

AN ECONOMIC STUDY OF PORT HEDLAND PORT

Port Hedland Industries Council

29 November 2017

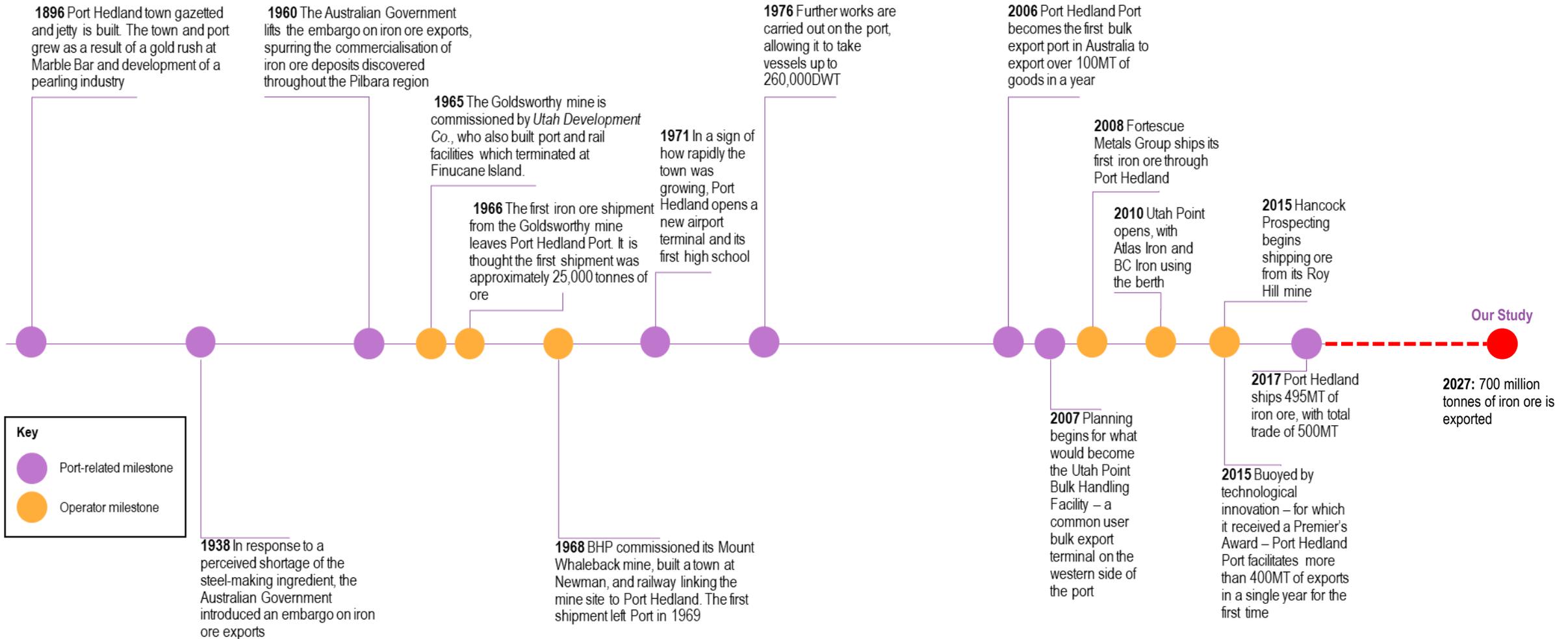


Our study



- ▲ ACIL Allen Consulting (ACIL Allen) was engaged on behalf of the Port Hedland Industries Council to conduct an economic study on the Port of Port Hedland, in order to understand:
 - the value of the Port of Port Hedland and the trade through the Port to the Pilbara, Western Australian and Australian economies; and
 - the potential economic and social benefits that would result if approvals for further expansions of the Port were granted, and total iron ore exports grew to 700 million tonnes per annum in the next ten years.
- ▲ ACIL Allen did this using the provision of two models:
 - an **economic contribution study**, which estimates the contribution that the Port of Port Hedland makes to the Town of Port Hedland, the Pilbara, Western Australia and national economies in a representative year (2015-16); and
 - an **economic impact assessment**, which estimates the future economic impact of allowing the Port's iron ore capacity to grow.
- ▲ The study is based on the “**Port Hedland Port Supply Chain**”, the collective set of businesses that includes:
 - The operations of the Port of Port Hedland (the Port)
 - Produce and export products through the Port (the Producers)
 - Supply and services to the Producers, the Port, or both (the Suppliers)
- ▲ This differs from a regular study, which would be conducted on a single entity.
- ▲ To complete the assessment, ACIL Allen received information from:
 - BHP
 - Fortescue Metals Group
 - Roy Hill Pty Ltd
 - Pilbara Ports
- ▲ The “future” phase of the study does not consider the economic impact of growth in non-iron ore trade through the Port – which could be significant in its own right.

