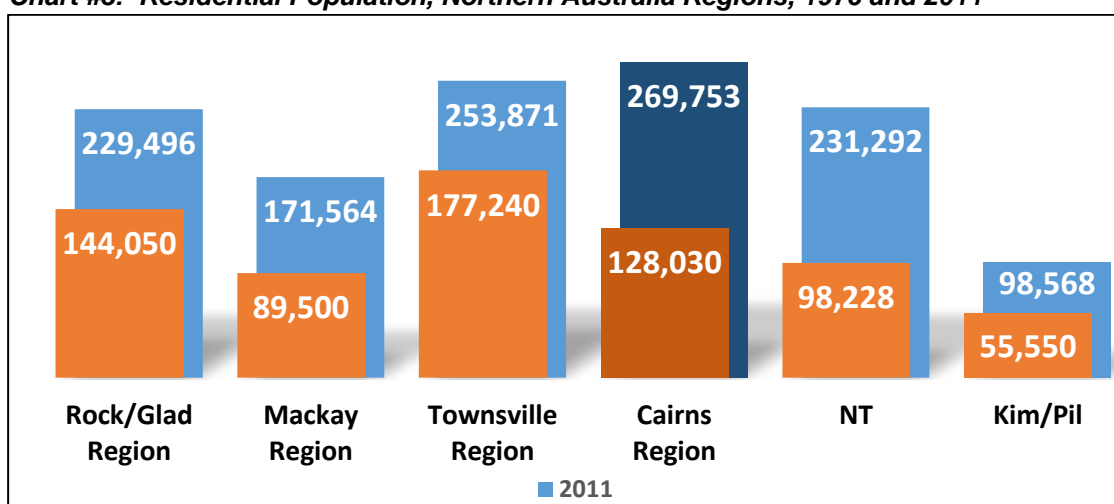
The region is deep into the tropics stretching from 9° south to 19° south.

Tropical Australia covers a large area, about 40% of the continent. Although populations are much lower than southern Australia, realities of areas and distances lead to a series of regions equivalent in size to states, each with its own capital city.

In this pattern, there are five major regional capitals, Darwin and Cairns in the Far North and Townsville, Mackay and Rockhampton down the Queensland coast.

Of these regions, the Cairns region has been experiencing the strongest long-term rate of growth and is now the largest in population (see **Charts #3 & #4**).

Chart #3: Residential Population, Northern Australia Regions, 1976 and 2011

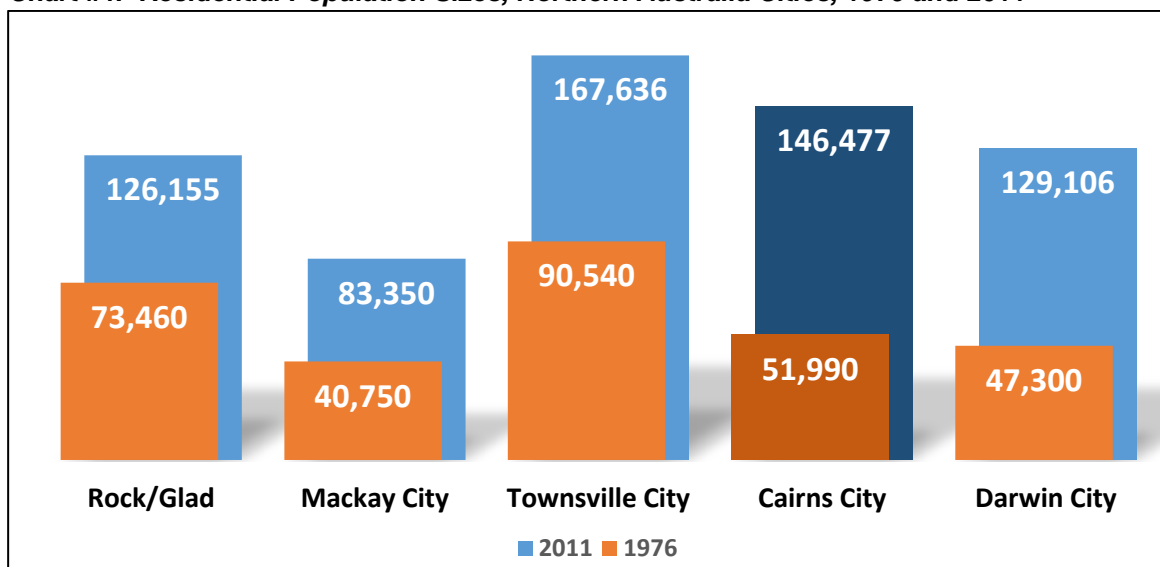


Source: Cummings Economics from ABS Cat No. 3218.0 et al.

Note Boundaries:

- Rockhampton/Gladstone Region – Fitzroy plus Central West.
- Townsville Region – Townsville SA4 plus Queensland Outback North less Carpentaria SA2.
- Cairns Region – Cairns SA4 plus Queensland Outback Far North plus Carpentaria SA2.

Chart #4: Residential Population Sizes, Northern Australia Cities, 1976 and 2011



Source: Cummings Economics from ABS Cat No. 3218.0 et al. Boundaries – City Statistical Sub Divisions..

In the 1950s, the Queensland's central and northern regions had two major cities; the old pastoral ports of Rockhampton and Townsville and two secondary cities of about half the size, Cairns and Mackay. This hierarchy has changed with the two smaller cities (in the higher rainfall regions), growing fastest and the northern most cities tending to grow faster. Mackay city has grown to pass Rockhampton in size. Townsville has grown faster than Rockhampton. Cairns has grown the fastest of all and closed up on Townsville in size. The Cairns region is now larger in population than Townsville and the largest in the North (see **Map #5** over, **Charts #6 & #7**).

On a national scale, this long-term growth has led to Cairns as a city passing seven other regional cities in residential population since the Australian Bureau of Statistics (ABS) started publishing residential populations in 1976 (see **Table #8**).

Map #5: Queensland Regional Cities and Commercial Servicing Regions

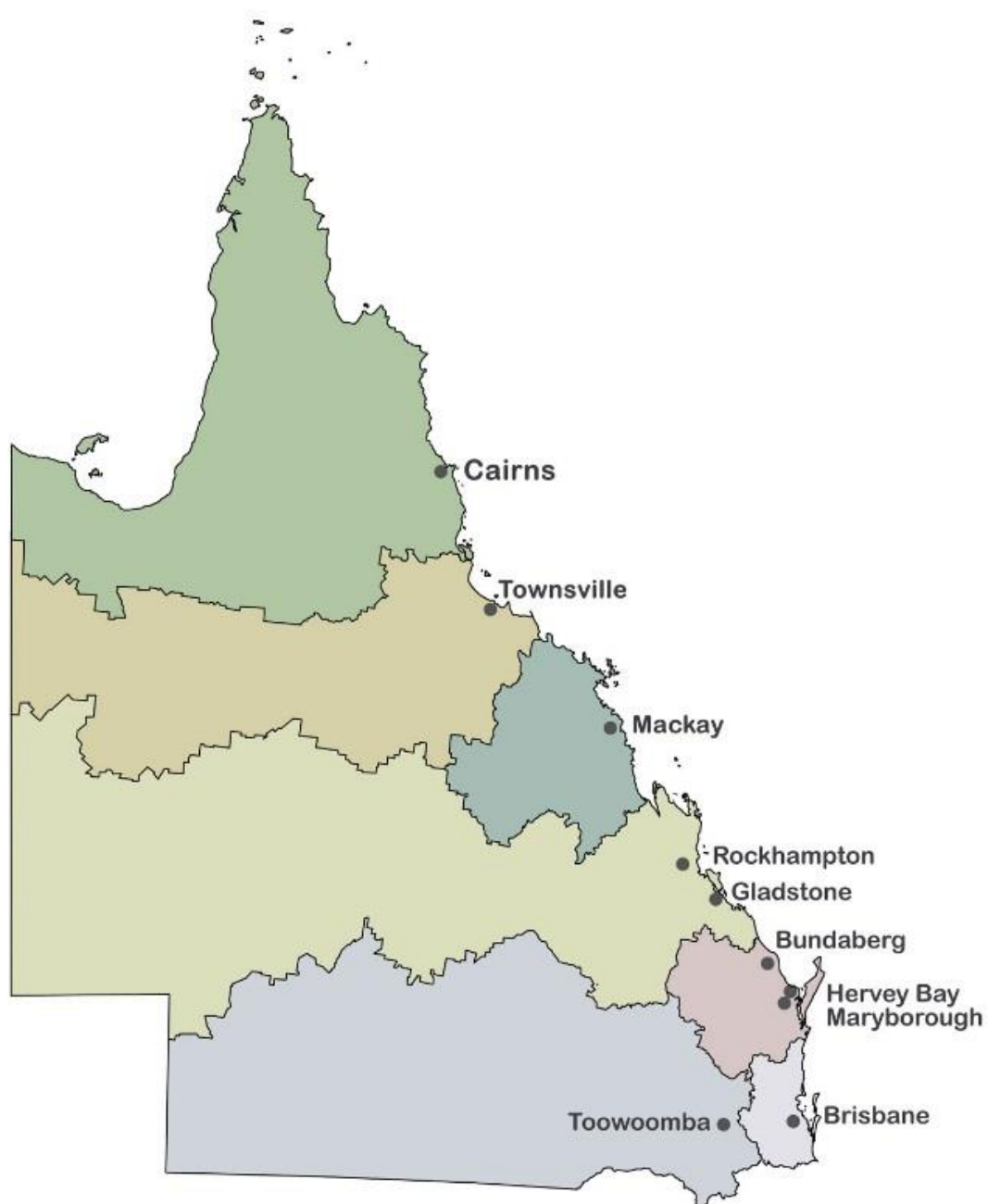
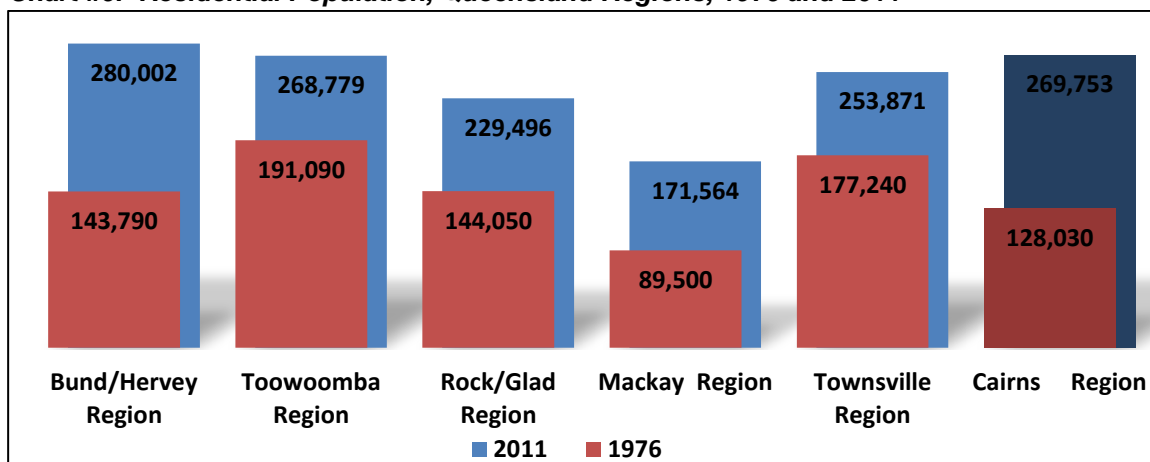
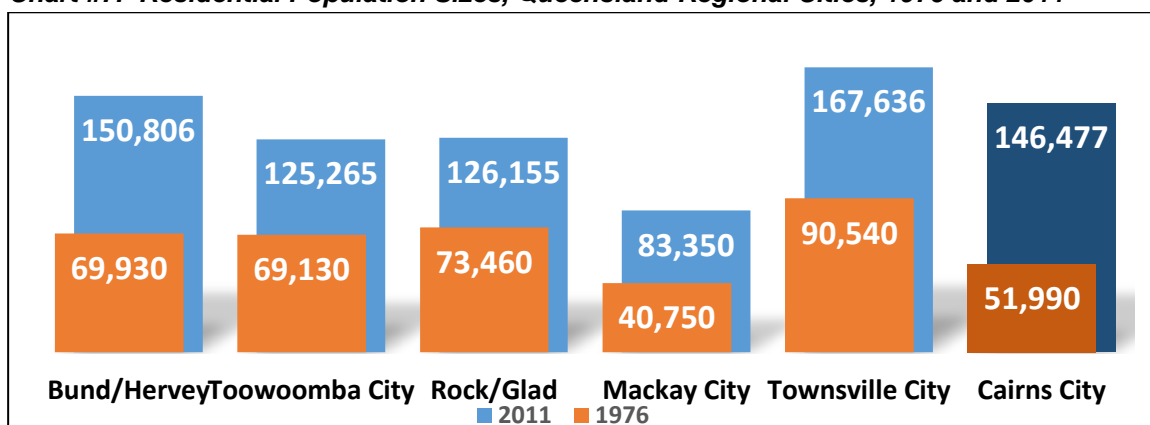


Chart #6: Residential Population, Queensland Regions, 1976 and 2011



Source: Cummings Economics from ABS Cat No. 3218.0 et al.

