



# Inquiry into the Development of Northern Australia

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

21 FEBRUARY 2014

## 1. Introduction

- 1.1 The Chamber of Commerce and Industry Queensland (CCIQ) is the state's peak industry body for small and medium businesses. CCIQ welcomes the opportunity to make a submission to the Joint Select Committee on the development of Northern Australia.
- 1.2 CCIQ notes that the scope of the inquiry includes areas that lie above the Tropic of Capricorn. In Queensland, this captures areas from Rockhampton north-west to Mt Isa up to the tip of the Cape. However, CCIQ's feedback focuses on the areas of North and Far North Queensland as defined in the map below.

**Map of Northern Queensland**

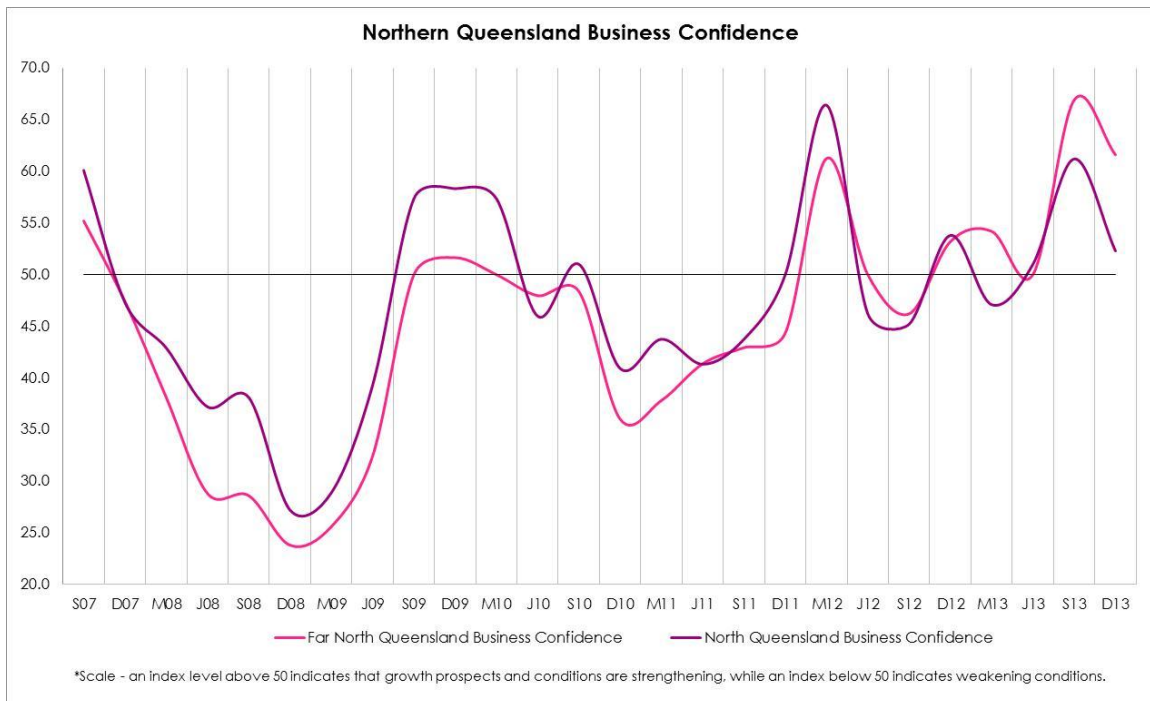


Source: Queensland Government Business and Industry Portal

- 1.3 It is essential that the interests of small and medium businesses are foremost in policies for developing Northern Australia. As the region is on the doorstep of the Asia-Pacific, policies must enable local businesses to compete both nationally and internationally. Given that population flows to areas of high economic growth, policies aimed at supporting local businesses will create the job opportunities to attract skilled people to the region.
- 1.4 CCIQ’s submission incorporates findings from the *Far North Queensland Business Priorities Report* and the *North Queensland Business Priorities Report* (see Attachment 1 and 2). In developing these reports, CCIQ facilitated workshops and face-to-face meetings with business owners to identify constraints on business growth and opportunities for the region.
- 1.5 This submission responds directly to the Joint Select Committee’s terms of reference and also the policy options identified in the Coalition’s 2030 Vision for Developing Northern Australia.