Port Hedland – the story so far



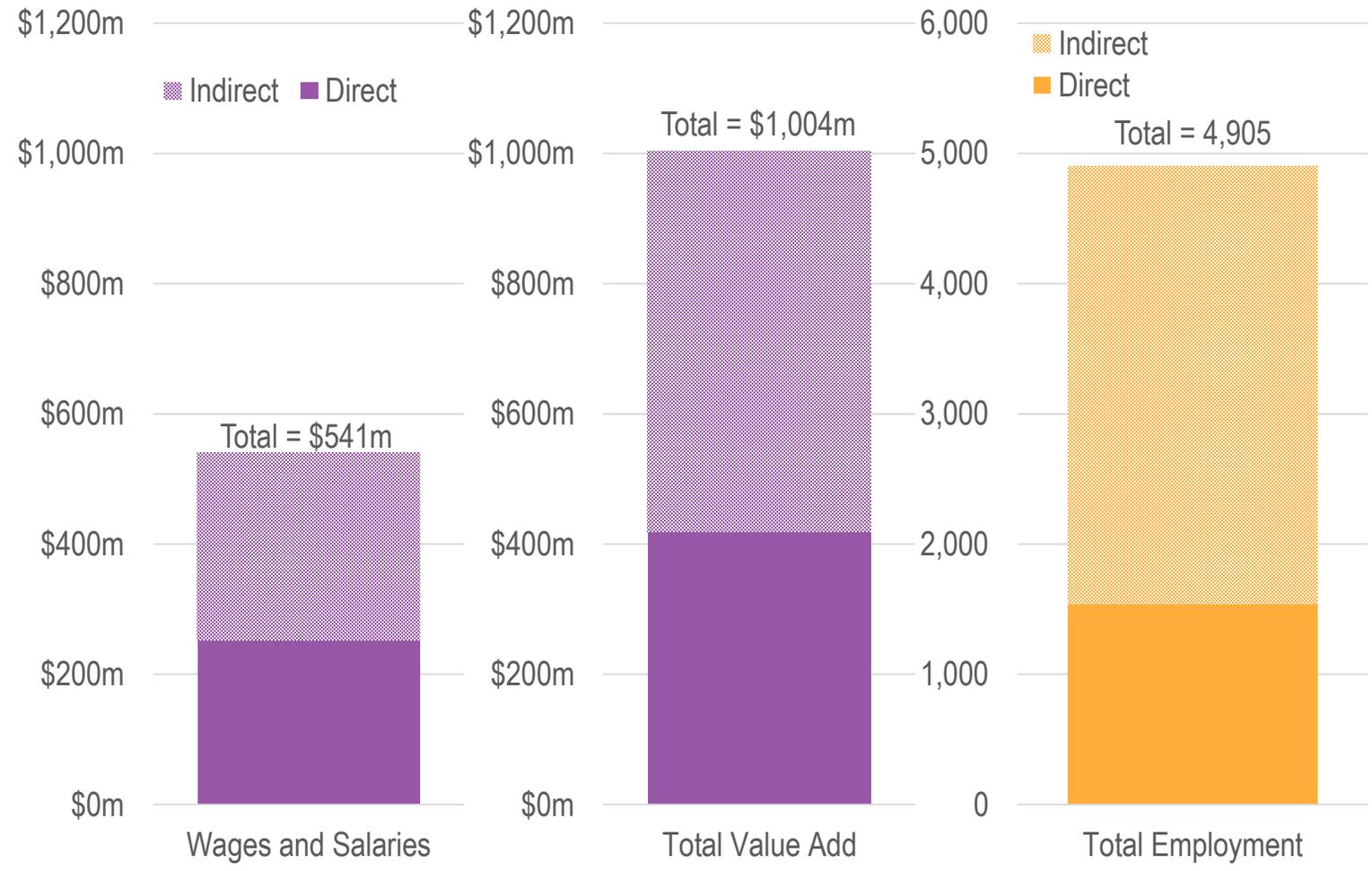
The contribution of the Port: Port Hedland



- ▲ The Port Hedland Port Supply Chain accounted for \$1 billion in direct economic output in the Town of Port Hedland in 2015-16.

 - Approximately **21% of the economic output produced in the town of Port Hedland** in the financial year.
- ▲ The economic multiplier of local expenditure by the Port Hedland Port Supply Chain is estimated to be 2.4, meaning every dollar of expenditure made in the area generated flow on expenditure of \$1.40.
- ▲ This level of activity supported approximately 5,000 FTE jobs (4,905) in the Town of Port Hedland, which in 2015-16 was just under **half of total employment** (10,989) in the region.

