PRODUCTIVITY COMMISSION INQUIRY – TRANSITIONING REGIONAL ECONOMIES

Submission by the Northern Territory Government to the Productivity Commission study on the transition of regional economies following the resources boom

March 2017

1. Background and context

On 15 December 2016, the Productivity Commission announced a study on the transition of regional economies following the resources boom.

The purpose of the study is to examine the regional geography of Australia's economic transition since the mining investment boom, and to identify those regions and localities that face significant challenges in successfully transitioning to a more sustainable economic base as the investment phase is completed. The study will also consider the factors that influence their capacity to adapt to changes in economic circumstances.

2. Introduction

The Northern Territory has a geographically dispersed and isolated population base. Three quarters of the population reside in the Territory's five regional centres (Darwin, Nhulunbuy, Katherine, Tennant Creek and Alice Springs), which also serve as vital supply and service bases for smaller remote communities. The majority of Territorians live in Darwin and the satellite city of Palmerston and surrounds (the current population of Darwin is 140 3861[1]), and the Central Australia region (including Alice Springs) is the second most populated area. The remainder of the population lives in Katherine, Tennant Creek, the coastal town of Nhulunbuy or in the hundreds of other small remote outstations and homelands throughout the Northern Territory.

The Northern Territory economy is largely cyclical and project-based, and prone to volatility, particularly once transition from investment to less labour intensive operational phases of major projects occurs. The short-term nature of construction employment associated with major projects causes the Northern Territory to experience volatile population growth – population surges during the construction phase of major projects and workers (and their families) often leave the Northern Territory once highly paid project-related construction jobs finish.

The government sector, mining and manufacturing and construction play a large role in the Northern Territory economy, contributing 50.6 per cent collectively to the Territory economy and 56.9 per cent of employment in 2015-16. Several regional towns have developed around mining or other dominant industries.

A number of regional townships in the Northern Territory have recently undergone, or are currently undergoing, transition as a result of a downturn in their major industry as large resource-based projects move beyond their peak growth. Accordingly, the impact of the resources boom on regional economies in the Territory is highly pertinent to the Productivity Commission study on transitioning regional economies. Specific examples, including a case study on Nhulunbuy, are included in the Submission to illustrate the impact of the resources boom on regional economies and how regional economies have transitioned after the investment phase of a major project has completed.

History: The Northern Territory experience of the resources boom

The mining industry in the Northern Territory is a significant contributor to economic activity. Its share of Territory Gross State Product has been above 10 per cent since 2000. The significance of mining and manufacturing to the economy reflects the Territory's abundance of natural resources, including natural gas, petroleum, uranium, zinc/lead, gold, iron ore, bauxite, and manganese.

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[1] Australian Bureau of Statistics 2014, *Darwin SA4*, http://stat.abs.gov.au/itt/r.jsp?RegionSummary&region=701&dataset=ABS_REGIONAL_ASGS&geoconcept=REGION&measure=MEASURE&datasetASGS=ABS_REGIONAL_ASGS&datasetLGA=ABS_REGIONAL_LGA&regionLGA=REGION&regionASGS=REGION

Although the Northern Territory experienced a significant upturn in resources activity during the period 2007-2016, it did not experience the absolute scale of the resources boom that occurred in parts of Western Australia and Queensland. A major increase in the value of mineral production occurred in 2006-07, however, the same level of production has been maintained since then. The Northern Territory's five major operating mines[2] all commenced operations before the resources boom and continued operating through and beyond the boom, and following expansions at major mines in 2012-13 the Northern Territory has maintained mineral production values in the order of $3 billion to $3.5 billion since the end of the boom.

There was a substantial amount of mining-related capital expenditure and construction during the resources boom, largely related to expansions at existing mines, along with smaller scale development of new mines. **Figure 1** demonstrates the peaks in construction work done in the Northern Territory in response to major mining projects since the start of the resources boom in 2000.