Chart #7: Residential Population Sizes, Queensland Regional Cities, 1976 and 2011



Source: Cummings Economics from ABS Cat No. 3218.0 et al.

Table #8: Estimated Residential Population, Regional Cities, 1976 and 2015

	1976	2015
Cairns	49,590	147,993
Rockhampton	53,660	80,665
Bendigo	55,152	92,888
Orange/Bathurst	55,933	80,008
Albury Wodonga	63,409	88,949
Ballarat	68,450	90,841
Toowoomba	69,390	114,622
Launceston	81,636	86,663

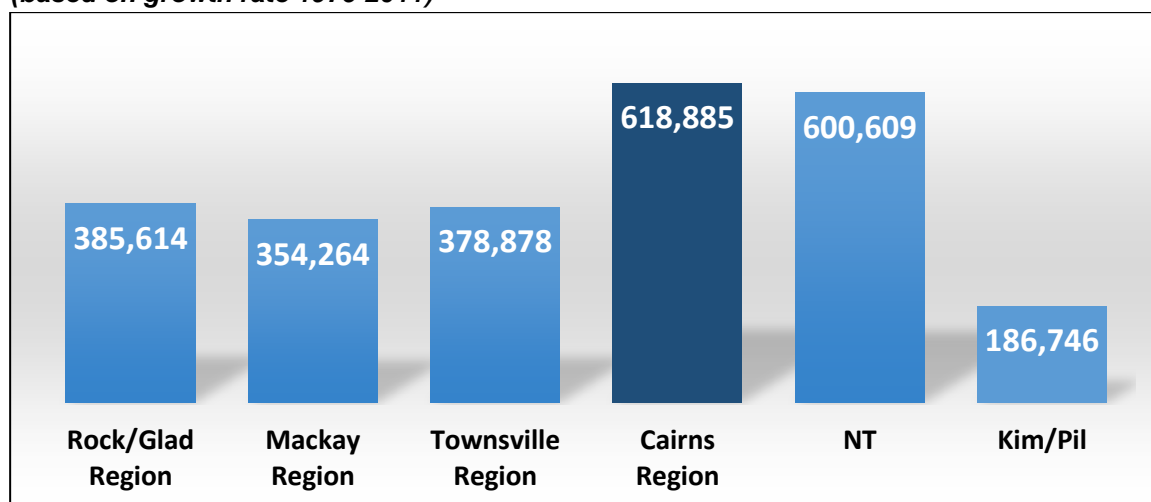
Source: ABS Regional Population Growth, Cat No. 3218.0.

1976 City Statistical sub division; 2015 Significant Urban Areas.

As a city, Cairns with a Local Government population of close to 160,000 is about ten times its size recorded in the Census of 1947 of 16,000.

If the growth trajectory of the past 40 years is carried forward, by 2050 the city would have a population of over 400,000 and the region over 600,000 and be larger than the State of Tasmania (see **Chart #9**).

Chart #9: Projected Residential Population - 2050, Northern Australia
(based on growth rate 1976-2011)



Source: Cummings Economics.

1.2 Underlying Factors Affecting Growth

Standing behind this growth are some fundamental factors.

The Cairns region is tropical. It was late being settled. Sydney was almost 100 years old when Cairns was founded in 1876.

The region was slow to develop with many early setbacks, as technology and population derived from North-Western Europe was gradually adapted to a tropical environment.

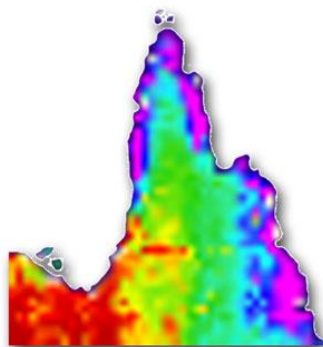
However, the area was not poor in underlying natural resources. The Cairns/Tropical North Queensland (TNQ) region accounts for 26% of Australia's water runoff. While evaporation rates are higher, measures of underlying plant growth potential indicate the region at least equals Victoria (see **Map #10**). There were substantial mineral resources.

The region accounts for over 60% of Queensland's coastline. The waters of the east coast, Torres Strait and Gulf have very substantial marine resources.

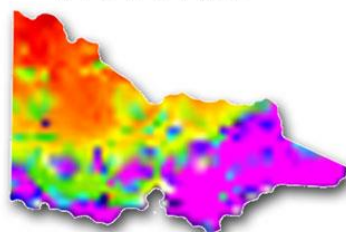
The region's biological resources and landscape give it an outstanding combination and quality of tourism resources including the two world heritage listed area of the Great Barrier Reef and the Wet Tropics Rainforest.

Map #10: NPP Far North Queensland Compared with Victoria and Peninsula India

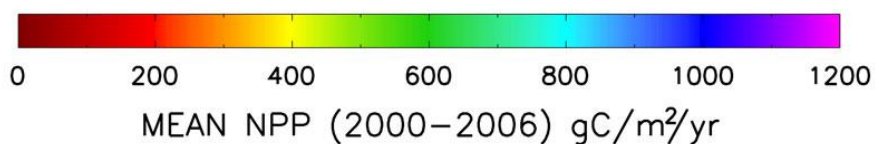
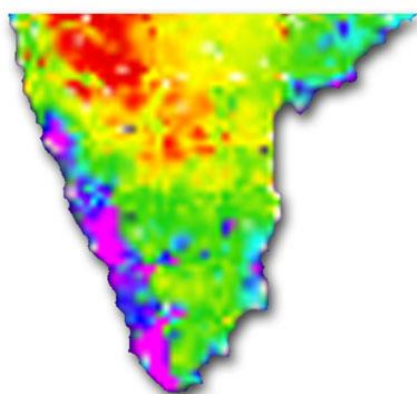
CAPE YORK PENINSULA



VICTORIA



INDIAN PENINSULA



Source: University of Montana from Modis Satellite Data, 2000 – 2006.

Note: NPP Net Primary Production is a measure of plant growth rate – of conversion of carbon into plant growth.

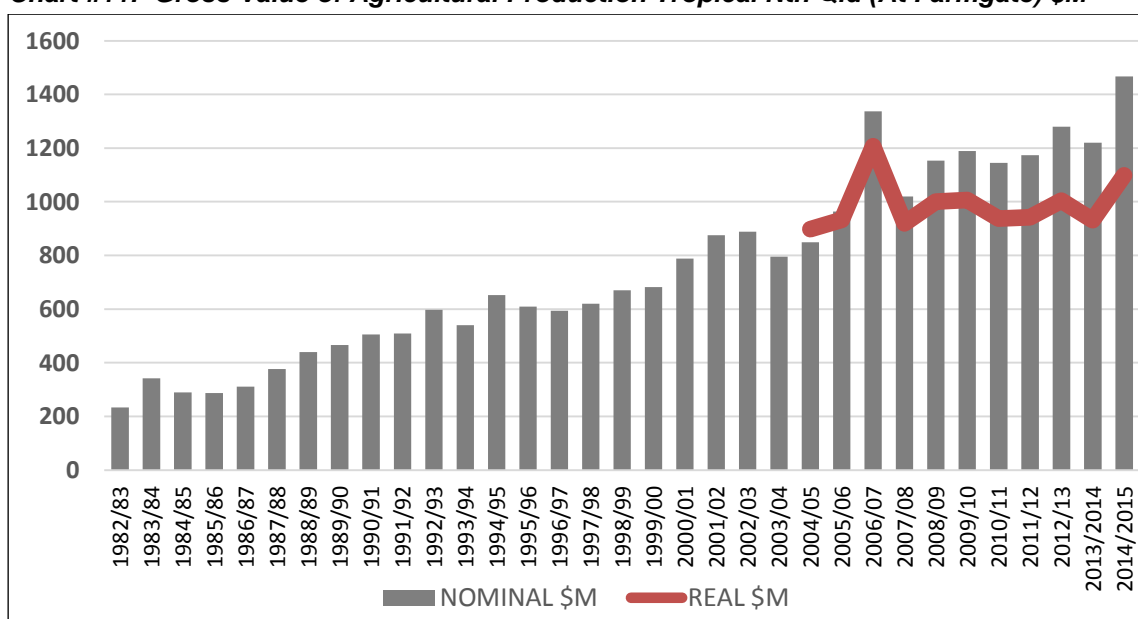
Four underlying factors have been underpinning realisation of potential:

- Expanding global markets have been reaching out for supply. The Cairns region is one of Australia's closest to growing markets in Asia.
- Transport and communication developments have been breaking down old barriers of remoteness from major markets – bulk carriers, freight efficient trucks, improved roads, jumbo jets, satellites and the internet.
- Technology has been developed more suited to tropical areas – not just in plants and animals but in ways of getting people to and viewing the reef and rainforests and in everyday living through medical and health advances, air conditioners, superior insecticides, cyclone warning systems and so on.
- And as population and infrastructure develops, success breeds success. Better health, education, recreation facilities and business support services and facilities are making the area a more comfortable place to live and in turn bringing down real costs of living and doing business.

1.3 Expansion of Outside Earnings

Against this background, the region has vastly increased its earnings from the outside world (from overseas and within Australia). Compared with forty years ago, the region's cattle herd has expanded strongly. The region has held on and expanded its sugar industry but now produces a wide range of other crops at least double the value of sugar (see **Chart #11** and **Table #15**).

Chart #11: Gross Value of Agricultural Production Tropical Nth Qld (At Farmgate) \$M



Note: Growth 2004-05 to 2014-15 : 4.4%pa nominal 2.0%pa real. \$310m including post farmgate.

Source: Cummings Economics from ABS data.

The region's marine industries have expanded, especially during the 1960s and 1970s. Mineral production, although fluctuating, has expanded. On top of this, a tourism industry has been created that in international holiday visitors, ranks with the Gold Coast and next to Melbourne and Sydney.

This expansion of activity has laid the foundations for the region developing and expanding maritime and aviation servicing sectors that earn incomes from outside the region. Trade in goods and services with Papua New Guinea and Papua Indonesia in the near north add to regional earnings.

Cairns airport has become a major international gateway in Australia's north east (see **Map #12**). The region's six export seaports handle tonnages greater than the States of South Australia and Tasmania and the Northern Territory (see **Table #13**).

Map #12: Services from Cairns Airport mid-2016 and Targeted for 2019



Source: Cairns Airport P/L..

Table #13: Comparative Seaport Tonnages, 2012-13

	<u>Tonnes</u>
Brisbane	37 million
Cairns / Far North Region (!)	34 million
South Australia	28 million
Townsville / Northern Region	18 million
Northern Territory	15 million
Tasmania	8 million

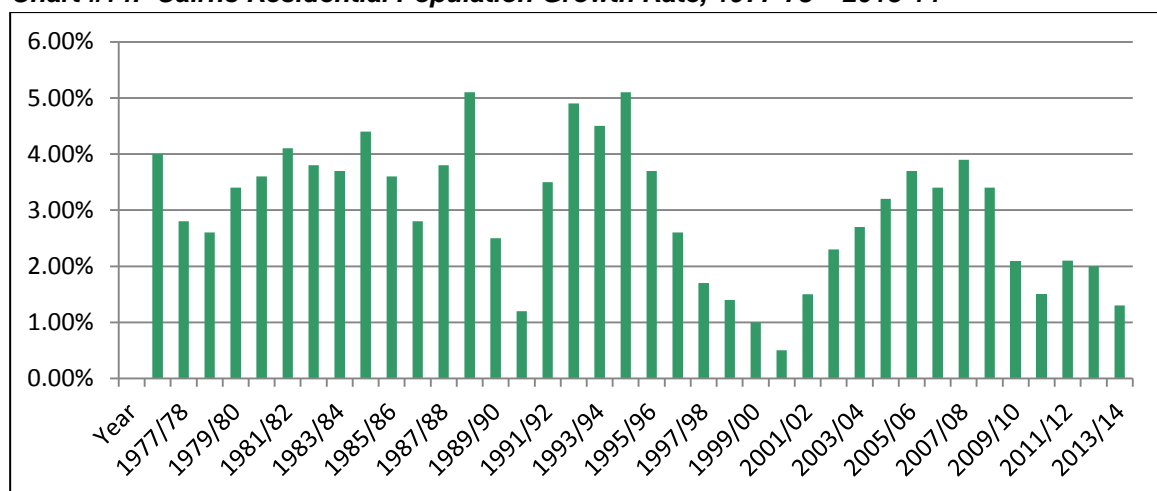
Note (1): Cairns, Mourilyan, Cape Flattery, Weipa, Karumba.

Source: Cummings Economics from BITRE.

