

# Doing Business in Western Australia: The outlook for 2013



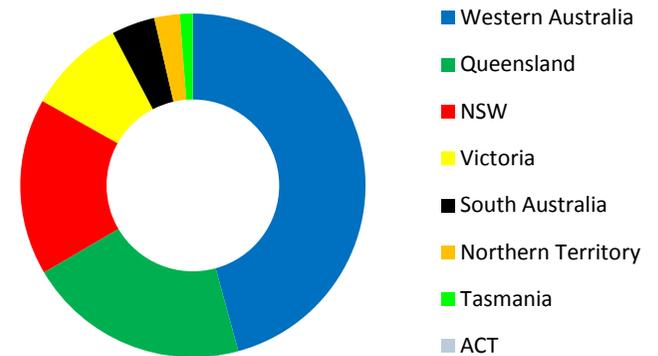
Azure Capital

Whilst many, particularly on the east coast, are quick to label W.A as lucky, there is far more depth to W.A’s recent history and future than being blessed with ‘the luck of the Irish.’

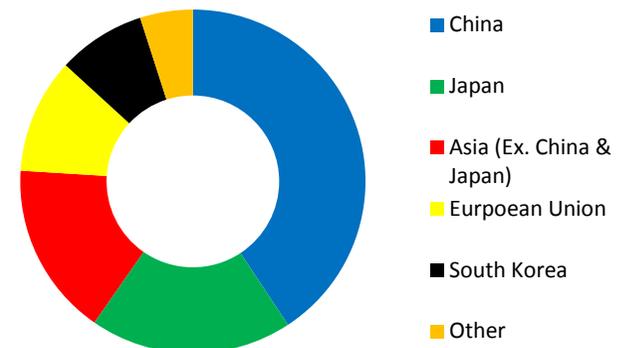
## Snapshot

- The West Australian economy is the export power house of the nation contributing 46% of the country’s exports
  - By 2020 this figure is expected to be above 50%
- The West Australian economy is the strongest in the country
  - Unemployment rate: 4.3%
- GDP per capita for Australia is (\$US)66,000 - this makes Australia one of the wealthiest nations on the planet
  - West Australia’s Gross State Product per capita is (\$US)102,000 – an increase of 6.7% in the 2012 financial year
  - *Since 2007-08 WA’s total GSP has grown by 54%*
- W.A’s population has grown by 33% in the last 10 years
  - Approximately 1,400 people a week migrate to W.A
- W.A accounts for 60% of Australia’s mineral production
- W.A accounts for 75% of the country’s petroleum<sup>1</sup> production
- Approximately 85% of W.A exports go to Asia
- Clearly W.A is increasingly geared toward Asia and not the domestic market

## State share of Australia’s total export – Sept. 2012



## W.A’s exports by region – Sept. 2012



Notes: Petroleum defined as Oil & Gas

Source: ABS, ABARES, BREE, Dept. of Mines & Petroleum, West Australian Newspaper.

Perth, as the State’s capital, is positioning itself as a mecca for mining and mining related industries. Specialist and expert technical and financial knowledge is clustering in Perth, this is creating a unique opportunity for Perth to become the global centre for the resource sector.

- Natural Resources and Asia**
- Colin Barnett has correctly said W.A is not in the midst of a mining boom but rather is experiencing a prolonged and sustained period of strong growth
  - W.A is heavily leveraged to Asia’s appetite for our minerals and hence our State’s growth is hitched to the Asian wagon, less and less so the Australian wagon. The W.A economy is structurally very different to the national one
  - Nationally there is a big government and industry focus on Asia, notably on the back of the federal governments “Asian Century” white paper
  - While this is a positive development it is somewhat misguided
    - Asia has been around and growing for a while, it is not a new phenomenon
    - The demand generated in Asia will sustain the West Australian economy but not Australia as a whole and there is a danger, at the federal level, of the government developing a false sense of security about the benefits of a rising Asia
  - 80% of investment by Chinese state-owned enterprises in Australia is invested in W.A
    - W.A has been engaging with Asia for decades e.g. Japanese investment in iron ore in the late 1960’s

**Multi billion dollar companies that have established a Head / Major Office in Perth**

- |                  |                      |                            |
|------------------|----------------------|----------------------------|
| ▪ Rio Iron Ore   | ▪ TEPCO              | ▪ WesTrac Mining Equipment |
| ▪ BHP            | ▪ Shell              | ▪ Fortescue Metals Group   |
| ▪ Newmont Mining | ▪ Barrick Gold       |                            |
| ▪ Chevron        | ▪ Woodside Petroleum |                            |