## 2. Potential for industry development

- 2.1 CCIQ agrees that there is significant potential for economic development in North and Far North Queensland. This includes growth opportunities for the region’s mineral, energy, agricultural, tourism, natural resource management and defence industries. Business confidence indicators have been trending upwards (see graph below).



Source: CCIQ Pulse Survey of Business Conditions

- 2.2 CCIQ suggests the White Paper give consideration to industry development policies that:
- strengthen the region’s industry diversity,
  - focus on increasing productivity of the region’s supply chains, and
  - facilitate local business participation in major projects.
- 2.3 Small and medium businesses operate across all existing industry sectors. This includes the transport, manufacturing, hospitality, retail and service industries which support large scale industries in the region. CCIQ prefers a policy approach that benefits all sectors by driving down business costs and narrowing the regional disadvantages relative to metropolitan areas.
- 2.4 To strengthen a genuine mix of industry sectors, policies need to balance competing interests and positively influence investment in industry expansion. CCIQ supports finding a balance between mining and agricultural activities, with mitigation activities to ensure primary producers have access to good quality agricultural land. Government needs to provide landholders and business owners with verifiable data to ensure the ongoing viability of agribusinesses and its co-existence, where necessary, with mining resource operations. Importantly, regulation should adopt risk-based strategies according to each industry’s risk profile and a tailored approach for regulations that affect small and medium business.
- 2.5 CCIQ highlights the following strategies for developing the region’s existing industries:
- improving tourism accommodation, product offerings and service standards for tourism,
  - strengthening biosecurity management and access to markets for agri-businesses,
  - exploring options for processing facilities while still providing regulatory certainty for livestock exports,
  - refocusing assessments for major resource projects on transferring benefits locally and building local capacity to respond to impacts,
  - facilitating indigenous business and employment opportunities across all sectors, and
  - investigating ways to reduce costs and improve business access to the region’s energy and water assets.
- 2.6 Policies should also support emerging industries (e.g. mining technologies, renewable energy and tropical expertise) through better targeting of business development grants. Government policies should facilitate business start-ups that have good prospects for growth. CCIQ suggests consolidating government support programs. Simplifying processes would also help businesses access the support they need more efficiently and fairly.
- 2.7 Targeted policies and action is needed on supply chains to underpin industry development. Rising freight costs, fuel prices and weather induced supply chain disruptions limit industry capability in the region. Small and medium businesses are especially vulnerable to supply chain related costs. CCIQ suggests integrated strategies that take a whole of network approach, focus on underutilisation of supply chains and deliver immediate improvement on supply chain costs for small and medium businesses.

- 2.8 Industry development policies must also support improved local content. Feedback from the businesses in North and Far North Queensland points to the lack of awareness and difficult procurement practices in contracting for major project work. The application documentation is complex and requires too much time with inconsistent outcomes.
- 2.9 CCIQ suggests the White Paper explore policies that facilitate clustering, joint venture and other collaborative arrangements amongst local businesses to satisfy tender requirements. Policies also need to increase transparency of the selection process. Tools that identify local capacity, such as the Industry Capability Network, are oriented to larger firms. Greater focus is needed on identifying smaller-scale commercial and industrial contracts for local businesses. There is opportunity for local chambers of commerce to assist with identifying qualified businesses and facilitating engagement between tender managers and local business owners.
- 2.10 CCIQ acknowledges the vast body of research already undertaken on Northern Australia's industry development potential. Strong leadership is now required to action policies. To this end, CCIQ supports the proposed establishment of a Northern Australia Strategic Partnership of federal, state and local government leaders. The proposed multi stakeholder advisory group is also a positive initiative and CCIQ urges representatives from the business community to be formally included in this group.