1.4 Long-Term Growth with Volatility

However the path has not been smooth. **Chart #14** illustrates that over the period since 1976, Cairns' residential population growth rate has averaged about 2.7% per annum but that this has ranged from accelerations to over 5% per annum to below 1% per annum.

Chart #14: Cairns Residential Population Growth Rate, 1977-78 – 2013-14



Source: Cummings Economics from ABS data.

In fact, over its history, Cairns and the region it services has received a number of setbacks and has needed to find new opportunities for growth.

In the late 1800s, early pastoral development was severely checked when it was found that 'spear grass' in the savannah woodland areas penetrated the wool and flesh of sheep and early attempts to push wool production into the area failed. This was followed in the 1890s by the arrival of tick-borne Redwater fever from Asia with a devastating impact on the mainly British breeds of cattle pushed into the area. Early development of the region from the 1870s on was based on mining. However by the 1920s, mining in the area was in serious decline. An early pearling rush into the Torres Strait extended into trochus shell, but was gone by the 1950s.

Increasingly however from the 1920s, sugar production and tobacco growing on the Tablelands expanded, with tobacco production consolidated in the 1950s by construction of the Tinaroo Dam. However in the 1960s, conditions were such that periodic expansion of sugar production failed to occur in that decade. Population growth slowed and the region looked for new opportunities.

The challenge was met by the region making a strong effort to penetrate the new sunrise industry of tourism, first domestic and then international with great success. The upgrading of Cairns airport to take large wide bodied jets on international flights in 1984 under 'local ownership' played a critical role. During this period, the region led regional Australia in the creation of a well-funded and effective regional tourism promotion organisation that continues to this day.

However in the background, the 1960s saw a turnaround in mining with commencement of development of the Weipa bauxite deposits. There was a brief resurgence of tin mining until a price collapse in the early 80s.

In the 1960s also, the discovery of the extent of the prawn resource in the Gulf, saw a 'gold rush' type event develop that subsequently stabilised in later decades. The 1960s also saw a turnaround taking place in the cattle industry as the value of Indian origin Brahman breeds (via Texas USA), commenced being realised.

The 1960s also saw a major breakthrough in the sugar industry starting to occur with the development of a commercially successful sugar cane harvester that did away with increasing difficulties and costs of recruiting labour for hand harvesting. Major investments in bulk sugar terminals also took place to reduce shipping costs. During the 1950s and 1960s, Australia was complaining about cheap sugar produced by cheap labour in underdeveloped countries. By the 1980s, underdeveloped countries were complaining about Australia's cheap mechanised sugar. By the 1990s, Australia's sugar was competing on world markets without subsidisation.

Unfortunately, the tobacco industry failed to achieve labour saving mechanisation and with removal of protection in the 1990s, died.

However on the agricultural front, a further historic development took place in the early 1970s, the sealing, in central Queensland, of the last unsealed section of the Bruce Highway. The Cairns region could produce tropical fruits cheaper than in sub-tropical Australia and produce temperate zone produce during winter months.

The region grew rapidly as a producer of fruit and vegetables for domestic markets. The Cairns SA4 region now ranks as the third most important fruit producer in Australia (see **Table #15**).

Table #15: Fruit Production Australia – Major Fruit Producing Regions ⁽¹⁾, 2012-13

<u>Major Fruit Producing Regions</u>	<u>Fruit excl grapes</u>	<u>Grapes</u>	<u>Total</u>
Victoria's North-West	\$463.85 m	\$288.31 m	\$751.16 m
South Australia's South-East	\$296.45 m	\$367.56 m	\$664.01 m
Queensland's Cairns Region	\$524.71 m	-	\$524.71 m
New South Wales' Murray plus Riverina	\$340.54 m	\$129.90 m	\$470.44 m
Victoria's Shepparton	\$350.25 m	\$4.97 m	\$355.22 m
Queensland's Wide Bay	\$225.78 m	\$2.65 m	\$228.43 m
cf:			
WA – whole of State	\$237.98 m	\$79.63 m	\$317.61 m
NT – whole of NT	\$58.48 m	\$0.97 m	\$59.45 m
Tas – whole of State	\$112.61 m	\$28.05 m	\$140.66 m
SA – Other	\$132.15 m	\$83.95 m	\$216.10 m
Vic – Other	\$267.98 m	\$30.61 m	\$298.59 m
NSW – Other	\$314.94 m	\$98.82 m	\$413.76 m
Qld - Other	\$334.74 m	\$47.92 m	\$382.66 m

⁽¹⁾ Note: Regions defined by Australian Bureau of Statistics, Statistical Area Level 4 (SA4).

Source: Cummings Economics from ABS Cat No. 7503.0.

The region played a major role in the defence of Australia during the Pacific War. The establishment during the 1960s, of HMAS Cairns as Australia's north-eastern and Australia's fourth operational naval base saw it join Darwin and Townsville in a northern defence role.

Unfortunately, the slower growth period in the 1960s, due to the slow-down in expansion of the sugar industry, resulted in a failure to recognise the region's and city's growth potential. Cairns missed out on participating in expansion of higher education campuses around Australia in the late 1960s and early 1970s. The city has had to battle to establish a higher education campus. Even today, the region is underserved in higher education facilities compared to its population (see **Tables #16 & #17**).

Table #16: Student Ratios per thousand head of Population

	<u>Total</u>	<u>Full-time</u>	<u>Part-time</u>
Hobart	4.7	3.2	1.5
Townsville	5.2	3.7	1.5
Toowoomba	4.5	2.7	1.9
Darwin	4.3	2.5	1.8
Launceston	4.6	3.4	1.3
Simple average of 5 cities	4.7	3.1	1.6
cf Cairns	3.1	1.7	1.4

Source: Cummings Economics from ABS 2011 Census.

Table #17: Employment in Higher Education, 2011 Census, and Ratio per 1,000 Population Usual Place of Residence

<u>SUA</u>	<u>Employment</u>	<u>Employment per 1,000 pop'n</u>
Sydney	25,918	6.4
Melbourne	32,797	8.5
Brisbane	15,838	8.0
Perth	12,460	7.5
Adelaide	9,927	8.3
Gold Coast /Tweed	2,679	4.8
Canberra/Queenbeyan	6,062	15.5
Newcastle/Maitland	2,872	9.6
Sunshine Coast	896	3.3
Wollongong	2,678	10.0
Hobart	1,790	9.0
Geelong	1,446	8.4
Townsville	1,465	9.0
Cairns	477	3.6
Darwin	893	8.4
Toowomba	1,179	11.4
Ballarat	868	9.4
Bendigo	450	5.2
Launceston	704	8.6
Albury/Wodonga	372	4.5
Mackay	90	1.2
Rockhampton	653	8.8
Orange/Bathurst	680	9.6
Total	123,194	7.7

Note : Relatively low figures for Sunshine Coast would reflect, in part, the relatively high population 65+.

Source : Cummings Economics from ABS 2011 Census.

The regional city that would record among the highest growth rate in the following decades, failed to be identified in the early 1970s as being a “growth centre” by the Cities Commission.

All of this change has resulted in strong long-term growth, but been accompanied by periods of strong acceleration and deceleration and a need for a strong regional response. One of the strongest challenges has been due, more recently, to the Resources Investment Boom.

1.5 Some Lessons from the Past

Before proceeding to a detailed examination of the Resources Investment Boom period and more recent years, the following identifies some of the factors leading to successful adaption to changing circumstances and realisation of opportunities.

1.5.1 *The Importance of Opening Up New Revenue Sources*

The region has had to face a need for major diversification of its economic base at three periods of its history: From mining in the 1920s, from sugar in the 1960s and 1970s. Today, while recognising a need to tap into opportunities to expand and diversify the tourism sector, there is a need to pursue opportunities in other sectors including increasing its role as a servicing centre in the region but also the South-West Pacific area.

1.5.2 *The Importance of Infrastructure*

In the region’s history, a number of critical infrastructure investments have been extremely important in realising opportunities:

- The building of the telegraph line in the 1870s.
- The building of the Kuranda Range Railway to service mining expansion in the 1890s.
- The commencement of dredging of Cairns inlet in the 1890s and early 1900s.
- The completion of the rail link with Brisbane in the 1920s.
- Upgrading and sealing of the Kuranda Range Road in the 1940s.
- The construction of Tinaroo Dam in the 1950s.
- The establishment of bulk sugar terminals in the 1960s.
- The Beef Roads Scheme in the 1960s (for tourism and Gulf fisheries development as well as the cattle industry).
- The completion of sealing of the Bruce Highway in the 1970s.
- The upgrading of the Palmerston Highway in the 1970s.
- Establishment of the trawler base facilities, Cairns, 1980s.
- The upgrading of Cairns airport to take long distance international flights in the 1980s.
- Establishment of the Cairns Convention Centre, 1990s.

- The establishment of a separate university campus in the 1990s.
- Establishment of the Cairns Marlin Marina and the Port Douglas Marina in the 1990s.
- Major telecommunication extensions through the region, 1990s.

It is essential that government plays its role with appropriate and timely infrastructure development.

1.5.3 The Importance of Technological Advances and Enterprise

Some of the critical technological advances have been as follows:

- Overcoming the problems of rat-borne weals disease in the sugar cane industry by burning cane before harvesting, 1920s and 1930s.
- The conquest of Malaria in the 1940s.
- The development of cultured pearl technology 1940s and 1950s.
- The development of the world's first underwater coral reef observatory at Green Island in the 1950s.
- Introduction of bulk ore carriers 1950s on.
- Development of mechanical cane harvesters and development of new cane varieties to complement them in the 1960s and 1970s.
- Introduction of Brahman stock into the cattle industry from the 1960s.
- The development of fast passenger catamarans and semi-submersible reef viewers, 1970s and 1980s.
- Introduction of 4-wheel drive tourism coaches, 1970s.
- Widespread introduction of air-conditioners commencing 1970s onwards.
- Satellite weather warning systems, 1970s and 1980s.
- Adaptation of cableway technology to rainforest viewing, 1990s.

Clearly, an atmosphere that promotes development of new technology within the region and recognition and rapid adoption of useful technology from outside the region, is very important.

In the 1950s and early 1960s, a number of 'discoveries' were also important.

- Geologist Evans' discovery of the extent of bauxite resources in the Weipa area in the 1950s;
- CSIRO identification of the similarities of the Gulf of Carpentaria with the Gulf of Mexico and the likelihood of major prawn resources;
- Ex US serviceman from Florida, George Bransford, identifying the likelihood of World Record Black Marlin in the area in the 1950s.

1.5.4 The Importance of Local Business Initiatives

It is important to recognise also that much of the advances have been associated with local business initiatives that have included, to name a few:

- The Mackay family establishing banana growing at Tully in the 1970s.
- The Howe family recently on the Tablelands – bananas and other crops and the Inderbitzins at Lakeland.
- Jim and Jo Wallace investment in fast catamaran technology in the 1970s.
- Chapman family – Skyrail, 1990s.
- The Fry family establishing engineering company, NQEA, and securing the Fremantle Class Patrol Boat contract in the 1970s/80s and establishing Cairns in shipbuilding.
- A number of graziers – introduction of Brahman stock.
- Jacques Brothers – coffee growing and Dr Maruff and an Innisfail business syndicate – tea growing, 1970s and 1980s.
- Rare Fruits Society members scouring the tropics for new fruit varieties in the 1970s and 1980s.
- Syd Faithful - prawn processing and shipping development.

.An atmosphere that encourages, rather than discourages, local business initiatives has been vital.

2. EXPERIENCES DURING THE RESOURCES INVESTMENT BOOM

2.1 General

The following section looks at the impact on the region of the Resources Investment Boom.

In reality, the impacts started occurring in the mid-2000s. They were briefly punctuated by the impact of the Global Financial Crisis, peaked about 2011/12 and started winding down from 2013 onwards (see **Chart #18 Commodity Prices** and **Chart #19 Exchange Rates**).