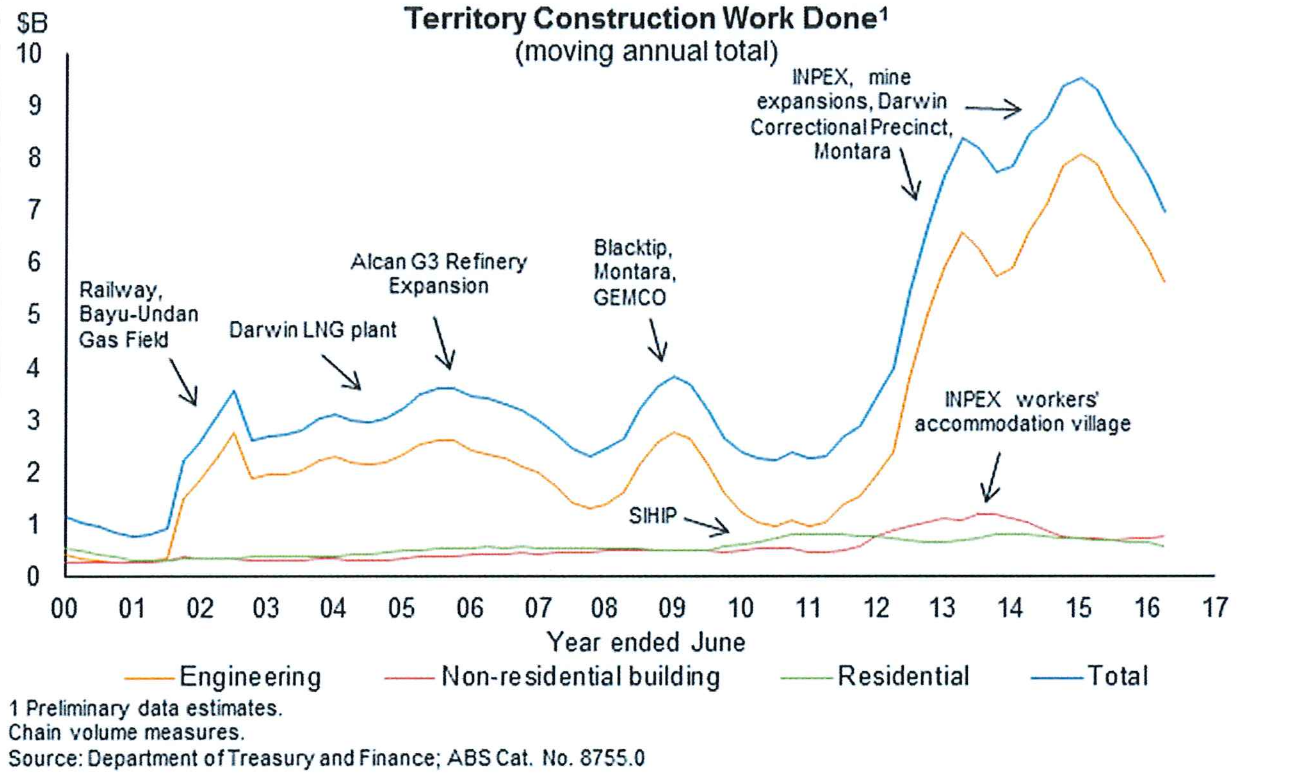

Figure 1 Territory Construction work done 2000–2016

Major investments made in the Northern Territory during the resources boom were mainly in new iron ore mine development, or in the expansion of existing mines. For instance, iron ore mining recommenced at Frances Creek (near Pine Creek) in 2007, after a hiatus of over 30 years. In addition, a new phase of development occurred in the Roper River region in 2013-14, with the opening of the Western Desert Resources Roper Bar iron ore mine and trial mining at the Sherwin Iron Roper River mine. Iron ore production peaked at 2.7 million tonnes in 2013-14, but all operations moved into care and maintenance in 2014 following the collapse in the iron ore price.

[2] The Northern Territory's five major operation mines include: the Gove Operations Bauxite Mine, East Arnhem region; the Glencore McArthur River zinc mine, Big Rivers region; the Newmont Callie gold mine, Central Australia region; the Energy Resources Australia Ranger uranium mine, West Arnhem region; and the South32 manganese mine, Groote Eylandt.