Economic contribution of Port Hedland Port: Town of Port Hedland

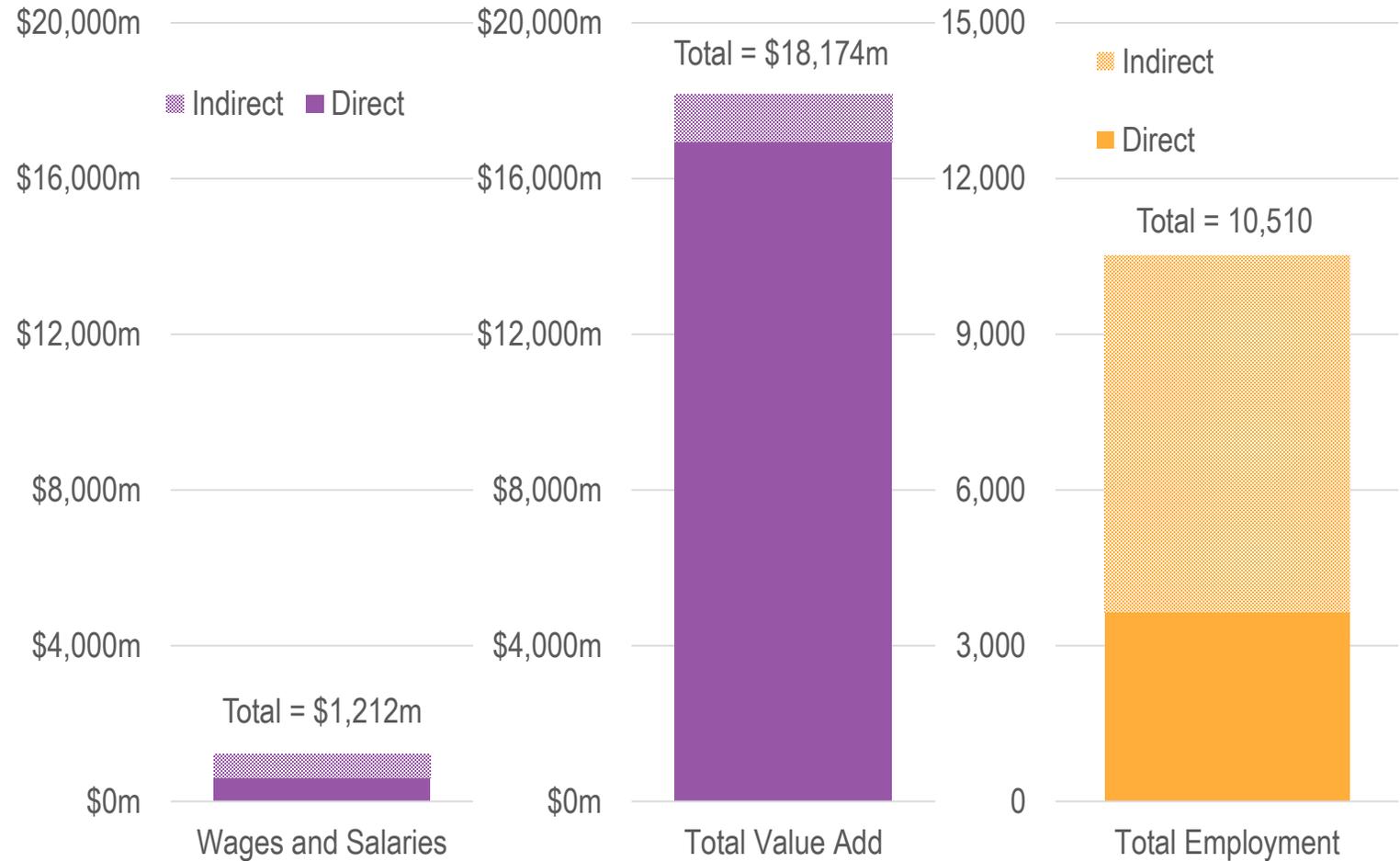


The contribution of the Port: Pilbara



- ▲ The total economic contribution of the Port Hedland Port Supply Chain is estimated to be \$18.2 billion, or **47% of total economic output produced in the Pilbara region in the year**
 - A relatively small proportion of this is indirect or “flow on” spending, as mining is the dominant activity in the region
- ▲ The Port Hedland Port Supply Chain supported 10,510 FTE jobs in the Pilbara region in 2015-16, accounting for **16% of total employment**
- ▲ Much of this is indirect employment (6,861 FTE, more than two thirds of the total), an indication of the significant role the activities of the Port and its operators play in the Pilbara region more broadly