Chart #18: Commodity Prices

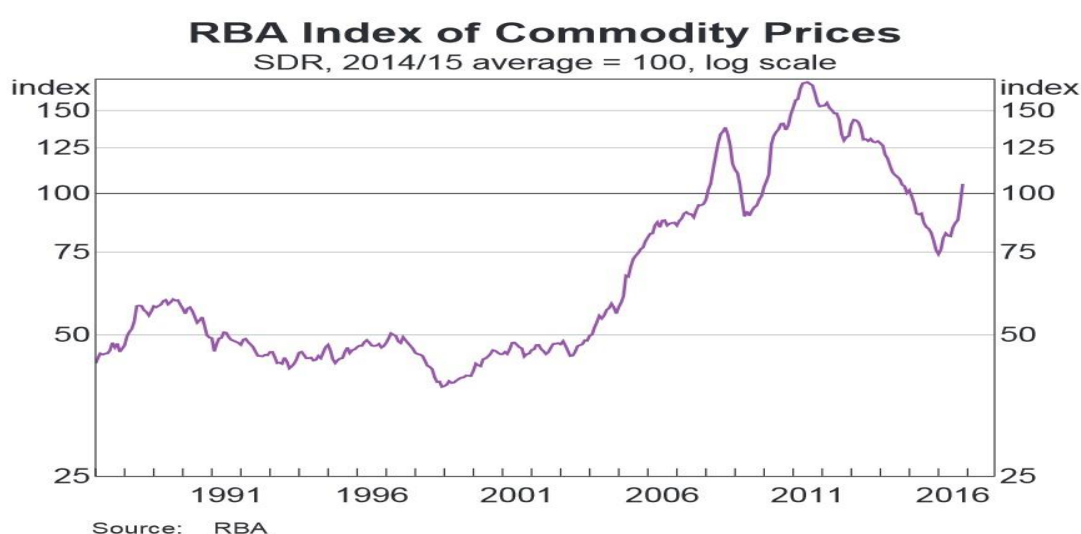
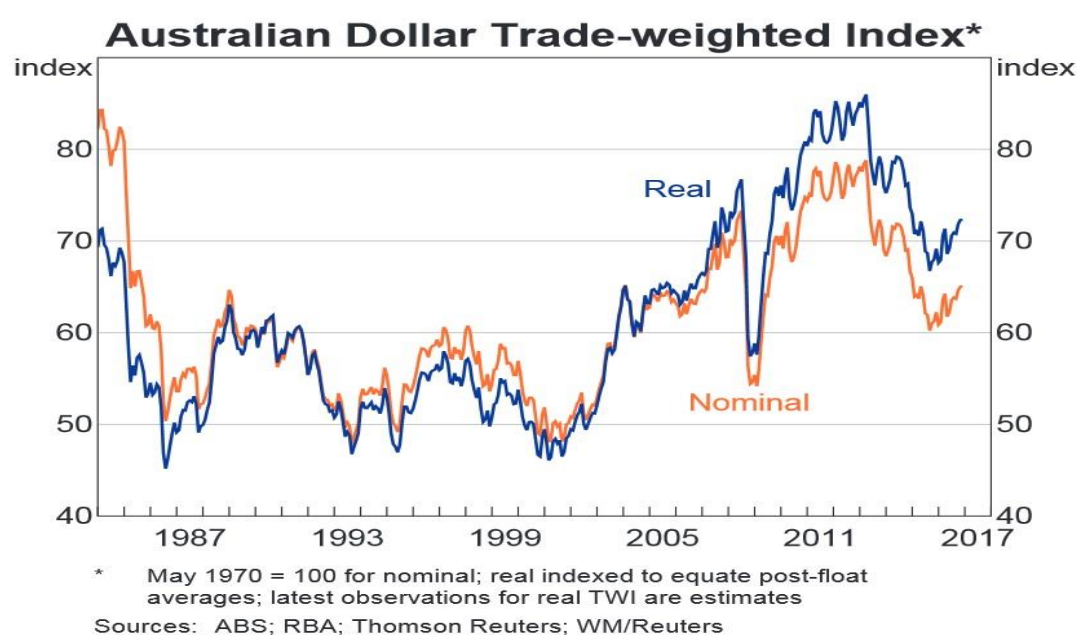


Chart #19: Exchange Rates



In fact, the trends before the Global Financial Crisis were very important for the Cairns region.

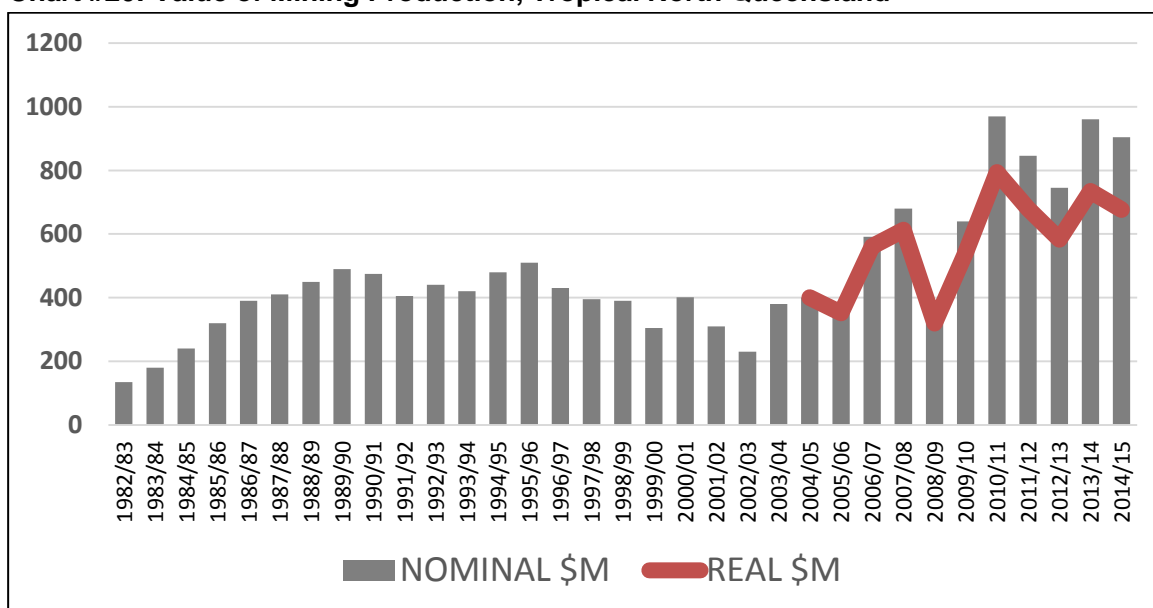
2.2 Participation in the Resources Investment Boom

2.2.1 Mining in the Region

Mining has not been as important in the Cairns/TNQ regional economy as some other northern regions such as the Fitzroy and Mackay regions (coal), the Townsville/Mt Isa region (base metals) or the Pilbara region (iron ore and gas), where most of the mining investment boom took place.

However, the upsurge in mineral prices in the 2000s saw value of production increasing partly due to expansion of capacity at Weipa and an upsurge of copper and zinc production around Chillagoe and Mt Garnet. **Chart #20** gives values of mining production over the period from the 1980s.

Chart #20: Value of Mining Production, Tropical North Queensland



Source: Cummings Economics from Queensland Mines & Energy data.

From a low of just over \$200m in 2002-03, value of production climbed to about \$700m by 2007-08 but fell back heavily in 2008-09 following the GFC. By 2010-11, it had climbed to just short of \$1bn, with a combination of expanded production of bauxite at Weipa, silica at Cape Flattery and Kagara (zinc and copper), at Mt Garnet. However the region was an early casualty of the retreat in commodity prices with the Kagara's Mt Garnet operation collapsing in early 2012.

But a quick recovery in value occurred between expansion of volumes from Weipa and a restart of Mt Garnet operations, resulting in a value up around \$900m to \$1bn in the subsequent years.

2.2.2 FIFO and Wider Servicing Role

However, the Cairns region was well placed to also play a wider servicing role to mining outside its immediate region across northern Australia and into the near North through:

- a) FIFO supply of workforce;
- b) Supply of goods and services.

For FIFO workforce supply, Cairns was well placed:

- a) Because of natural attributes, tourism facilities and city size, Cairns and its immediate region offered excellent lifestyle opportunities compared with other centres across the North and near North;
- b) The region's strong construction sector, farming and marine industries, meant that it had a substantial suitable workforce;
- c) The GFC and high dollar had resulted in a downturn in the labour market;
- d) A high level of female employment opportunities in the city complemented the heavy male oriented demand from mining providing jobs for spouses;
- e) Cairns was the leading air hub in northern Australia;
- f) Cairns is closer to much of the mining development across the North than most other Australian cities and much closer than the main FIFO competitor sources in the metropolitan centres. Note: Cairns' special geographic position is illustrated by the fact it is almost as close to Moranbah as Brisbane, as close to Mt Isa as Townville, almost as close to eastern Northern Territory mines as Darwin and to the East Kimberley region as Perth.

In these circumstances, the Cairns area's role as a FIFO centre burgeoned during the mining investment boom.

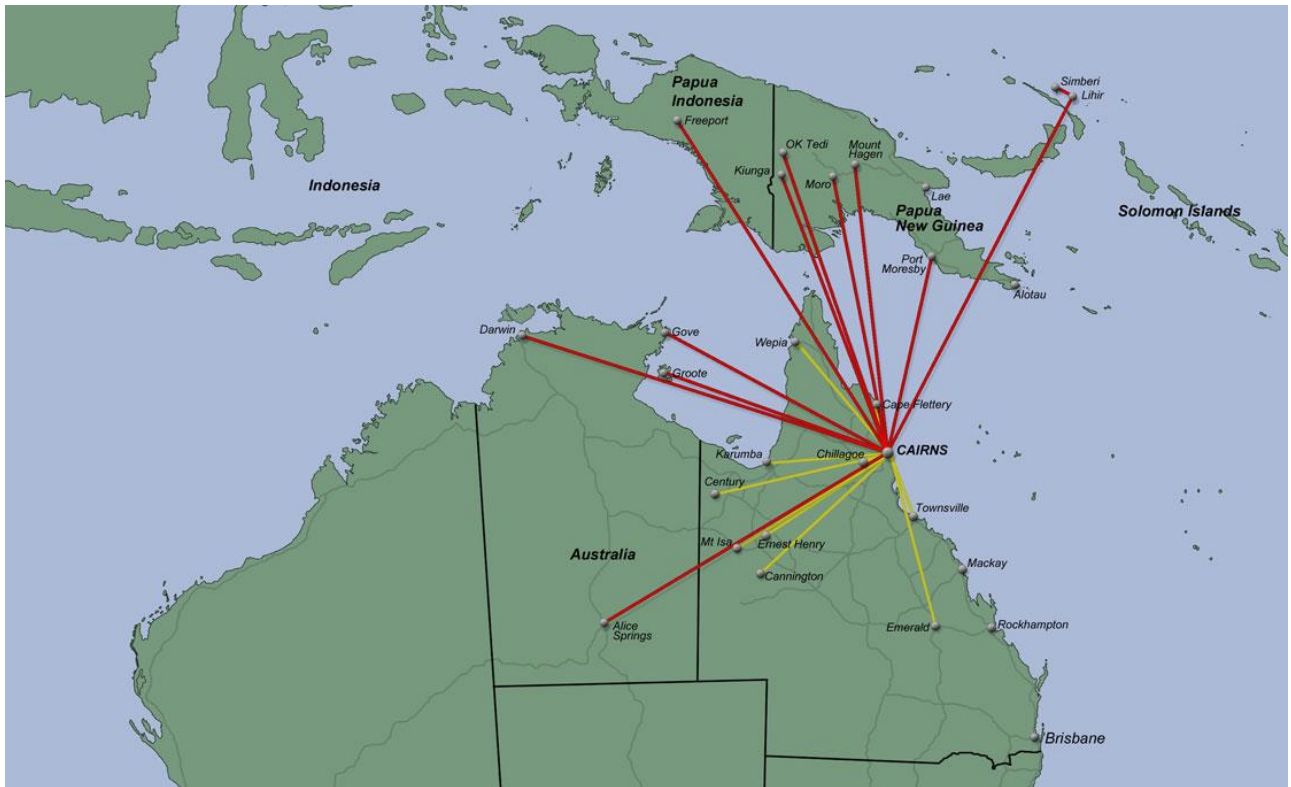
Map #21 illustrates the extent of FIFO operations that developed at peak, bringing an income into Cairns and the surrounding centres estimated to be of the order of \$200m a year and involving an estimated 2,600 jobs (see **Table #22**).

Table #22: Estimates of Mining Employment Far North Statistical Division, 2010 & by Late 2013

	2010	2013
Residential ⁽¹⁾	1150	⁽¹⁾ 1500
Fly-in/Fly-out	2150	2600
Total	3300	⁽¹⁾ 4100

⁽¹⁾ Note: Includes a major increase in employment reported at Weipa as per QRC report (see Table #1), but a loss since 2011 of employment in the Immediate Cairns Region through loss of employment by Kagara.
Source: Cummings Economics.

Map #21: Mining Related and Other Relevant Air Services, Interstate and Overseas



Source: Cummings Economics.

Major long-term FIFO route from Cairns has been the manganese mine at Groote Island in the Northern Territory. For a period, there were also services into McArthur River. Although Gove has a residential mine, much of the workforce is oriented to and is serviced by direct flights out of Cairns.

The Century Zinc mine and its Karumba shipping terminal established in the 1990s was largely serviced with FIFO workforce out of Cairns.

During the mining investment boom, direct air services were developed to Mt Isa and a number of mines in the area drew workforce out of Cairns including Ernest Henry, Cannington, etc.

Late in the boom period, BMA started taking FIFO workforce out of Cairns to service coal mines in the Moranbah area.

Mining related air services up to Papua Indonesia and Papua New Guinea tended to be corporate services rather than pure FIFO. FIFO to Freeport, involved taking personnel into Cairns from Timika in Papua Indonesia for R&R and to catch services to elsewhere in the world.