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### **Within Perth city similar companies are congregating**

- West Perth has traditionally been where small and mid cap miners locate their head office
- West Perth is also where many oil & gas companies locate their head office
- Jandakot is seeing an increasing number of specialist engineering and heavy machinery firms being established
- The Henderson port facility and industrial park is home to many oil & gas and mining services firms

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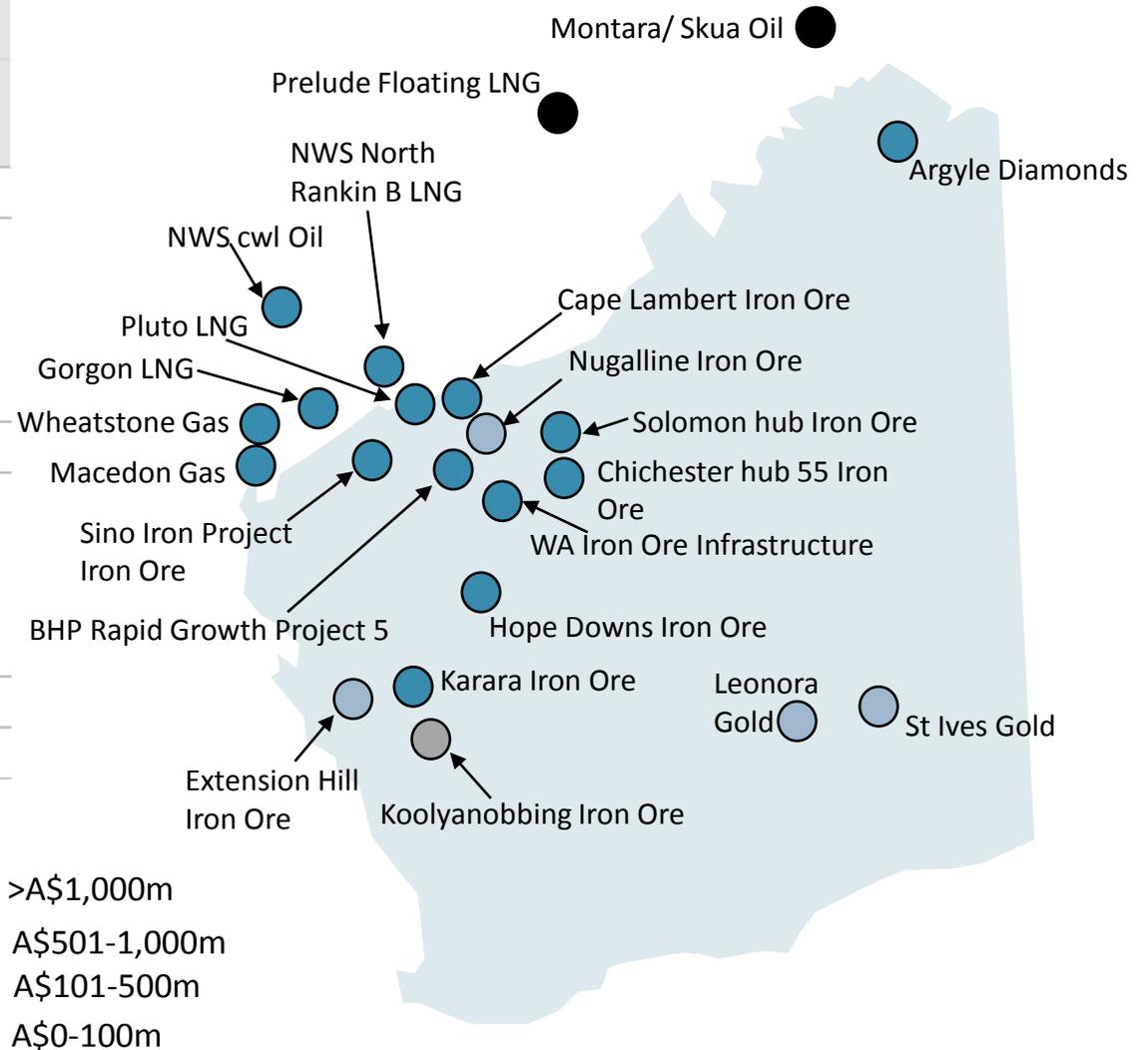
### **Opportunities**

- Further develop the FLNG technology
- Continue to be world leaders in increasing mining automation and efficiency
  - Rio Tinto's facility to remotely control ore trains – driverless cars
- Perth is continuing to develop the quality and management within services firms
- W.A government has retained a budget surplus for the last 13 budgets, keeping its AAA credit rating
- Perth is in the midst of a multi billion dollar spend on health infrastructure
- Next will be transport infrastructure
  - Both represent opportunities for specialist contractors

# RESOURCES INVESTMENT

The State's resources industry invested a record \$45 billion in 2011-12, an increase of 58% compared to 2010-11.