### **3. Enhance trade and other investment links with the Asia-Pacific**

- 3.1 Government policies can improve links with the Asia-Pacific by removing regulatory impediments and supporting the flow of labour and capital to the region.
- 3.2 CCIQ supports the White Paper considering regional migration policies. Initiatives to encourage skilled migrants to Northern Queensland should be tied to genuine job opportunities and focus on immediate skills shortages. Streamlining 457 visas is important so businesses can access the benefits of skilled labour. There should also be dedicated strategies to market business opportunities to potential migrants. Such strategies need to be premised on building relationships and cultural engagement with our Asian neighbours.
- 3.3 Further, CCIQ believes migration policies should be undertaken as part of broader workforce planning for Northern Queensland. This includes strategies to upskill the region's current workforce and increase labour market participation, which directly impacts the ability of businesses to compete globally.
- 3.4 CCIQ supports the White Paper considering international partnerships, bilateral free trade agreements and ways to encourage foreign investment. All these strategies would directly benefit the business community through improved finance options, increased market access and a larger customer base.

- 3.5 There is merit in investigating options to relax foreign investment regulations for Northern Australia. This would need to be supported with programs to attract foreign direct investment and complimentary initiatives to ensure foreign investment benefits are transferred to local businesses.
- 3.6 Building capacity of local small and medium businesses to capitalise on foreign investment is essential. Foreign investment is a valuable source of working capital for small and medium businesses. It also increases the propensity of local businesses to innovate and export. Government programs will need to support export-focused businesses with access to overseas markets and satisfying overseas legal requirements.
- 3.7 In terms of attracting foreign investment, government has a key role in providing practical information and advice about the regional market conditions. Foreign investors need to be better informed about the region's known risks. Government initiatives should aim to provide accurate information on regional supply-demand characteristics, supply chains, mapped areas for economic growth, and labour market conditions. The Federal Government also has a significant role to play in ensuring sovereign risk concerns are alleayed.
- 3.8 CCIQ suggests policies to improve branding of the region's products and services. This includes promoting Northern Queensland's key tourist destinations, tropical science expertise as an education export, and biosecurity management that offers a competitive advantage in agricultural trade. Small and medium businesses can leverage the regional reputation to add value to their niche product and service offerings.
- 3.9 Ultimately, the benefits of increased trade and investment will depend on the competitiveness of local business. If local firms are to compete globally, then policies need to lower the costs of conducting business and address issues with inflexible workplace practices. This will ensure the benefits of increased linkages with the Asia-Pacific are transferred and sustained locally.