Services into Papua New Guinea's centres and mines provided workforce at supervisor level and above (PNG Nationals filled lower positions or cheaper overseas labour, eg. from Philippines). Often this workforce transited via Cairns from elsewhere in Australia. However Cairns was also used for R&R, medical and other services and air freight for urgent parts and consumables.

Apart from services to Port Moresby, direct services developed variously to Mt Hagen, Tabubil, Moro, and for a period, Lihir.

To cope with the traffic, Qantas entered the route to Port Moresby at the peak of the LNG plant construction period after previously code sharing with Air Niugini.

An interesting feature of this period was that substantial FIFO developed out of Cairns to mining seaports as opposed to the mines themselves. Cairns is a leading centre for maritime employment including crew for the reef fleet, fishing fleet, trading fleet and navy base. The city developed as a supply centre for marine industry workforce in ports like Gladstone and those in Western Australia.

Apart from major coastal shipping out of Cairns to supply Weipa operations, from 1974, Freeport has had a buying base in Cairns and a small self-loading container ship (about 100 containers), on a regular scheduled run (typically during this period, on about a ten-day cycle) to transfer cargo derived from Australian centres and concentrated in Cairns, to its port of Amamapare in Papua Indonesia.

At peak, of the order of \$300m a year of mainly high value goods was being shipped.

Cairns' engineering companies, including some located in the city carrying out 'relining' services internationally, achieved significant business.

Thus, while not as large as other regions, there were significant positive impacts on the city and region.

Additional mining and related income being received by the region at the height of the boom is estimated to be well over \$1bn and accounting for employment in the region of about 4,000 (see previous **Table #22**).

2.2.3 Organisational Responses

Much of this positive impact came from strenuous efforts to attract business. In the 1990s, the Cairns Chamber of Commerce had a Mining Industry Task Force and over the main Resources Investment Boom, a Resources and Industry Task Force that included representatives of some of the leading engineering and labour supply businesses.

Special arrangements were put in place to invite mining company representatives into Cairns for entertainment at special events and briefing on the city's substantial workforce, engineering and supply resources.

A major report was commissioned in 2008 and updated in 2010 with Queensland Government's financial support that reviewed mining developments taking place across northern Australia and the near North to assist this group and individual businesses focus on opportunities. Submissions were made to the Commonwealth Parliament Committee that looked into FIFO matters about this time.

Funding was achieved for a dedicated person to liaise with mining companies for a short period. A special 'Trade-Linked' group was set up to promote business relations with Papua New Guinea and the Cairns Chamber of Commerce ran regular trade missions into Papua New Guinea during the period.

2.3 Negative Impacts

2.3.1 General

Although there were positive impacts for the region, the balance of impacts of the Resources Investment Boom period were negative.

2.3.2 The Major Impact of an Excessively High Australian Dollar

Although there can be difficulties in separating out the negative impacts of the Global Financial Crisis from those of the Resources Investment Boom, the major negative impact came from an excessively high Australian dollar. The trouble started even before the Global Financial Crisis.

During the 1980s and 1990s, tourism had grown rapidly to, at peak, represent towards a half of the region's base industries earning income from outside the region (see **Table #23**).

Table #23: Estimated Value of Base Industries (1), FNQ Statistical Div, 2006-07

	\$	Percent
Agricultural & Pastoral	\$1,300 m	21%
Fishing (est)	\$200 m	3%
Mining (sale)	\$840 m	15%
Processing, value added and other relevant manufacturing (est)	\$900 m	15%
Tourism	\$2,450 m	40%
Other	\$400 m	7%
Total	\$6,090 m	100%

Note (1): Industries mainly oriented to earning income from outside the region.

Source: Cummings Economics.

Evidence of sensitivity of tourism to exchange rate fluctuation, goes back to 1986 when a floated exchange rate and the then Treasurer's "banana republic" comments saw the Australian dollar drop very strongly at a time when Cairns had brought on stream a major airport upgrading. Tourism boomed. Visitor nights in hotel/motel rooms doubled in three years setting off a construction boom.

The pilots' strike and the 1991 "recession we had to have" saw a sharp check to this growth. However the events were followed by deregulated airline low fares and development of direct flights from Japan resulting in a major increase in visitors from that market.

However by about 1996, the dollar was creeping back up and tourism growth was faltering to be dashed by the Asian Financial Crisis about 1997. But quickly after this, the Australian dollar fell and after some hiccups with SARS, 9/11 and the Iraq War, tourism numbers climbed back up during the first half of the 2000s.

Again, as **Chart #19** indicates, a rising dollar by 2005 and 2006 saw growth plateauing again and problems starting to occur in the Japanese market that had hit a high of about 250,000 visitors a year. A switch by Qantas to low-cost carrier Jetstar on the routes to Japan (a type of service not attractive to the Japanese market and travel agents at the time), made the matter worse.

In June 2008, before the GFC crisis, Qantas announced a slashing of services between Cairns and Japan, cutting back capacity to just over 100,000 a year. Loss of spending in the region from the Japanese market was of the order of \$100m a year.

When the GFC was followed by a sharp drop in the Australian dollar, there were sighs of relief in Cairns' tourism circles.

However, strongly recovering mineral commodity prices were putting upward pressure on the dollar. These pressures were added to by the Reserve Bank putting interest rates in Australia back up, well above those in the major world economies, with the resulting major inflows of capital and impact on the Australian dollar (see **Table #24**).

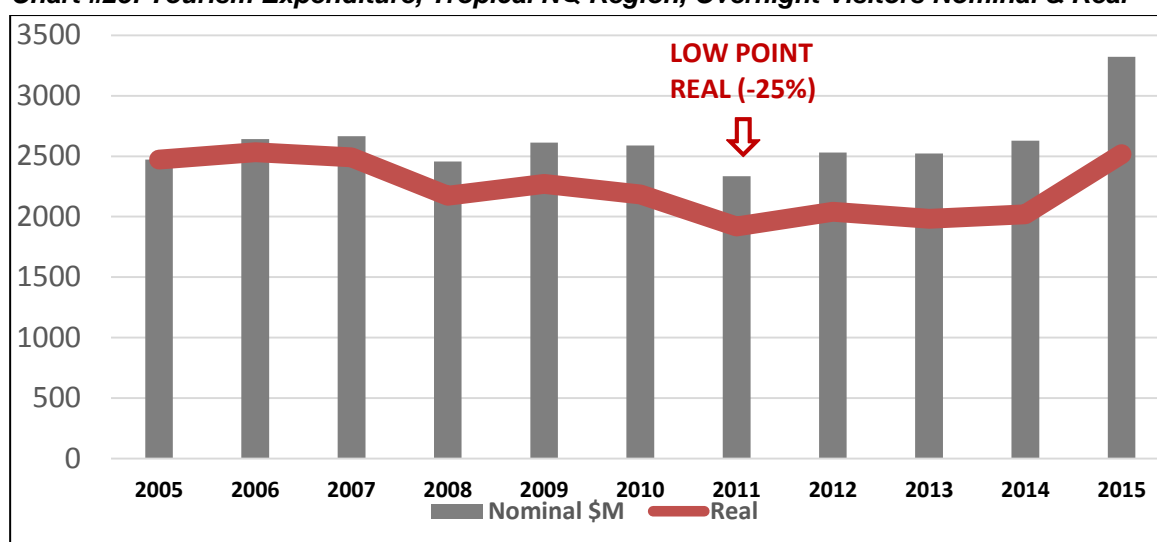
Table #24: Comparative Official Interest Rates, October 2011

	Percent
Australia	4.75%
European Central Bank	1.25%
Canada	1.00%
Bank of England	0.50%
USA	0.13%
Japan	0.50%

Source: Reserve Bank of Australia, Table F13.

Based on Tourism Research Australia figures, **Chart #25** illustrates that in real terms, over the period from 2006 to 2012, tourism income dropped by about 25% and an amount of about \$700m in 2005 dollars. Total losses to the economy before the recovery in 2015 were probably of the order of \$3bn in 2005 dollars.

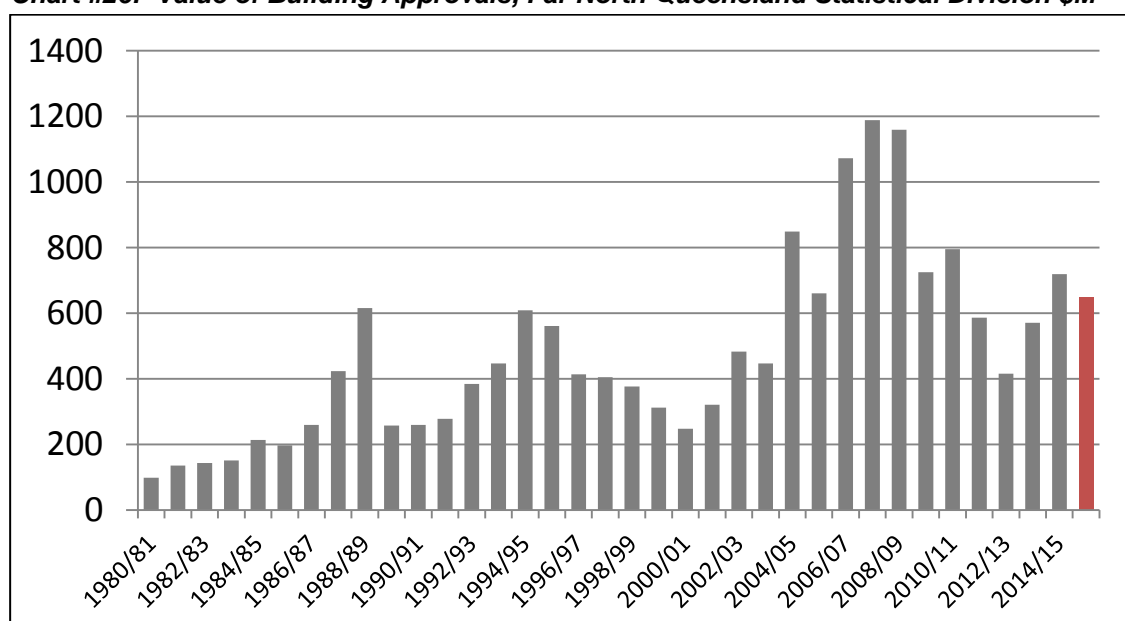
Chart #25: Tourism Expenditure, Tropical NQ Region, Overnight Visitors Nominal & Real



Source: Cummings Economics from Tourism Research Australia.

Coming on top of tourism losses, the impacts of the GFC on construction (see **Chart #26**) resulted in a major slow-down in regional activity, a strongly rising unemployment rate and a sharp drop in the recorded population growth rate.

Chart #26: Value of Building Approvals, Far North Queensland Statistical Division \$M



Note: 2015-16 based on 11 months to end May 2016.

Source: Cummings Economics from ABS Cat 8731.0

In fact, this negative effect not only affected the Cairns region, but other Queensland regions that were participating in the Resources Investment Boom. Over the period 2006 to 2011, population growth in regional Queensland outside the south-east corner dropped to a slower pace than the 2001 to 2006 period.

But it was not just tourism that was affected. Any other activity that competed internationally was affected.

Cairns' major maritime servicing sector was estimated to be earning of the order of \$800m a year and directly employing of the order of 4,000 in 2008(see **Table #27**).

Table #27: Estimated Direct Employment, Marine Sector, Cairns Region, 2008

Local vessels	2,970
Slipways	360
Other repairs and maintenance	340
Other marine industry services	620
Total	4,290

Source: *Cummings Economics*.

Before the GFC, it had been building a strong trade in superyacht visits and refits worth of the order of \$20-30m a year. Apart from the impact of the GFC on the wealth of superyacht owners, the high Australian dollar almost destroyed the refit business.

With the very high dollar, Cairns' slipways found it hard to compete with other slipways in the Asia Pacific area and this period saw interests in Papua New Guinea set up a major competitive slipway operation at Port Moresby.

Although Cairns experienced additional business from the boom in Papua New Guinea, due to the higher Australian dollar it failed to achieve what might have been expected, as workforce and goods poured in from countries like the Philippines and China.

Similarly, the strong trade with the Freeport mine in Papua Indonesia was affected as Australia, despite geographic advantages, lost competitiveness and the peak of \$300m in shipment has dwindled to about \$180m today.

The city had also been developing a strong international education sector based around five different operations, especially in English language and school group visitation. This sector's growth was stopped in its tracks and dwindled.

During this period, air freighted seafood exports, especially to Japan and Hong Kong that had been growing strongly, were affected.

Cairns' strong international aviation sector that includes a great deal of servicing of aircraft and an education element was positively affected by increased flights into mines but the high Australian dollar affected competitiveness in gaining engineering and maintenance business from Asia/Pacific markets.

2.3.3 Workforce Competition

The very high wages offered by the mining sector had negative effects on some sectors.

An inquiry into the question of skilling workforce in Cairns for the mining sector in 2013, revealed two areas of negative impacts.