There was also substantial investment in the expansion of existing mines, including the $280 million phase 2 expansion at the Groote Eylandt manganese mine in 2011-2013, and the $360 million phase 3 expansion at the McArthur River zinc mine in 2012-2013. There were a number of investments in new or reopened mining developments in the Pine Creek region, most notably the Frances Creek and Cosmo Deep mines. These mine expansions have been met with varying degrees of success, and all of these mines are still operational. **Box 1** outlines some key capital investments in the Territory during the resources boom.

Box 1 Key capital investments in the Territory during the resources boom

- $380M McArthur River Stage 3 expansion (2012–2013)
- $280M Groote Eylandt Stage 2 expansion (2011–2013)
- $120M Ranger 3 Deeps exploration decline (2012–2014)
- $220M Ranger Brine Concentrator (2012–2013)
- $160M Roper Bar iron ore mine development (2013)
- $150M Newmont Tanami mine expansion (2015–17)
- $800M Northern Gas pipeline (2017–2018)

The Northern Territory also experienced a major exploration boom from 2007-2013, with mineral exploration expenditure increasing from annual values of around $50 million prior to 2006 to a peak of $226 million in 2011, with total private sector expenditure over that period of $1.06 billion. The exploration boom strongly benefited businesses that serviced the industry, particularly in communities such as Katherine, Pine Creek, Tennant Creek and Alice Springs. Activity in all of these regions has since declined. Following a rapid decrease in exploration activity in 2012-13, levels of exploration have now stabilised at approximately $100 million per year (see **Figure 2**).

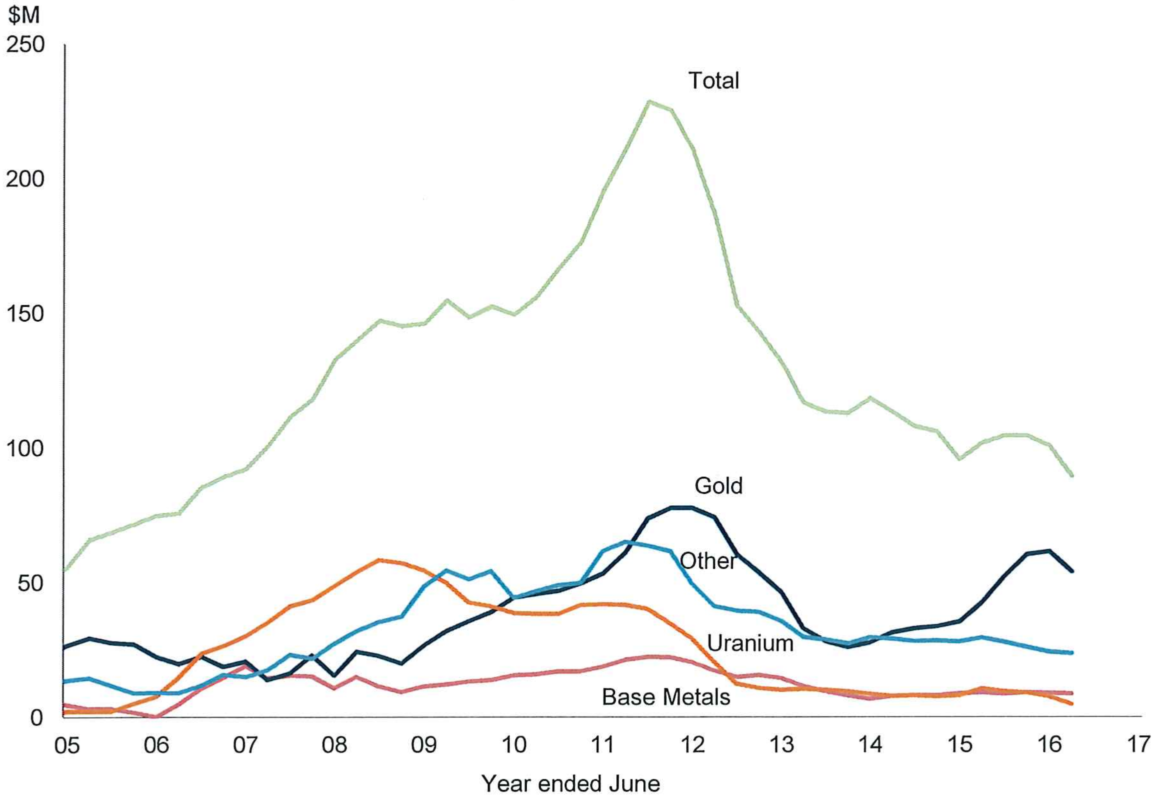

Figure 2 NT Mineral exploration expenditure 2005–2016
Source: The Department of Treasury and Finance; ABS Cat. No.8412.0