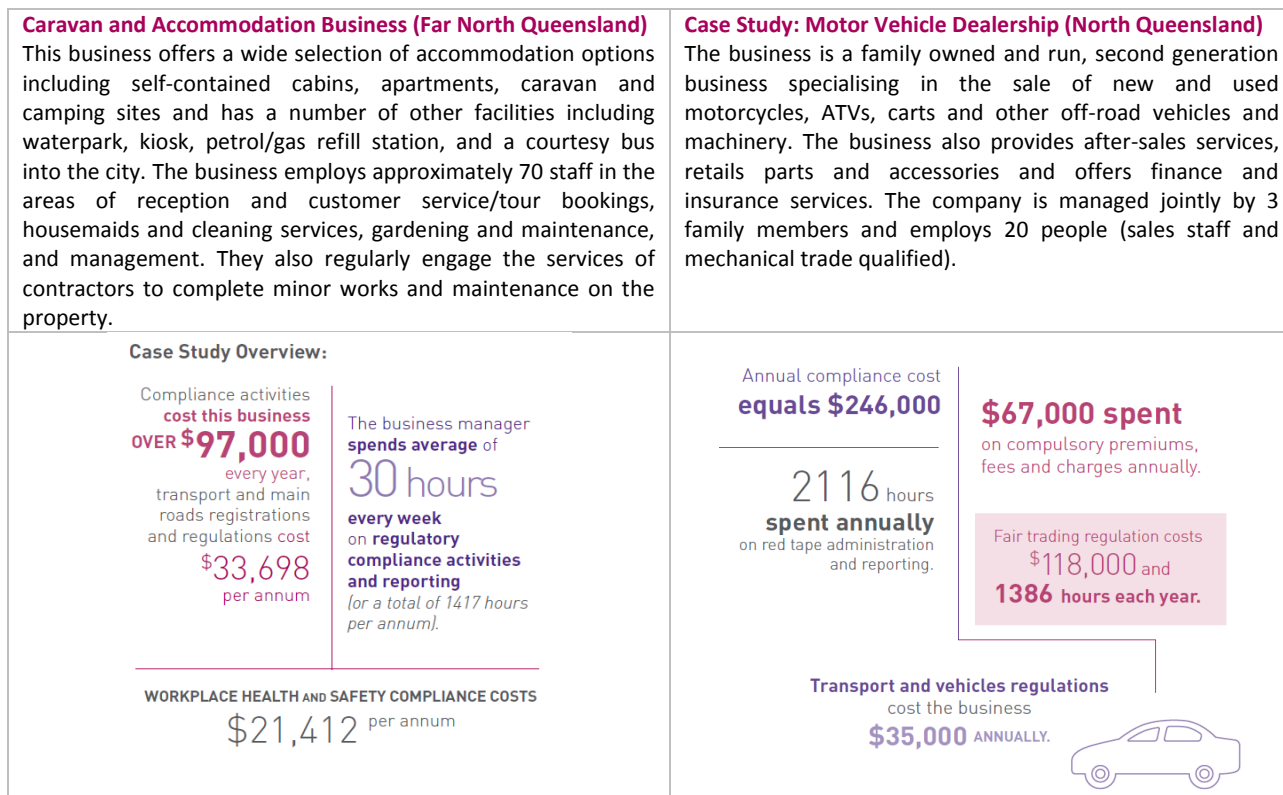
#### **4. Establish a conducive regulatory, taxation and economic environment**

- 4.1 Improving the business operating environment is the number one priority for the Queensland small and medium business community. Key areas for attention include tax reform, red tape reduction and a fairer industrial relations system.
- 4.2 CCIQ has consistently advocated for reform of the overall tax system to stimulate business growth. Transforming the Federal-State fiscal relationship and changing the rate and scope of the GST are fundamental to this reform. The efficiency gains from holistic tax reform could

then support specific changes to business taxes. This includes reduction to the corporate tax rate, phasing out payroll tax and removing duty on business transactions.

- 4.3 Further analysis is needed in the White Paper to justify the case for a special zone taxation arrangement for Northern Australia. CCIQ is of the view that without holistic tax reform, zone taxation will have limited influence in stimulating development in Northern Australia. Tax incentives are only one of many drivers of business location decisions. CCIQ believes business tax reductions are most effective when applied impartially to all small and medium businesses. This stimulates business activity across all regions and directly boosts national productivity.
- 4.4 There is already a Zone Tax Offset in place for persons working in remote areas. CCIQ suggests, as an initial step, investigating options to increase this benefit and refine the eligibility designed to improve skills and labour in Northern Australia. If additional zone tax concessions are considered for Northern Australia, CCIQ suggests the approach focus on:
- national taxes (e.g. company tax rate, personal income tax and fuel tax) acknowledging limits of the constitution on differential tax rates between states,
  - eligibility criteria that is carefully designed and strictly monitored,
  - a transparent process for linking tax advantages with key performance indicators,
  - temporary application of zone concessions (e.g. up to 5 years), and
  - administrative arrangements that streamline the business tax reporting requirements.
- 4.5 CCIQ notes the potential for unintended consequences from long term application of tax advantages on the basis of location. Risks include tax avoidance, displacement effects with businesses relocating from other parts of the State without generating any new jobs, and cross border distortions that detracts from national productivity.
- 4.6 Rigorous cost-benefit analysis is needed on any proposed zone taxation arrangements. In particular, the costs of administering such arrangements compared to alternative policies. Alternatives may include streamlining foreign investment for the region, land-use planning frameworks to drive down business development costs, one-off business relocation grants and a fuel subsidy scheme for Northern Australia.
- 4.7 CCIQ believes that reducing red tape is a cost effective/revenue neutral way of stimulating regional growth. Red tape is felt more severely by small and medium businesses that do not have the depth of resources to undertake compliance. This burden is intensified for businesses in Northern Queensland because of the region's socio-economic and environmental regulations that are extremely complex to navigate. Small businesses often have to engage consultants at significant costs to satisfy regulatory requirements.
- 4.8 CCIQ's compendium of red tape case studies confirms the time consuming and costly aspects of compliance. As an example (show infographic), compliance activities cost around \$97,000 per annum for a caravan park and camping business in Far North Queensland. This business spends on average nearly 30 hours per week on compliance activities.