The first was the maritime services sector in Cairns clustered around the three slipway type operations with skills across a range of activities attractive to the mining industry. This sector already suffering from a downturn in business due to the GFC and the high dollar was further disadvantaged by losing skilled workers and through cost pressures of having to pay higher wages to retain skilled staff.

Mechanical, structural and civil engineering activity was similarly faced with problems of competing for workforce.

2.3.4 Failure in Offsetting Policies

Before the GFC, Cairns was flying high with strong growth of population and a very active construction sector.

The city was hit hard by the GFC virtually shutting down new construction starts overnight. The loss of the Japanese flights about the same time, followed by the high dollar's impact on tourism meant that unemployment rates being recorded by the Australian Bureau of Statistics rose to be among the highest in Australia at the time (see **Table #28**).

Table #28: Unemployment Rates, 2006 to 2016

<u>Av 12 months ending September</u> <u>Unemployment Rate</u>	
2006	6.8
2007	4.3
2008	5.1 – GFC Oct 2008
2009	7.8 – Peaks over 10%
2010	8.1 – Peaks over 10%
2011	6.9
2012	8.7
2013	8.3
2014	7.6
2015	8.2
2016	8.6

Note: Peaks of up over 10% were recorded in 2009-10.

Source: Cummings Economics from ABS Cat. 6291.0.55.001.

These high unemployment rates drew comments at national level by the Prime Minister of the day and widespread comment about the problems of over dependence on tourism. This public perception affected confidence in investing in the city.

While the region participated in the Post-GFC Stimulus Package generally in line with its population, in the capital works stimulus package in 2009, there was little special for the Cairns region in strong comparison with some other regions less affected.

A special study was launched with Commonwealth government assistance on “*Repositioning Tourism in the Region*” stimulated by a view at national level that the problem was the tourism industry’s product offerings and not the impacts of the high Australian dollar.

The impact of the tourism downturn was particularly heavy on the Cairns CBD where between Census 2006 and Census 2011, workforce employed in the area fell.

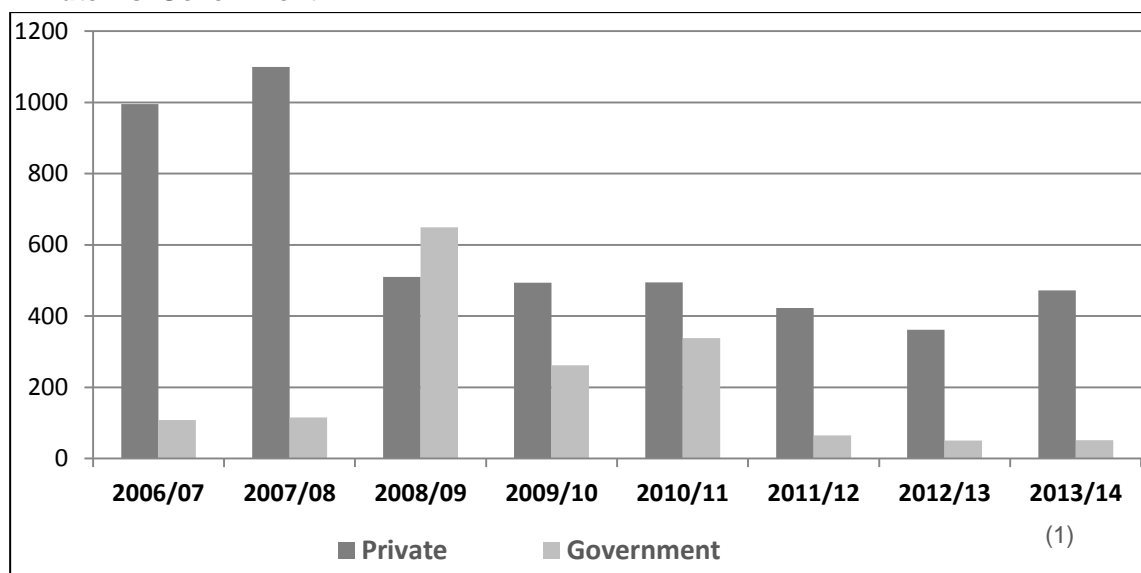
That the region’s construction sector did not suffer more than it did, was due to a number of factors.

Independently of these trends, a decision was made about 2008 to spend about \$400m on expanding the Lotus Glen Correctional Services Centre near Mareeba with work extending through to 2010.

About 2008, the State Government decided to divest Cairns Port Authority of the airport. They made a \$400m sale to private interests and decided to divert the money to an overdue \$400m upgrade of Cairns Base Hospital.

Chart #29 illustrates public and private building approvals in the region over the period of the Resources Investment Boom.

Chart #29: Total Value of Building Approvals, Far North Queensland Statistical Division, Private vs Government



(1) *Note* - based on 11 months to end May 2014.

Source: Cummings Economics from ABS Cat. 8731.0.

Table #30 gives Public Sector's Building Approvals in major northern regions, 2011-12 to 2015-16.

Table #30: Value of Building Approvals, Public Sector, Major Northern Regions, 2011-12 to 2015-16

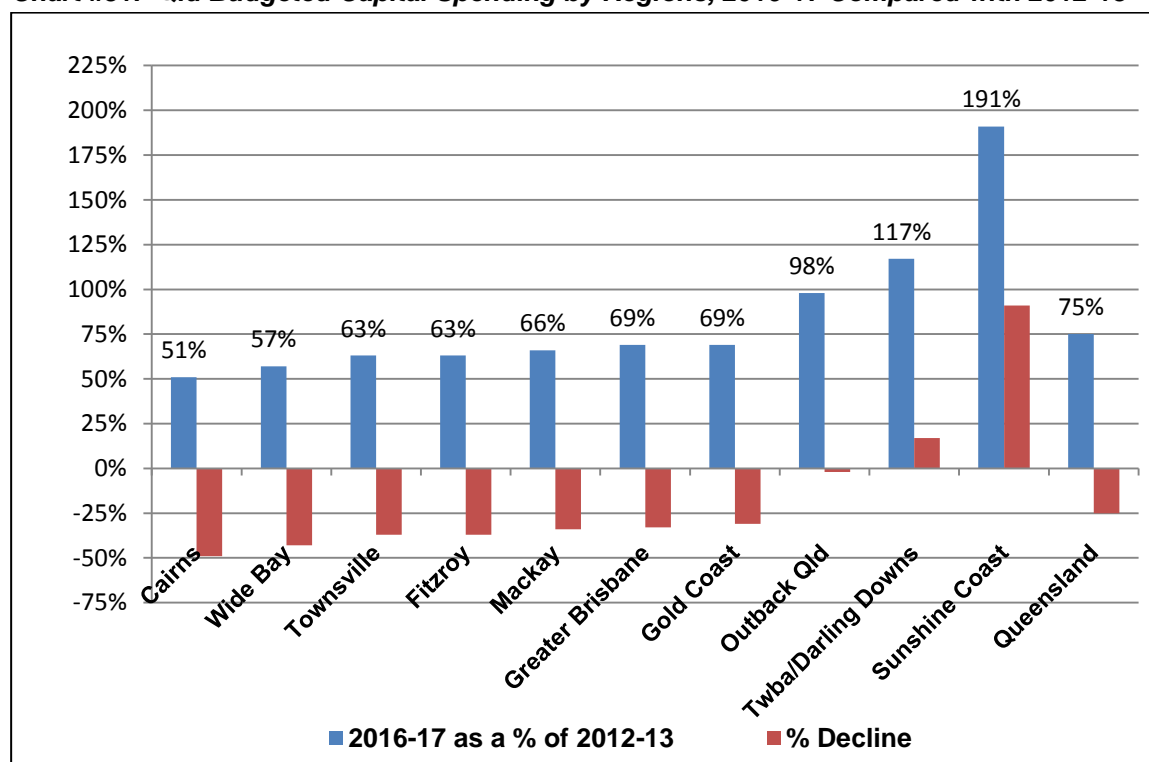
	<u>Cairns SA4 Region</u>	<u>Townsville SA4 Region</u>	<u>Fitzroy SA4 Region</u>	<u>Northern Territory</u>
2011-12	\$37 m	\$268 m	\$66 m	\$568 m
2012-13	\$33 m	\$245 m	\$344 m	\$319 m
2013-14	\$36 m	\$78 m	\$78 m	\$215 m
2014-15	\$26 m	\$83 m	\$24 m	\$274 m
2015-16	\$54 m	\$153 m	\$58 m	\$597 m
Total	\$186 m	\$827 m	\$570 m	\$1,973 m

Source: ABS Cat. 8731.0.

It indicates the lack of government support for construction in the Cairns' regional economy since the peak of the impact of the high Australian dollar compared with other major northern regions, especially the Northern Territory and Townsville regions.

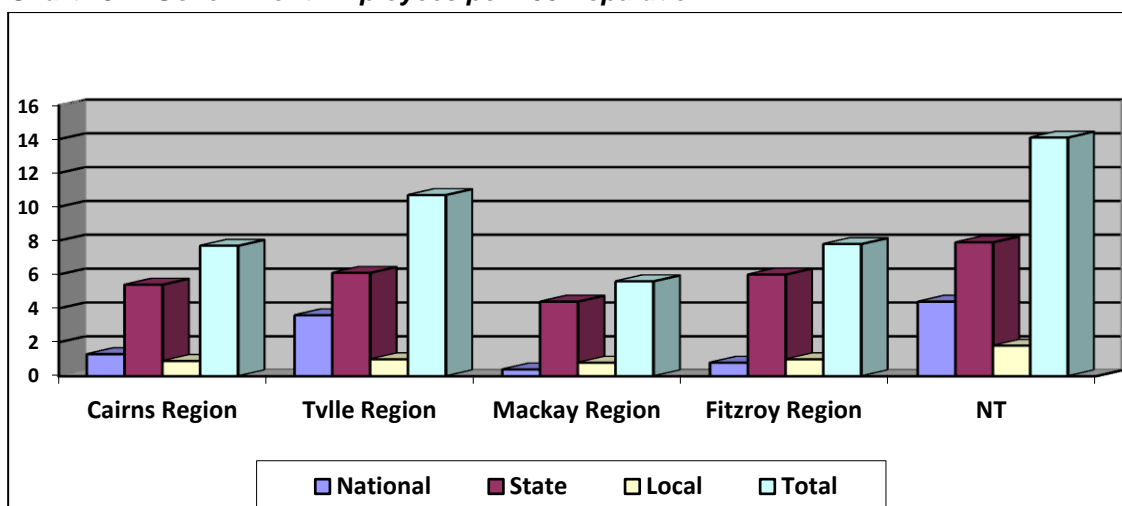
The following table indicates that in Queensland Government Budgeted Capital Expenditure, the Cairns region, despite having a low per capita level in the 2012-13 budget, has suffered the heaviest cut-back of any region in the State.

Chart #31: Qld Budgeted Capital Spending by Regions, 2016-17 Compared with 2012-13



A study for Cairns Regional Council in 2014 compared the amount of government involvement in the major northern cities, highlighting Cairns' relative lack of government employment compared with Townsville and Darwin and dependence on private enterprise (see **Chart #32**).

Chart #32: Government Employees per 100 Population



Source: Australian Bureau of Statistics, Census of Population and Housing, 2011 (unpublished data).

2.4 Lessons for the Future

The major lesson for the future is the degree to which a skyrocketing high dollar can very heavily affect regional growth and investor confidence.

We are concerned that the extreme rise in the dollar was due to a failure of fiscal and monetary policy and its worst effects could have been avoided.

First, we are concerned that the link between interest rates and the value of the Australian dollar was not fully recognised at the time.

While the traditional view has been that the level of the Australian dollar was set by commodity price levels, it is now very obvious that comparative interest rates also played a major role. Australia having interest rates well above the rest of the world (see **Table #22**), further major impacted on the dollar during this period with highly damaging consequences for tourism and other trade exposed industries.

The fact that the strong drop in commodity prices that occurred from mid-2011 did not result in a commensurate drop in the Australian dollar made this obvious. Strong falls in the Australian dollar only occurred as the Reserve Bank made strong cuts in interest rates.

The second concern is that despite the stimulus being given to the Australian economy by the Resources Investment Boom in the post GFC period, the federal government, that had stimulated the economy following the GFC, did not pull back sharply enough as the Resources Investment Boom became obvious. It kept running major deficits further stimulating the economy and causing the Reserve Bank under its policy thinking at the time (that was tending to ignore exchange rate impacts), to put up interest rates strongly to control the economy, right out of line with what was happening in the rest of the world.

The major lesson from this period is that:

- Fiscal policy and curbing deficits in good times is essential;
- That use of exchange rates independent of what is happening in the rest of the world to dampen the economy can have very strong negative effects through impacts on the Australian dollar and its subsequent impacts on trade exposed industries and regions.

3. CAIRNS AND THE REGION'S ROLE IN A TRANSITIONING AUSTRALIAN ECONOMY

3.1 The Opportunities

3.1.1 General

For the Cairns/Tropical North Queensland region, the impact of the end of the Resources Investment Boom has been, on balance, positive. The negative impacts on the region's smaller mining sector have been only moderate and more than offset by the benefits of the Australian dollar moving back down again.