3. Northern Territory economies transitioning after the resources boom

Characteristics of regional Northern Territory

From a national perspective, all of the Northern Territory including Darwin forms a single regional economy that is physically isolated from the rest of Australia. Excluding Darwin, the defining characteristic of the Northern Territory is the sheer scale of each sub-region, particularly when contrasted with the small population of regional town centres and Aboriginal communities. These scale issues impact strongly on logistics for industry in terms of both inputs and outputs.

Much of the Territory's development is constrained by a lack of infrastructure, which affects the cost of development and the ability to get produce to markets. Projects that would be profitable elsewhere are stranded by access and cost constraints, for example, mines in remote regions and the transport of cattle from Wadeye and East Arnhem Land. This means many communities and projects are like inland islands, stranded by limited connectivity to markets, service centres or economic development opportunities.

A defining characteristic of the Northern Territory's regions is the proportion of the population who identify as Aboriginal. Based on projections from the Australian Bureau of Statistics, the Territory's Aboriginal population was 73 396 at 30 June 2015, representing 30 per cent of the overall population. Through the *Aboriginal Land Rights (Northern Territory) Act 1976* (Commonwealth) and the *Native Title Act 1993* (Commonwealth), nearly 98% of the Northern Territory's land mass is subject to some form of Indigenous land tenure or interest. Approximately 50 per cent of the land and 80 per cent of the coast line of the Northern Territory is Aboriginal land and most of the balance (approximately 48%) is likely to be subject to native title. Aboriginal people want a say on development on their land, which needs to take account of their ties to the land, spiritual connections to land and water, protection of sacred sites and aspirations for use of that land. The future of mining towns such as Nhulunbuy, Jabiru and Alyangula is a matter of great interest for residents, businesses, Traditional Owners and the Northern Territory Government. Nhulunbuy and Alyangula are on special purpose leases granted to the respective mining company overlying Aboriginal land in escrow with Jabiru currently being on land subject to a head lease between the Director National Parks (Parks Australia) and the Jabiru Town Development Authority (NT Statutory Authority) and likely to become Aboriginal land by the time the current head lease expires in 2021. All three towns have varying requirements for rehabilitation and remediation that also requires consideration in the context of mining operations ending and the tenure arrangements in the town transitioning.

Northern Territory Transitioning Regional Economies

A number of the Northern Territory's regional economies are reliant on one major industry – usually mining but tourism and agriculture are the dominant industries for some regional economies, such as Tennant Creek and Katherine. Towns reliant on a single industry are vulnerable to shocks as they lack the resilience that comes from having a diverse economic base.

A number of regional economies across the Northern Territory have experienced, or are currently experiencing, major transitions following the resources boom. Nhulunbuy has transitioned following the closure of the alumina refinery in 2014 and Jabiru is transitioning towards a likely closure of the Ranger uranium mine in 2021. Pine Creek remains highly dependent on the resources sector, and local businesses and the community experienced challenges with the closure of the Frances Creek iron ore mine in 2015. Pine Creek remains vulnerable with only one operating mine in the region, Cosmo Deeps. Furthermore, Alyangula, Groote Eylandt is highly dependent on the local manganese mine. The current mine has a project life of 10-13 years; however, the resource is finite and the community will need to plan for a long-term transition.

Other parts of the Northern Territory are arguably now also in transition to a more resources-dependent economy. In the Tennant Creek area and in the industry corridor south to Alice Springs, which previously had no operating mines, a number of developing projects are moving toward final investment decisions and have a high likelihood of coming into production in the coming few years.