## Red Tape Case Studies



Source: CCIQ's Red Tape Case Studies, June 2013

- 4.9 CCIQ strongly recommends the White Paper investigate ways to reduce the overall volume of regulatory compliance. Complimentary initiatives to improve regulator engagement with small and medium businesses are also necessary. This includes developing online tools, increasing voluntary self-regulation, upskilling regulators to give better advice, and reporting by exemption for businesses with good compliance history. CCIQ recommends regulators transfer decision making authority on business compliance to a local level and establish local business liaison officers.
- 4.10 Genuine change is needed on workplace relations to supports modern businesses. The Federal Government's commitment to a Productivity Commission inquiry on workplace relations in 2015 is a positive step. CCIQ recommends the White Paper consider improvements to the Fair Work Act that will help validate the case for workplace reform.
- 4.11 Penalty rates are a priority area of concern in tourism, hospitality and retail sectors and therefore a priority for Northern Queensland businesses. Many businesses are choosing not to open at night, during weekends or on public holidays because of penalty rates. CCIQ recommends changing the Fair Work Act so penalty rates are only payable when six or more shifts are worked in a given week. This will provide flexibility for rostering staff according to business needs and employees would still receive additional pay when working more shifts.



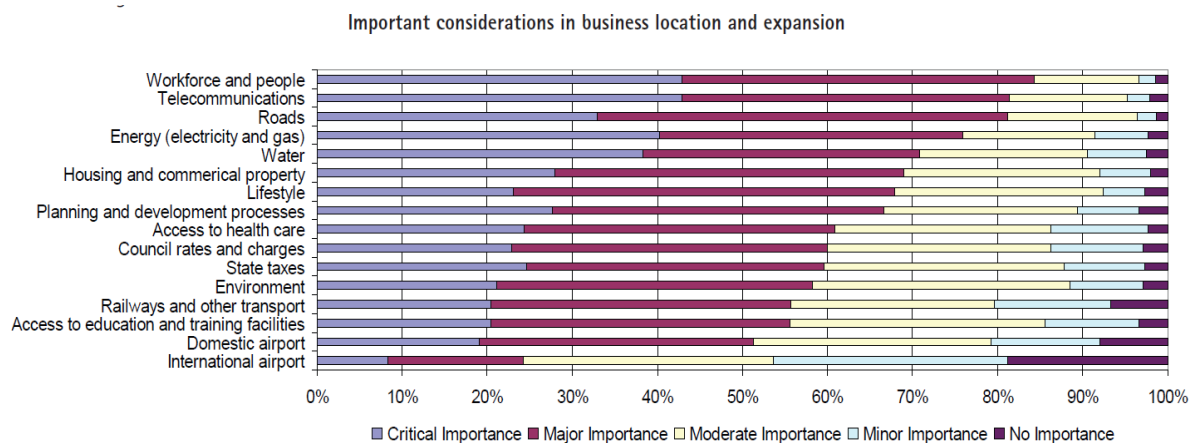
4.12 Other priorities are ensuring wage determinations reflect employers’ capacity to pay, removing minimum engagement periods for modern awards, and nationally consistent and simplified workplace health and safety policies.