The following looks at the opportunities for the region to play an important role in the transition of the Australian economy back to strong growth.

3.1.2 Tourism

The reduction in the Australian dollar from its highs through to 2012 has seen tourism progressively responding.

As indicated by **Chart #25**, however, it took until 2015 for real earnings to come back to the earlier peak levels of about 2006.

2016 saw earnings soar past earlier records.

First effect has been a refurbishment of facilities that had been neglected over the previous lean years and for a number of existing hotels to change hands as old investors took the opportunity to exit and new ones enter.

The year 2016 saw shortages of rooms occurring in peak seasonal periods and an opportunity to raise room rates that had languished.

However, there seemed no hurry for tourism businesses to put on additional staff – with a reported tendency to first increase hours of existing staff and casuals.

Leading the recovery was the domestic market with international visitor numbers only returning to 2006 levels in 2016 with a substantially changed composition.

Cairns has fared well in recent years, in the number of Chinese visitors attracted compared with national figures even though, apart from Chinese New Year charters from Shanghai, direct access was from Hong Kong only. Japanese visitation however, has only started to recover recently and numbers from China have come to exceed those from Japan.

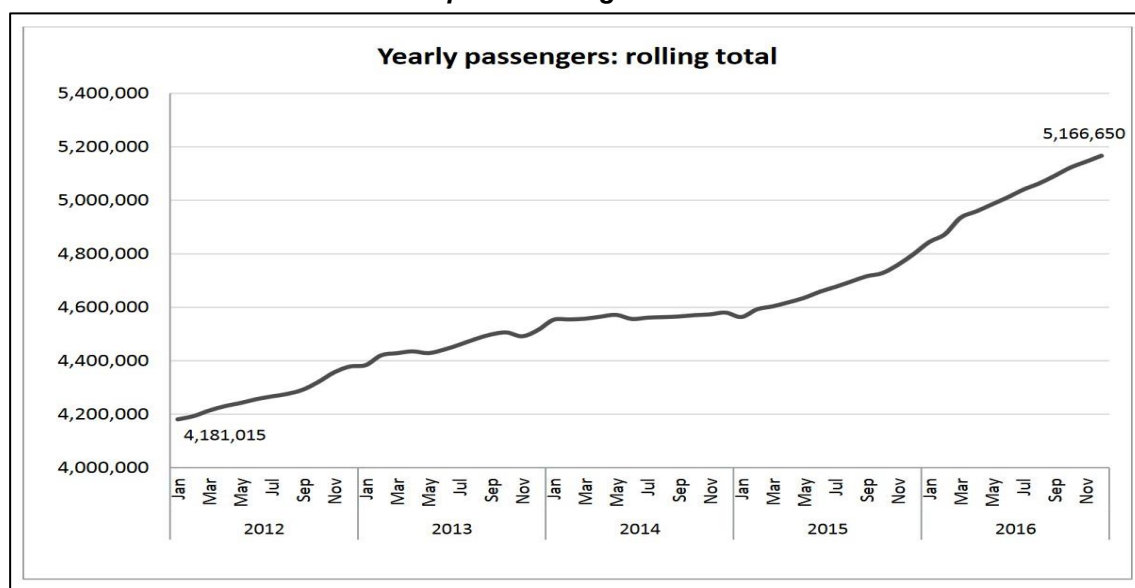
Low cost Hong Kong airlines has joined Cathay out of Hong Kong. However, most Chinese visitors still enter via Sydney, fly to Cairns, visit the reef and return via Sydney or Brisbane.

The major breakthrough being sought is the establishment of direct services from a mainland Chinese city. The State Government has undertaken to incentivise services from 2018.

The more favourable conditions have also seen direct flights re-establish to Bali and to Singapore. Philippine Airlines have come in with flights from Manila and extending to New Zealand. Recently, seasonal flights have commenced from South Korea.

Chart #33 plots the growth in passenger numbers through Cairns airport.

Chart #33: Cairns International Airport Passenger Growth



Source: Cairns Airport P.L.

With the growth of the Chinese market, the Aquis Group announced intention to develop a \$4bn integrated resort, including a casino licence, at Yorkeys Knob, subsequently raised to \$8bn over a longer term.

It is a sorry tale that the project has not proceeded with attitudes and actions in the State Government in Brisbane criticised. However, in the background has been a Chinese government clamp down on money laundering through casinos with heavy impacts on Macau's 35 casinos.

With a population 10 times that of Japan and income in China increasing, outbound tourism is rising rapidly. Given a suitably low Australian dollar, the Cairns region is well positioned to increase Chinese visitation. Another major development outside of Kuranda involving investment in a \$600m Eco Resort health and wellbeing development is in an Environmental Impact stage with the State Government.

Another international investor has moved to build the first new hotels in Cairns for some time. However as covered later, there are concerns that domestic investors, burnt by the high dollar experience, are reluctant to invest.

3.1.3 Agricultural Expansion

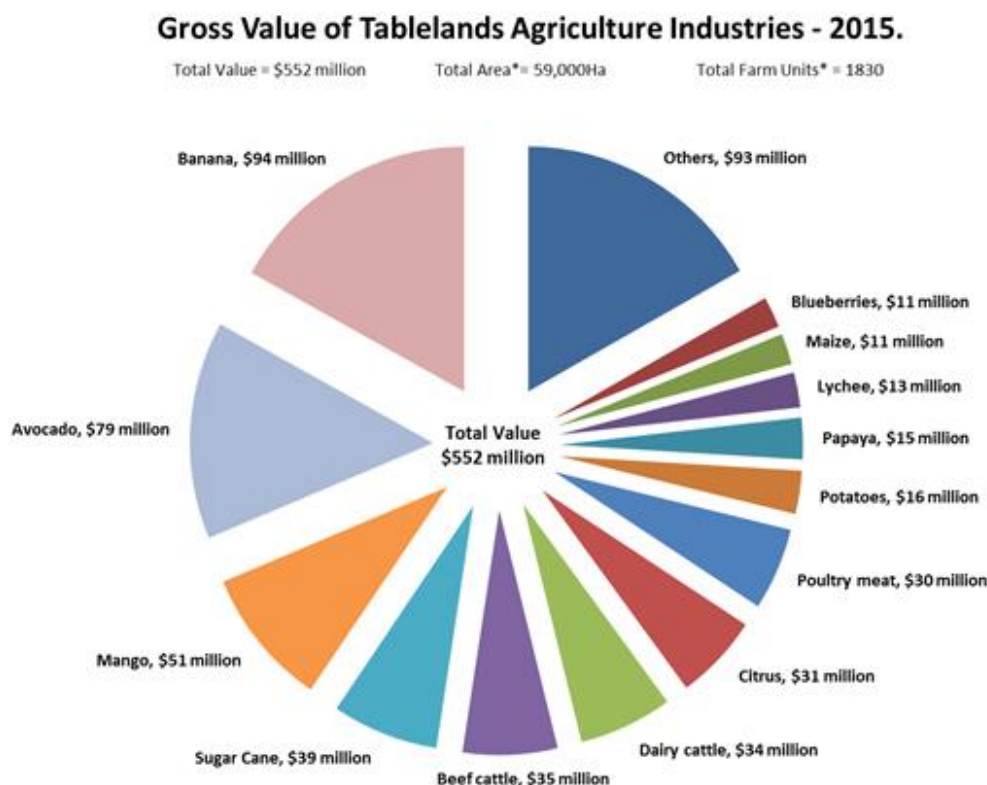
While the Cairns region has major opportunities to expand in tourism, agriculture has also been a growth sector over the past 30 years and will almost certainly continue to grow strongly over the next 30 years. It is useful to reflect that the region accounts for 26% of Australia's water run off but currently only about 3% of value of production.

Given large expanding markets in Asia, cattle exports are predicted to grow. Technological improvements, including better stock, better infrastructure and investment in properties is underpinning ability to expand supply.

In particular, Cape York is likely to prove a major area for increased production. Because of higher rainfall, potential is high but requires greater investment in controlling regrowth. Poor access and remoteness costs have suppressed this investment. However with the sealing of roads into the area, this is changing. Live cattle exports are recommencing through Weipa. Complementary cropping development will assist.

The region has grown to be the major cropping region in the North. The pattern of expansion has moved from strong expansion of bananas and other tropical fruit along the coast in the 1970s to 1990s, to major expansion of mixed cropping on the Tablelands underpinned by the Tinaroo Dam (see **Chart #34**).

Chart #34: Tablelands' Value of Agricultural Production



Source: DAFF, Mareeba.

There are strong prospects for expanding production beyond current limits around the Tablelands. The Nullinga Dam proposes to provide the extra water to extend the successful Mareeba Dimbulah Irrigation Area (MDIA) and to meet the future needs of an expanding Cairns population. A number of the industries in the area, including sugar, only need more water to expand.

Further north, following the sealing of roads into the Cooktown district, cropping (now worth of the order of \$50m a year), has been developed but is starting to face water availability limits in the dry season. Feasibility studies are being mounted into the Lakeland irrigation Scheme. On the basis of soils immediately available, the scheme could at current values per hectare expand to production of the order of \$200 - \$250m per annum.

To the south of the Tablelands is something like 100,000ha of high quality volcanic soils that lie outside the higher rainfall area. They need only marginal additional water to expand cropping. Feasibility studies are underway into a Southern Tablelands Irrigated Agricultural Scheme. Potential value of crops produced, when fully developed, has been estimated at approaching \$500m per annum.

Further afield, State Government negativity has resulted in a major private enterprise scheme tapping the waters of the Gilbert, Etheridge and Einasleigh River catchments being put on hold. The project was mainly for sugar production and involved an estimated value of production of over \$1bn per annum.

The Tablelands' poultry industry is currently importing 70,000 tonnes of sorghum a year from Central Queensland. A major sorghum growing venture at Strathmore Station on the Gilbert River area is now moving into production and another is under development at Olive Vale Station north-west of the existing cropping area at Lakeland.

Queensland Department of Primary Industries have identified in the past, two million ha of potential agricultural soils in Cape York that would require minimal irrigation development.

An advantage of the foregoing projects is that it represents an outward expansion of an existing major agricultural area with existing agricultural support infrastructure available in Mareeba and Atherton.

3.1.4 Mining Expansion

While the region's mining was an early casualty of the lower mineral prices with the shutdown of Kagara's zinc and copper operation at Mt Garnet, it has been among the first to recover and commence growing in value again.

Operation at Mt Garnet restarted but has faltered again. Tungsten production continues. Near Chillagoe, a \$70m investment is taking place in completing a processing plant to process zinc. Cape Flattery silica operation has continued.

Weipa bauxite export volumes have continued to climb to around 29 million tonnes per annum. (cf: It was 11 million tonnes in the early 2000s). A \$2bn investment is taking place in the Amrun project to open up a new shipment point that it is proposed will be able to handle, in the future , up to 50 million tonnes per annum worth of the order of \$1.5bn per annum.

3.1.5 Cairns City Services

As observed earlier, the city of Cairns' primary economic role is to provide services as a "capital" city to the region. This extends to growing opportunities to provide services to wider Asia/Pacific markets and global markets.

Given its population size, its lifestyle advantages, global air connections and special position in the tropics, Cairns is in a special position to expand higher education, not just to service local student markets, but international student markets in research in the world's tropical areas.

During World War II, Cairns based research played a major role in controlling Malaria. Recently, it has played a major role in developing technology to control Dengue fever. The city has already played a role in developing international education including a special role in relation to Papua New Guinea.

Central Queensland University (CQU) has recognised the city's potential by establishing a substantial new campus in Cairns CBD. James Cook University (JCU) has announced moves to join CQU with a campus in the city. JCU has also moved to establish much needed on-campus accommodation at its main campus at Smithfield. JCU's Cairns Institute is the university's main research institution relating to tropical social studies.

All the indications are that there is a potential to expand local enrolments by of the order of 5,000 students and to attract very substantial international enrolments, especially in relation to studies oriented to the tropics.

Cairns' hospital region is already the largest in the State outside the south-east corner in terms of admissions, but is still under-funded. Cairns, with its superior air links, has the potential to play a role in the provision of hospital and health services in the wider South-West Pacific region.

With the lower dollar, the marine service sector is recovering, with superyacht business returning and a role in servicing naval vessels, custom vessels and South-West Pacific patrol boats.

Aviation services are expanding rapidly in Asia. The aviation sector in Cairns is reporting opportunities to play a significant role in attracting increased aircraft maintenance and training activity to Cairns.

4. FACTORS HOLDING BACK AND POLICY RESPONSES NEEDED

4.1 Fiscal and Monetary Policies

As set out in previous Section 2.4, the irresponsible continuation of major government deficits during the height of the Resources Investment Boom leading to policies of using interest rates to dampen the economy well above interest rates in major overseas economies resulting in a highly inflated Australian dollar, was highly damaging to the long-term interests of the Australian economy and should not be repeated.