Major Projects	CAPEX (\$m)	
	Committed / Under Construction	Planned / Possible
<b>Commodity</b>		
Gold	996	215
Iron Ore	29,394	34,183
Nickel	53	3,496
Other Minerals and Infrastructure	26,291	22,627
<b>Sub-total</b>	<b>56,734</b>	<b>60,521</b>
Crude Oil and Condensate	1,451	820
LNG	100,190	88,100
Gas	9,000	447
Pipelines and Infrastructure	-	1,525
<b>Sub-total</b>	<b>110,641</b>	<b>90,892</b>
<b>Total Investment Pipeline</b>	<b>318,788</b>	



While many have been quick to call the ‘end of the boom,’ the \$45b invested in 2011-12 and an investment pipeline of \$318.7b tell a different story.

## Western Australia

- As China and India and other Asian nations grow, W.A will grow with them, but we’ll be susceptible to all their growth and demand fluctuations
  - We’ll grow, but our growth will be more volatile
- Demand for skilled labour continues to grow with the states unemployment rate at a national low of 4.3% and declining
- State government working hard to ensure all sectors of the community benefit from this sustained growth
- The Westpac-CCI Leading Index of WA Economic Activity has performed strongly in recent times, rising 1.5% in September and 5.4% over the year
- Government and planning departments continue to make more land available for housing and development
  - But housing and labour costs are a real problem, as I will discuss later

## Perth

- Large amounts of public and private investment into city infrastructure and large scale public works programs
- Recognition that Perth needs to not only be nationally competitive but also internationally competitive as a commercial and tourist destination

## Regional W.A

- Regional centres in both the north and south of the state continue to expand and develop
- Royalties for Regions program has ensured the north west develops the public infrastructure necessary to cope
  - \$1.5b plan for Karratha
    - Aim for the town to become a regional hub with 50,000 residents
  - Ord River East Kimberley Expansion
    - \$700m over 6 years to convert 13,400 hectares into sugar farms
    - In partnership with KAI, a Chinese firm

Western Australia will continue to grow strongly, but there are some areas that need to be improved in order to fully capitalise on our current situation.

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- W.A and Australia**
- Federal government uncertainty continues to hamper W.A
  - The federal government has been reluctant to address issues raised by the state government and W.A industry
  - Inefficient, overlapping and irregular taxation system
    - Envy taxes such as the MRRT and the Carbon tax have added to the red tape for business without adding to the governments revenue base
    - The confusion surrounding the GST ‘carve-up’ and re-distribution also clouds the future
  - Lack of business and commercial experience in both state and federal government
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- Labour market**
- The rising power of the labour unions has made hiring and firing workers very expensive
    - The CFMEU (Construction, Forestry, Mining and Energy Union) and the MWU (Maritime Workers Union) have used their political influence to increase wages beyond productivity increases and beyond sustainable levels
    - Wall Street Journal published a front page article last year about a 25 yr. old high school drop-out who earns \$200,000 per year working on a gold mine in the states north west
    - Enterprise Migration Agreements such as the Rinehart/Roy Hill agreement will help ease these labour cost pressures
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- Affordability**
- Perth is climbing the ranks as one of the most expensive cities in the world (19<sup>th</sup> as at March 2012)
    - A tight rental market and a sustained increase in house prices has made housing affordability a real issue
    - Goods and services are also expensive; there is a perceived lack of value for money compared to Asia, Europe and the US – the consistently high value of the Australian Dollar is not helping the situation
  - In rural W.A resource centres are also expensive , with rental prices in the Pilbara among the highest in the nation, including the premium suburbs in Sydney and Melbourne

## Losing our competitive advantage

- W.A is an established mining economy with industry-leading practices that are the envy of all other resource economies
  - We must ensure that we don't grow complacent and allow other mining regions and nations to develop more advanced, efficient practices
  - There is also a myriad of approvals required in gaining project approval – tonnes of red tape = delays = costs

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## Productivity

- W.A must strive to continue to become more productive, workers and managers alike must ensure the benefits of this sustained growth is maximised
  - W.A must find new ways to make infrastructure development more cost efficient
  - \$16b in income has been lost Australia-wide since 2005 to higher costs and inefficiencies (this can be addressed)
- “If productivity growth doesn't recover, Australia may have little or no income growth in the future<sup>1</sup>”

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## Fly-in Fly-out

- With the north west having relatively under-developed public infrastructure, much of the mining workforce is fly-in fly-out.
  - The remoteness of resource projects and the long-term shift work can endanger family life and create social issues and instability
- With the help of the royalties for regions program the north west should be targeting a large permanent population for long term defence reasons

Irish companies and workers have a tremendous opportunity to break in to the W.A market and tap the revenue stream.