As a consequence of the resources boom, regional economies in the Territory have experienced a range of issues such as:

- significant population variations that track project development phases;
- a growing prevalence of fly-in, fly-out/drive-in, drive-out (FIFO/DIDO) employment models;
- impacts to various sectors of the economy, such as increased vacancy rates for commercial, residential and retail properties and reduced business activity;
- industries that emerged or expanded during the peak of a major project, such as retail, manufacturing and maintenance services, are vulnerable when a project ends; and
- employment and local business contracts are vulnerable when a project ends.

Many transitioning regional economies in the Northern Territory are working to diversify their economic bases. However, it can be difficult for these communities to respond to changes in economic conditions due to issues associated with high supply chain costs due to remote locations; land access complications; and limited labour markets. A detailed case study has been prepared on how Nhulunbuy was impacted following the closure of the alumina refinery (**Box 2**), which explores these issues further.

Box 2 Rio Tinto Alumina Refinery, Nhulunbuy

The Gove operation was established in 1968 following an agreement between Nabalco Pty Ltd and the Commonwealth Government. A significant $3 billion expansion of the Alumina Refinery via the G3 project from 2006–2010 increased the annual alumina production from 2.1 to 3.8 million tonnes and bauxite production from 6.5 to 7.8 million tonnes. This also resulted in an increased workforce of approximately 1500 FIFO and residential jobs.

On 29 November 2013, Rio Tinto announced that it would suspend production at the Gove alumina refinery due to prevailing market conditions. On 28 May 2014, all production at the Gove refinery ceased and the refinery was placed into full care and maintenance mode. Gove operations continued to ship both hydrate and bauxite until the end of 2014, and then moved exclusively to bauxite export in early 2015. In the initial stages of ramp down, around 220 people left Gove operations through redeployment or redundancy. The remaining workforce (1050 total) exited by early August 2014. Around 400 staff remained in the bauxite-only operation.

Following Rio Tinto's decision to curtail activity at the Gove refinery, the Northern Territory Government formed the Gove Taskforce of senior representatives from Rio Tinto, the Commonwealth Government, the Northern Land Council and local stakeholders. The role of the Taskforce was to provide input on and create an appropriate reporting and review framework for initiatives and programs that address and mitigate the short term impacts of the transition and secure the long-term economic viability and sustainability of Nhulunbuy and East Arnhem Land.

Short-term initiatives under the Gove Taskforce included community support, including the formation of a Gove Community Advisory Committee to mediate between taskforce activities and community concern. Immediate support from the Taskforce also included business support, such as the Northern Territory Government and Rio Tinto co-funded Business Growth grants. The grants funded the provision of business advisors to 76 local businesses to help them build resilience, upskill staff and improve business practices. The Taskforce also included long-term strategies—for instance, Rio Tinto, with the support of the Northern Territory Government, developing a 20-year strategy for the Nhulunbuy township.

This included the establishment of Developing East Arnhem Limited, an investment attraction and regional development not-for-profit company operating independent of its founding members, the Northern Territory Government and Rio Tinto.

A key deliverable of the Taskforce's Terms of Reference was the requirement to provide a list of recommendations for leveraging national, Territory and regional economic development capacity, including those arising from the mining, agriculture, fisheries and tourism sectors, and respond to the economic, geographic and social challenges faced by Nhulunbuy and the region.

Whilst the Gove Peninsula economy underwent a major structural adjustment post the refinery curtailment, the expected severe effects have been substantially mitigated, largely due to the efforts of the Northern Territory Government, Developing East Arnhem Limited and Rio Tinto. The population has steadily rebounded to around 3000 and business and investor confidence is cautiously optimistic with some residential property sales occurring. After large scale retrenchments in 2014-15, the Gove operation now directly employs around 410 personnel and makes up 12.6 per cent of the Northern Territory's total mining output. The mine has an expected mine life of around 10-15 years.

Rio Tinto is close to finalising an options study on the Gove refinery (i.e., closure and demobilisation, continued curtailment, or recommencement). Outcomes of the options study are expected to be announced in the first half of 2017.