For those industries and regions affected, it has left a legacy of distrust of investing in them for fear of the same thing happening in the future.

There needs to be a clear recognition that this will not happen again – that the Federal Government will keep its deficits under control and the Reserve Bank recognise the effect of interest rate differentials on the Australian dollar and the major damage an excessively high dollar can result in.

It is suggested that the policy framework for the Reserve Bank needs to be re-examined and changed.

It needs to be recognised that both those regions with strong opportunities and those damaged by the end of the Resources Investment Boom, have a strong interest in a low competitive dollar.

4.2 Financial Institutions and Policy Attitudes

Realisation of the region's opportunities will require major private enterprise investment and the support of Australia's financial institutions.

It has become clear that domestic financial institutions are not responding adequately to opportunities in the region.

A clear view has developed in the city that for any major investment in expanding the region's economy, it will be necessary to look to investors outside of Australia. Fortunately, in the Nova 8 proponents and GA Group, they are starting to appear.

By and large, local investors report they are finding it difficult to raise finance despite the changed underlying factors favourable to the region's growth. Smaller developers in the region are reporting that they are having difficulties getting bank finance.

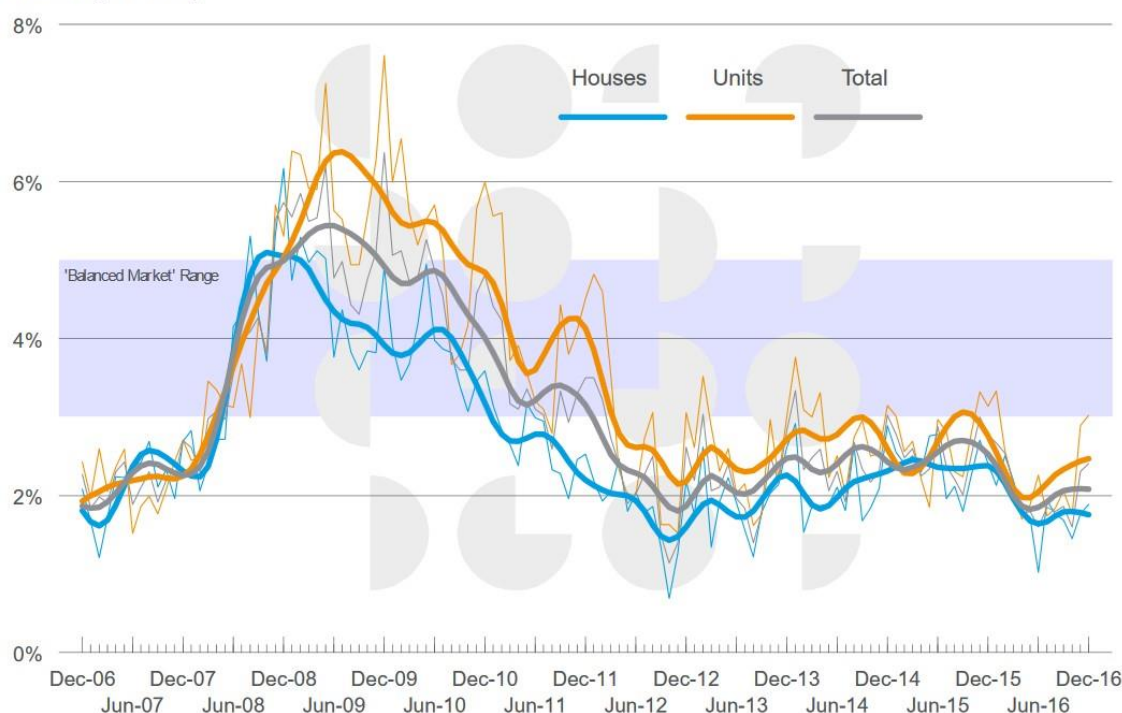
There is legitimate concern at national level about the over investment in unit development that has taken place in the major metropolitan centres. Sharp short-term falls in property prices in some regional areas affected by the decline in mineral prices would also be of concern to financial institutions.

However it seems that APRA, the Reserve Bank and the major banks tend to have a “one size fits all” view that is unreasonably translating these concerns into regional areas where there is no risk of major oversupply, where rental occupancies are low (see **Chart #35**) and where all the indications point to an increasingly favourable situation in property markets.

Chart #35: Rental Vacancies

Rental Vacancies

Percentage Vacancy



Source: HTW Rentroll Survey

4.3 Government Investment in Infrastructure

As indicated in the review of the regional economic growth over a long period of time (Section 1.5.2), it is vital that adequate and timely investment in infrastructure, the responsibility of government, takes place. is vital.

As recorded previously, despite the opportunities presenting themselves in the region, State Government budgeted infrastructure spending in the immediate Cairns region, has historically been low and over the past five years, has been cut back by the most of any region in Queensland by an amount of almost \$400m, heavily retarding the recovery taking place (see previous **Table #31**).

If the region is to achieve the opportunities presenting themselves at this time in its history, it needs substantial government infrastructure spending:

Transport

- Major deepening and upgrading of Cairns seaport;
- Major upgrading of the Kuranda Range Road;
- Development of direct north south interior sealed road freight efficient triple road-train links to southern Australia (Cairns is due north of Melbourne), including the missing link Hann Highway and the Ootann Road west of Mareeba;
- Commitment to extend the sealing of the Peninsula Developmental Road currently underway, all the way to Weipa;
- Upgrading of the current substandard rail link between Cairns and Townsville;
- Continuing upgrading of Cairns airport to cater for increases in traffic (assistance rather than government investment).

Water Resource Development

- Extend the Mareeba Dimbulah Irrigation Scheme through construction of Nullinga Dam to enable agricultural expansion and supplement Cairns' future water supply needs.
- Develop the proposed water storage at Lakeland to enable expansion of irrigation.
- Develop water catchment and irrigation system to extend agricultural production on the rich volcanic and alluvial soils in the Southern Tablelands region;
- Provide a framework for private enterprise development of the water resources of the Gilbert, Einasleigh, Etheridge catchments and eventually the Wrotham Park/Gamboola area on the Mitchell River.

Health and Education

- Provide funding to facilitate the rapid expansion of higher education in the region to meet the opportunities presenting themselves;
- Provide funding to bring Cairns Hospital up to a Tier One rating equivalent to major Brisbane hospitals and Townsville hospital.

4.4 Extreme Environmental Policies

Realisation of opportunities in the Cairns region are variously being held back by extreme environmental policies not based on science.

Few regions in Australia have an economy as heavily based on biological resources and the environment, than the Cairns/Tropical North Queensland region.

The region has a long record of successfully using the environment. The region practices world best standards.

Much of the hysteria affecting the region comes from ill-informed views in metropolitan areas from people who do not understand the region's environment.

Major additional costs that are not supported by science, are currently being imposed on the urgently needed deepening of Cairns seaport to take increasing size of ships needing to use the port, by requiring on-shore placement of dredged material.

The cost of upgrading the Kuranda Range Road, Cairns' main westward link in the region has been "blown out" by excessive costs of meeting extreme environmental parameters.

The \$1bn proposed IFED farming development in Etheridge Shire has been stopped until more reasonable regulatory conditions apply.

Current policies have put on hold the development of Olive Vale Station west of Cooktown for agricultural production.

Background suggestions are coming forward that proposed agricultural development in the Lakeland and Southern Tablelands area will be stopped because the catchment-rivers flow to the east coast.

All that is requested is that policies adopted be based on science and not based on pandering to ill-informed extreme green elements based in metropolitan centres.

4.5 Keeping Costs Down

Most regional areas of Australia are dependent on trade exposed industries. However, many of the goods and especially services delivered to them, including government services, are not exposed to international competition.

It is vital to the future of all regions exposed to international competition, both those that have current opportunities and those damaged by the end of the Resources Investment Boom, that these services be delivered efficiently and at as low a cost as possible.

We suggest that as a matter of urgency, the whole question of electricity industry regulation, pricing and policies needs to be seriously reviewed. The current policies have resulted in a 120% increase in prices over the past decade. This is increasingly resulting in loss of jobs.

4.6 Importance of a Special Policy for Northern Development

The adoption of a Northern Development Policy has been a major step in the right direction. The office of the Northern Australia Investment Fund (NAIF) has been established in Cairns, but with Northern Development offices in Darwin and Townsville.

It is important to the region that the proposed Northern Development policies and actions be implemented.

We would suggest however, that there is a need for equity between north and south. There is an emphasis through NAIF that funding of \$5bn be on an agreed payback basis of soft loans. It is suggested that all over southern Australia are seaports, airports, roads, water resource projects and other facilities built fully with federal and state funds with no payback requirement. Massive subsidies have been paid to a range of industries. We ask that it be recognised that the North and the Far North region in particular, is at a phase of development that southern Australia passed through some time ago.

We expect that there will not be different rules for the North to those that applied in the South at a similar stage of development.

ATTACHMENT 1

Background:

- Cairns Regional Council
- Advance Cairns

ABOUT CAIRNS REGIONAL COUNCIL

Cairns Regional Council plays a fundamental role in planning and providing for the Cairns community. Servicing a population of over 150,000 across an area of nearly 1700km² from Bramston Beach to Palm Cove, it delivers more than 400 services and functions. These range from roads and bridges, rubbish collection, water and sewerage to economic development, natural resource management, libraries and major community events.

With the mission of “providing for today, preparing for tomorrow”, Cairns Regional Council delivers a myriad of programs and services designed to promote the wellbeing of residents, the environment and the local economy. In addressing the challenges of population growth, climate change, environmental management, economic development and social wellbeing, Council strives to create a sustainable, secure and vibrant future for our community.

OUR VISION

- We will value our natural environment, lifestyle and surroundings
- We will support and respect distinctive and vibrant communities
- We will be innovative and creative
- We will grow and diversify our economy

OUR MISSION

- Providing for today, preparing for tomorrow
- Driving change for the better and meeting the challenges and needs of the community

OUR STRATEGIC GOALS

1. **Community:** A vibrant, inclusive and healthy community with access to services and facilities which reflect its unique character, role and needs.
2. **Economy:** A strong, diversified and sustainable regional economy that supports the growth of new and existing industry and business activities whilst enhancing local lifestyle and providing long term employment opportunities.
3. **Environment:** A sustainable, well managed and healthy environment that provides a balance between built infrastructure and the conservation of our world heritage features and natural and cultural resources.
4. **Governance:** An efficient organisation providing best practice service delivery through leadership and policy making and the effective management of people, assets and finances.

ECONOMIC DEVELOPMENT

The identification of opportunities to enhance and diversify our economy is a key priority for Council. Council actively seeks to restore confidence in Cairns by providing a business environment within Council that encourages and attracts investment, generates business activity and creates jobs and opportunity for our current and future residents.

Council will work diligently and proactively with the State Government and other bodies to diversify the region's economy with particular emphasis on tourism, marine industries, defence, aviation, international education, agriculture, mining, tropical expertise, retailing, tertiary education, and sports tourism.

Being the northern most city on the eastern seaboard of Australia provides Cairns with a “positioning” that allows it to develop into a small but sustainable powerhouse in future decades. To maximise this opportunity, Council will be focused, dynamic and results-driven with policies that represent a balance between appropriate and sustainable growth and the provision of infrastructure to support growth.



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Our Values and Our Vision

Who we are: Advance Cairns is the peak independent non-government Advocacy and Economic Development Organisation for Tropical North Queensland (TNQ).

Our Mission: To provide wise, apolitical and united advocacy that stimulates innovative and strategic initiatives for our regional advancement.

Our Vision: A consistently growing and economically prosperous, productive and sustainable and outward looking city of 250,000 servicing a region of 500,000 and focussed on our connectivity to Asia and the Pacific.

To achieve this, our work is focussed around the following priority areas of engagement:

Advocacy

- Lead the development of regional policy and infrastructure priorities, gain business and community support and advocate for these priorities; and
- Coordinate and lead a unified, strategic regional advocacy case to all levels of Government based on the regional infrastructure and policy priorities.

Economic Development

- Facilitate economic development by supporting industry retention, growth and attraction, trade development and investment attraction;
- Utilise established links with peak industry bodies to attract new industries; and
- Lead the delivery of a regional investment attraction strategy.

Future TNQ

- Continuously facilitate the ongoing engagement to a regional vision and drive the regional engagement to an evolving action plan to facilitate sustainable population growth and economic growth and diversity; and
- Lead the implementation of the Tropical North Queensland Regional Economic Plan (TNQREP).

Members and Organisation

- Maintain organisational capability and governance arrangements to deliver on business requirements and provide quality service and outcome to the Advance Cairns members and industry partners; and
- Operate as an organised, efficient and professional corporate entity.

ADVANCE CAIRNS (OPERATIONS) LIMITED | ABN 79 098 379 572
THE COMMITTEE FOR TROPICAL NORTH QUEENSLAND

ATTACHMENT 2

Some References

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