## 5. Address impediments to growth

5.1 In addition to improving the business operating environment generally, CCIQ highlights the need to address the following impediments to growth:

- workforce and skills shortages,
- environmental regulation,
- access to finance,
- infrastructure bottlenecks, and
- land tenure.

5.2 Skills shortages and poor labour mobility between regions and professions is a significant barrier to growth in North and Far North Queensland. CCIQ’s engagement with Queensland businesses confirms that workforce and skills are top of mind when making decisions about relocating to regional areas (see graph below).



5.3 It is essential that the White Paper give attention to workforce planning and the Vocational Education and Training (VET) framework. CCIQ notes the progress in Queensland to increase contestability of training funding and establish TAFE Queensland as an independent statutory authority. CCIQ believes further reform is needed based on policies that:

- ensure TAFEs operate where needed but not preclude private training providers,
- decentralise VET funding decisions to ensure training provided meets local business needs,
- better align state and federal VET programs,
- support stronger employer incentives to hire trainees and apprentices, recognising the need to boost youth employment in the region, and
- engage the business community in implementing policy changes.

- 5.4 In addition, CCIQ is a strong advocate for skilled migration to address skills shortages and labour mobility issues in Northern Australia. The White Paper should consider ways to streamline the 457 visa program, including reducing paperwork and application costs, so small and medium business can better access the benefits of skilled migration. As a priority, CCIQ recommends repealing the June 2013 amendments to the Migration Act, which was unnecessary and penalised businesses participating in the program.
- 5.5 Environmental regulation places unreasonable restrictions on the operations of small and medium businesses. Of concern is the unnecessary duplication between federal and state regulations and inconsistencies between local governments across the region. Businesses fully accept the need for careful environmental management. However, the seemingly anti-development culture from regulators frustrates the already complex and costly processes of green tape for businesses.
- 5.6 Industry specific environmental regulation is also a barrier. CCIQ's engagement with the business community confirms there is a strong case for change to marine park zones and associated marine park management plans. These regulations impact not just the commercial fishing industry but many smaller businesses that provide supply and support services. For example, marine tourism operators, recreational fishing and marine transport operators are severely restricted in these zones.
- 5.7 CCIQ strongly supports streamlining environmental regulation across the three tiers of government. Recognising low risk and low impact activities in planning schemes and development assessments is particularly useful. Further, improved engagement strategies are needed during the policy development processes so environmental regulations take into account the impacts on small and medium businesses.
- 5.8 Access to finance is an increasing challenge for businesses in the region. Banks are becoming more risk adverse and use rigid assessment procedures to determine eligibility. There is opportunity for industry peaks to work with the banking sector to facilitate access to finance by developing a code of practice for lending to creditworthy small and medium businesses. The White Paper should also explore a credit guarantee system for small and medium businesses.
- 5.9 Infrastructure bottlenecks in Northern Queensland erode business revenue and prevent business expansion. Federal and State budgets will limit the extent to which the region's historical underinvestment in infrastructure can be addressed. CCIQ suggests the White Paper give attention to the priorities of the local business community and consider ways to reduce business costs of using essential infrastructure (see section 7).
- 5.10 Land tenure is a significant barrier to private sector investment in the region. CCIQ acknowledges that land tenure is incredibly complex and an emotive issue for Northern

Queensland. From the perspective of small and medium businesses, policies need to provide coordinated land releases, greater certainty of tenure and facilitate more efficient tenure assessments related to development applications.