Nhulunbuy is well positioned to remain a commercial and service hub for the East Arnhem region. The existence of high value economic infrastructure such as the Gove Port and Gove Airport, as well as being a residential and commercial base for many businesses servicing the region are a comparative advantage in this respect. The region is prospective for minerals and energy and there is significant potential for growth in tourism, fisheries, agriculture, forestry, defence and services. However, high supply chain costs, land access and limited labour markets are challenges which must be overcome to achieve the potential of the region. Sustained effort between all three tiers of government, Rio Tinto, regional business, Traditional Owners and the broader community is needed to address these challenges and allow for scalable, diversified economic growth to mitigate the impact of eventual mine closure.

Key priorities of the East Arnhem Regional Economic Development Committee going forward are to:

- support progressive improvements to the cost effectiveness and reliability of regional land, sea and air supply chains in particular through investment in logistics, fisheries and tourism at the Gove deep water port, improvements to the permitted road access and visitor experiences via the Central Arnhem Road and encouraging competition and route development in regional air services;
- support sector development in tourism, primary industries, mines and energy and government services including disability, aged care and health and education. This includes investment attraction, local joint ventures and partnerships and development facilitation;
- improve the transactional efficiency of land tenure processes on Aboriginal Land and increase investor and proponent awareness of tenure processes;
- improve land, soil, minerals, energy and water data on a broad scale across East Arnhem to ensure land owners and investors have a clear understanding of the potential of the region; and
- drive ongoing improvements in education and local workforce and business development to increase local participation in economic growth.

Sustained efforts by all stakeholders, including all tiers of government, is needed to achieve strong regional development outcomes. In East Arnhem this means that there needs to be clear and agreed plans, which all stakeholders collectively work to achieve over the long term. Alignment of government policies and programs, targeted infrastructure investment to enable growth and private investment, and effective engagement with the Northern Land Council and landholders to achieve consent based development will provide the right settings for long-term sustainable growth. Whilst good progress is being made, greater and sustained commitment from the Commonwealth is needed to support Northern Territory, land owner, business and community efforts into the future. With the heavy reliance on government welfare benefits across most of the East Arnhem families, the long-term return on investment into real jobs and economic growth will substantially accrue to Commonwealth through a lower welfare bill, higher tax take and improved health and wellbeing of the regional population.

4. Geographic mobility and Aboriginal employment

Ideally, workforce requirements associated with major projects in the Northern Territory would be met through training and up-skilling Northern Territory-based workers, and the long-term (as opposed to short-term) migration of interstate workers. Workforce shortages, however, persist despite the Northern Territory Government's ongoing investment in training and the delivery of a range of national workforce attraction programs and activities to attract interstate workers.

The Territory has consistently reported the highest labour force participation rate of any jurisdiction in Australia. As a result, there is little capacity to provide extra workers from within the Territory labour market when a major project commences. Competition for skilled labour can adversely impact long-term Territory businesses through the loss of staff to better paying construction jobs associated with major projects.

The Northern Territory, therefore, does not have sufficient population critical mass and, in particular, the skilled population to sustain major projects. Due to this skills shortage, employers seeking labour for major projects often rely on short-term interstate migration or employ a FIFO/DIDO workforce. The Northern Territory relies, and will continue to rely, on short-term interstate migration and FIFO/DIDO workers to some degree to enable major projects in the Territory[3].

Aboriginal underemployment continues to be an issue for the Northern Territory. As of 2014-15, the Northern Territory had the third highest Aboriginal unemployment rate of the jurisdictions (24.6 per cent), ahead of Queensland (25.2 per cent) and Western Australian (26.9 per cent). The labour participation rate for Northern Territory Aboriginal residents in 2014-15 was also the lowest of the jurisdictions at 48.7 per cent, while the national average was 61.1 per cent.

Major resource projects provide a large source of employment for Territory residents, including the Aboriginal population of the Northern Territory, particularly in regional areas where fewer employment sources are available. When a resource project closes or turns to a FIFO/DIDO model regional populations, including Aboriginal residents (who are typically less mobile than non-Aboriginal Territorians and generally live in regional and remote areas of the Territory) experience the impacts of a loss of jobs and the reduction or withdrawal of community services, such as scheduled airline services.