- Ireland adding value**
- Irish engineering, mining services and construction firms can provide a genuine alternative to the established names
  - Firms already have the ‘runs on the board’ in terms of delivering oil & gas and mining infrastructure projects through their LNG work in the Middle East
    - Remember the famous Irish miners and engineers who have made their name in W.A
      - Paddy Hannan discovered gold in the Goldfields in the 1890’s
      - C.Y O’Connor developed the goldfields water supply scheme and Fremantle Harbour
    - There is currently very high levels of migration from Ireland

- Mining Engineers**
- There is huge demand for skilled workers in our mining sector and the state’s north west
    - During the past ten years the value of W.A’s minerals and petroleum industry has grown at an average annual rate of 15%
    - A mining engineer can typically earn >\$2,250 a week
    - Job vacancy levels for mining engineers are *very high*

- Construction Workers**
- There is also high demand for skilled labourers such as Carpenters and Bricklayers
    - The growth in demand for Carpenters and Joiners is expected to be very strong as is the growth in demand for bricklayers
    - Both groups have a very high proportion of full-time jobs (above 90%) and both groups typically work less than the average hours for the week (40.0 compared to 41.3 hours)

- As Irish as Molly Malone**
- Western Australia shares a rich heritage with Ireland and this heritage continues today
    - Many West Australians have Irish ancestors, some of which migrated to seek their fortune in the gold fields with Paddy Hannan
    - We both enjoy a drink and good ‘Craic’

# WHAT DO I MAKE OF ALL THIS?

Western Australia has changed dramatically since I moved back from London in the late 1970's.

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- Structurally**
- The State's economy has fundamentally changed
    - We've moved from a cyclical economy dictated by boom and bust cycles; gold rush of the 1890's, early 70's, gold boom of the early 80's, Oct 1987 market crash, Asian economic crisis in 1997 and the tech bubble of the 2000's
    - Now shifted to sustainable, consistent growth, with a more diverse base
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- Personnel quality**
- The value of the assets in the ground (in the north west) and the revenue being generated (in WA) by these global firms has meant that the managers and executives being hired have to be world class
    - This has forced everyone around them to raise their standards too
      - The quality of managers, board members and non executive directors and the standard of corporate governance has greatly improved
      - The arrival of global investment banks
      - Law firms – many local and national firms are being acquired by the silver circle, international firms
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- New money**
- WA is a very wealthy place – GSP per capita of US\$102,000 – with 6 billionaires and 330 multi-millionaires (net wealth of >\$30m)
  - There is very much a 'can do' attitude about this State which is perhaps part of the reason for the State's wealth
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- W.A the place**
- Perth is rapidly expanding and maturing into a vibrant, multicultural destination
  - Despite having a 'can do' attitude, WA is politically very conservative and there is a resistance to change which I find incongruous
  - Big and arguably overdue lifestyle investments, such as Elizabeth Quay and the new Stadium have been committed

We're only just getting started...

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## Mineral Production

- Iron Ore production, which already stands at 21% of the global total, should double by 2020
- LNG production, by 2020, will triple from its current level of 8% of world production
- Whilst these are impressive numbers, we must ensure against complacency and strive to increase efficiency and productivity

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## Mining Services

- W.A is already a global leader in mining and mining related services
  - It must continue to be at the forefront of research and development
  - Irish engineering, construction and mining services firms can leverage off their existing human capital as well as developing new and innovative products and techniques, adding to the competitive tender market

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## Labour

- There will continue to be excess demand for skilled workers in both the resource and non-resource sectors
  - If Irish companies can be more cost efficient with their inputs, then they will provide a genuine alternative in the tender process and be competitive
  - Irish workers have a unique opportunity to be part of one of the most sustained investment cycles in the world

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## Opportunities

- Infrastructure development will continue in both Perth and regional W.A to ensure the state is able to facilitate and capitalise on the growth in the resources sector
- Opportunities abound for both Irish workers and companies alike to enjoy the climate and lifestyle of this great state

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