## **6. Set conditions for private investment and innovation**

- 6.1 Government policies that underpin a nationally and internationally competitive business operative environment are vital to setting the conditions for private investment and innovation. Priorities include removing inefficient business taxes and simplifying business tax reporting, reforming workplace relations and reducing the overall burden of regulatory compliance.
- 6.2 Reducing red tape is a key enabler of innovation. It will free business operators from reporting burdens and allow owners and managers to focus on improving management practices.
- 6.3 The White Paper should focus on removing barriers to innovation that are inherent in regulatory assessment processes. This includes the failure of regulators to recognise innovative technologies when assessing business compliance requirements. For example, a North Queensland tourism business was unable to gain approval to install an innovative toileting/sewerage system that used no water and completely eliminated product waste. This is because plumbing and draining, building and environmental codes did not recognise the new technology. Another North Queensland business highlighted how investment in innovative production line equipment (that reduced injury lost time to zero) provided no relief from prescriptive WHS compliance requirements.
- 6.4 Government policies should aim to build capacity in small and medium businesses to undertake innovation as part of their operating model. CCIQ suggests:
- more generous R&D tax incentives for business located in Northern Australia,
  - funding programs focused on small and medium business needs with simplified grant processes that consider not just commercialisation but innovative business practices, and
  - policies to encourage local businesses to be early adopters of innovation and technology from overseas in order to be leaders in emerging markets.
- 6.5 Online innovation will depend on policies that deliver affordable and reliable broadband services to the region. This will help businesses compete globally and generate revenue online, adopt productivity improving digital technology, and reduce compliance costs with online reporting.

- 6.6 In addition, a strong planning framework can positively influence business investment. Knowing what to expect and what is required to proceed with a development will facilitate investment in key locations across Northern Queensland.
- 6.7 CCIQ suggests that the White Paper consider how the proposed Northern Australia Strategic Partnership can set directions for land use planning. This includes effective policies to manage competing interests, send clear signals about parcels of land set aside for economic growth and spatially identify infrastructure priorities. Importantly, the approach should complement processes already underway in Queensland.
- 6.8 CCIQ supports strategies outlined in the Queensland Government's Cape York Economic Development Plan to grow and retain small businesses. Further clarity is needed on how state planning principles will be integrated with local planning schemes and development assessment. Consistent interpretation and application of State planning interests at the regional and local level will give businesses certainty.
- 6.9 CCIQ suggests local planning instruments give more attention to supporting small and medium business operations. This includes fast-tracking approvals for businesses and commercial developments that meet local planning scheme requirements. CCIQ also supports the declaration of priority development areas as a means of facilitating development. There is opportunity to offer incentives within these areas for small and medium businesses (e.g. technology exchange and contractual joint ventures with larger firms).

## **7. Critical economic and social infrastructure**

- 7.1 Economic and social infrastructure directly impacts business productivity and competitiveness. It is therefore a decisive factor on business location and expansion.
- 7.2 The White Paper should consider alternative funding models that encourage private sector participation in the building of crucial infrastructure for Northern Australia. CCIQ advocates policies that will increase private sector involvement in the planning, development, construction and operation of the region's infrastructure.
- 7.3 CCIQ supports the White Paper considering the proposed audit of Northern Australia's infrastructure with a view to a long-term priority list of projects. The approach should investigate ways to better use existing infrastructure, involve all levels of government so planning and investment is coordinated, and allow for the business community to influence priorities.
- 7.4 Transport, communications, energy and water infrastructure are priorities for small and medium businesses in Northern Queensland. CCIQ supports strategies that reduce the costs to businesses of using essential infrastructure.