5. Looking forward: Prospects for change in the Northern Territory

From 2016-17 the Territory economy faces a range of challenges following a sustained period of record growth across most key industries. As many large resource-based projects move beyond their construction-related peak growth in the Northern Territory, Gross State Product, business investment, employment and population are expected to moderate in the short term from historical highs.

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[3] Between 2006 and 2011, there was a 35 per cent increase in non-resident workers in the Northern Territory. The Northern Territory has the highest proportion of non-resident workers of the jurisdictions (5.2 per cent of the workforce in 2011 compared to 4.5 per cent in 2006). The mining industry had the largest proportion of non-resident workers (27 per cent, or 900 workers, as of 2011). Most non-resident workers worked in Greater Darwin, with East Arnhem also a main region for non-resident workers. In 2015-16, there were around 6100 residents employed in the mining industry.

The significant contribution of the mining sector to the economy generates positive and negative outcomes for the Northern Territory. Resource-based major projects contribute major employment and economic benefits for the duration of the project; however, the resultant dependency on commodity prices and the state of the world economy results in volatility for the Northern Territory economy.

The Northern Territory's dependency on road and rail impacts the ability to develop new mines. A general deficit of infrastructure limits the opportunities available in the future of the resource industry. Future Government investment in logistics infrastructure may unlock future projects, including mineral deposits and make them economically viable, which could lead to private sector infrastructure investment.

The Northern Territory has significant onshore unconventional gas reservoirs. In September 2017 the Chief Minister announced a moratorium on hydraulic fracturing of unconventional reservoirs. At the same time he also announced that a Scientific Inquiry into Hydraulic Fracturing of Unconventional Reservoirs in the Northern Territory (the Inquiry) would be established to assess the environmental, social and economic impacts of the industry on the Northern Territory. The Inquiry will deliver its report to government at the end of the year and the Northern Territory Government will subsequently make a decision about whether to ban hydraulic fracturing or to allow it to occur in highly regulated circumstances in tightly prescribed areas.

Many transitioning regional economies are working to diversify their economies through industries such as tourism and primary industries. However, the employment generated by such industries is often lower and less well-paid than that generated by major resource-based projects. Regional economies in the Northern Territory face challenges responding to changes in economic conditions due to issues associated with high supply chain costs due to remote locations; land access complications; and limited labour markets.

Changing the way that governments deliver human services can also be a way of creating new economic development opportunities in regional and remote areas of the Northern Territory. This can be achieved by having a greater focus on skilling local people to deliver services. This is unlikely to change economic activity in the Northern Territory as a whole, but can have a significant impact at the local level in terms of workforce development, participation and engagement, and the economic and social benefits this brings. The short-term catalyst for change will be the roll-out of the National Disability Insurance Scheme across the Northern Territory where there is a clear focus on local service providers delivering services. However, the same focus can be extended to public service roles such as teachers, police officers, nurses, trainers, child and aged care workers, teacher's aides and youth workers. A primary benefit of a change to greater local service delivery is that sustainable employment opportunities are created and wages earned will tend to stay in the communities and improve the resilience of regional economies over the long-term.

To achieve economic diversification moving forward, the Northern Territory needs:

- policies and programmes that are region specific and targeted at diversification. To be sustainable, regional economies need to transition from the traditional sectors, which they have been reliant on, to the service sectors, including agriculture and forestry, tourism, and defence spending;
- structures and incentives that serve to improve business capacity;
- creativity in exploiting respective geographical locations;
- improved access and communication channels to remote regions;
- a skilled local workforce to avoid reliance on FIFO/DIDO workers;
- skilled migrants, such as skilled working holiday makers, to assist the local workforce; and

- the capacity to rapidly mobilise local human resources in response to political, social and economic change as well as to bring capital to supplement and complement rather than displace local labour.

Through the current study, the Productivity Commission seeks to determine the factors that influence regional economies' capacity to adapt to changes in economic circumstances. The Northern Territory Government recommends the most important characteristics in determining the sustainability of regional economic centres include:

- the distribution of economic activity across sectors;
- even labour distribution;
- high productivity levels;
- greater engagement of local indigenous workforce and community;
- less fluctuating economic cycles and volatile growth; and
- greater interactions between regions