- 7.5 Road infrastructure in Northern Queensland is prone to flooding with network capacity constraints and safety and reliability issues. With State and Federal funding commitments for upgrading the Bruce Highway, CCIQ urges consideration in the White Paper of detailed delivery timeframes, with sequencing of priority projects relevant to Northern Queensland.
- 7.6 Other road infrastructure priorities for attention:
- upgrading the Kuranda Range Road for B-double transport vehicles,
  - weather proofing inland routes via the Kennedy Highway and Hahn Highway (Greenvale to Charters Towers),
  - sealing access roads to the north and west of Cairns, and
  - management of traffic congestion in regional centres like Townsville.
- 7.7 The region's rail network currently does not operate as a viable alternative to road transport. Rail freight is already managed to capacity. Long transport times and frequency of service are a deterrent to passengers and in turn, business activity. CCIQ suggests better use of existing rail corridors, exploring the feasibility of additional services, and seeking expressions of interest from the private sector to fund improvements to the region's rail infrastructure.
- 7.8 CCIQ supports the expansion of the Abbot Point port infrastructure. Further development around the Port of Townsville would also benefit the region. Feedback from the business community indicates expanding the Townsville Port Access road corridor to four lanes with a conveyor to transport goods directly to the Port of Townsville is warranted. Also, the Townsville Eastern Access Rail Corridor would link existing rail network directly to the port, bypassing the central Townsville area.
- 7.9 In terms of airports, CCIQ points to the need for competing industry and business uses of the Cairns International Airport to be managed in future development plans. There is value in exploring upgrades and initiatives to attract an international airline to Townsville Airport. In addition, CCIQ suggests consideration in the White Paper of sub-regional airports to increase visitor numbers and market exposure for businesses across the region.
- 7.10 Policies on the region's communications infrastructure must deliver affordable and reliable high speed broadband services. CCIQ believes there is benefit in additional coverage of the National Broadband Network rollout in Northern Queensland. Future rollout should focus on improving internet access and connection speeds while keeping the cost to business as low as possible.
- 7.11 In relation to energy infrastructure, the priority for businesses is security of supply. CCIQ recommends the White Paper consider options to expand local electricity generation capacity to overcome transmission network losses in the region. While households are subsidised, businesses carry the full cost burden for transmission losses. CCIQ suggests exploring renewable energy solutions (e.g. wind, hydro-electric and co-generation options) and ways to

increase off-the-grid generation solutions for isolated areas. Reviewing ownership of electricity assets, to the extent that it affects competitiveness and therefore the cost of supply to businesses, is an advocacy priority for CCIQ.

- 7.12 CCIQ supports the White Paper considering a proposed Water Project Development Fund to improve water management across Northern Australia. For small and medium businesses, the priority is ensuring water security, with flood mitigation projects and infrastructure that delivers affordable supply at a quality suited to varying businesses uses.
- 7.13 Regarding social infrastructure, feedback from the business community highlights the limited provision and inequity of access to housing, education, health, emergency and other community facilities. This affects the lifestyles of business owners and directly influences their staff attraction and retention strategies. People are the key consideration for businesses when making decisions on expansion and relocation. Furthermore, people are attracted to areas of high economic growth because of increased job opportunities and a growing population, in turn, creates additional demand for goods and services. This correlation between population and economic growth needs to be recognised in planning for social infrastructure.
- 7.14 CCIQ suggests investigating locations that best support a range of social infrastructure and giving priority to facilities that will have maximum impact in supporting access to jobs. An agreed set of standards across levels of government will help inform design and delivery for social infrastructure that is appropriate to the demographic and climatic conditions of the region. Governance structures also need attention so infrastructure provision is accountable and there is consistency of access across communities in the region.

## **8. Conclusion**

- 8.1 CCIQ strongly believes that policies aimed at improving the business operating environment and its competitiveness are the most cost effective way of stimulating and sustaining growth in Northern Australia. This includes reducing the burden of regulation, taxation reform, modernising workplace relations and addressing infrastructure bottlenecks. Such policies will benefit businesses generally and therefore lay the foundations for sustained, locally driven economic growth.
- 8.2 In addition to improving the business operating environment, CCIQ believes there is merit in considering regionally specific policies to stimulate development in Northern Australia. The costs and any displacement impacts of these initiatives must be thoroughly assessed. Regionally specific policies should target matters of national jurisdiction (e.g. foreign investment, skilled migration, and company tax relief as incentive for relocating) to achieve coordination across the relevant areas of Queensland, Northern Territory and Western Australia.

- 8.3 CCIQ recognises that there will always be unique challenges for conducting business in Northern Australia, irrespective of the extent of government assistance. Instead of ambitious goals, policies should focus on practical solutions and getting the business fundamentals right. Policies that improve the competitiveness of local small and medium businesses should be paramount.
- 8.4 Implementing change for developing Northern Australia will require persistent efforts from all levels of government in collaboration with business and the community. CCIQ recommends strong integration of strategies during implementation to avoid distorting the good intentions of policies.