Economic contribution of Port Hedland Port: Pilbara Region



The contribution of the Port: Western Australia

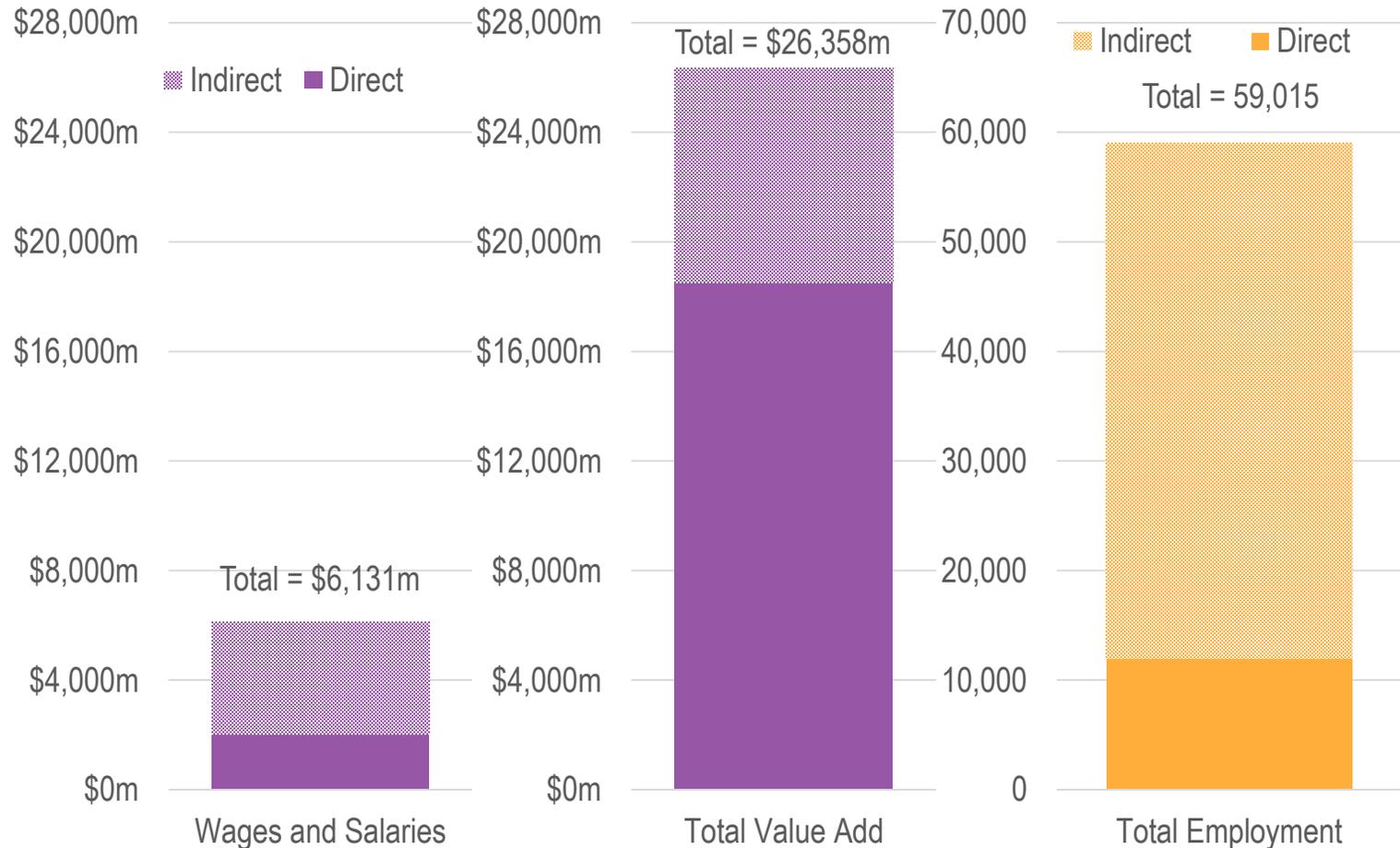


- ▲ The Port Hedland Port Supply Chain accounted for \$18.5 billion in direct economic output in the Western Australian economy in 2015-16.

 - This was **7.6% of the economic output** produced by the Western Australian economy in the financial year.
- ▲ Including the indirect impacts, the total economic contribution of the Port to the WA economy was \$26.4 billion in 2015-16.
- ▲ This level of economic contribution supported just over 59,000 FTE jobs in the Western Australian economy – or around **one in every 20 FTE jobs** in the State.

 - Significantly, 47,062 (80 per cent) of these jobs are on an indirect basis, indicating the extent to which the Port Hedland Port Supply Chain supports the broader Western Australian economy.

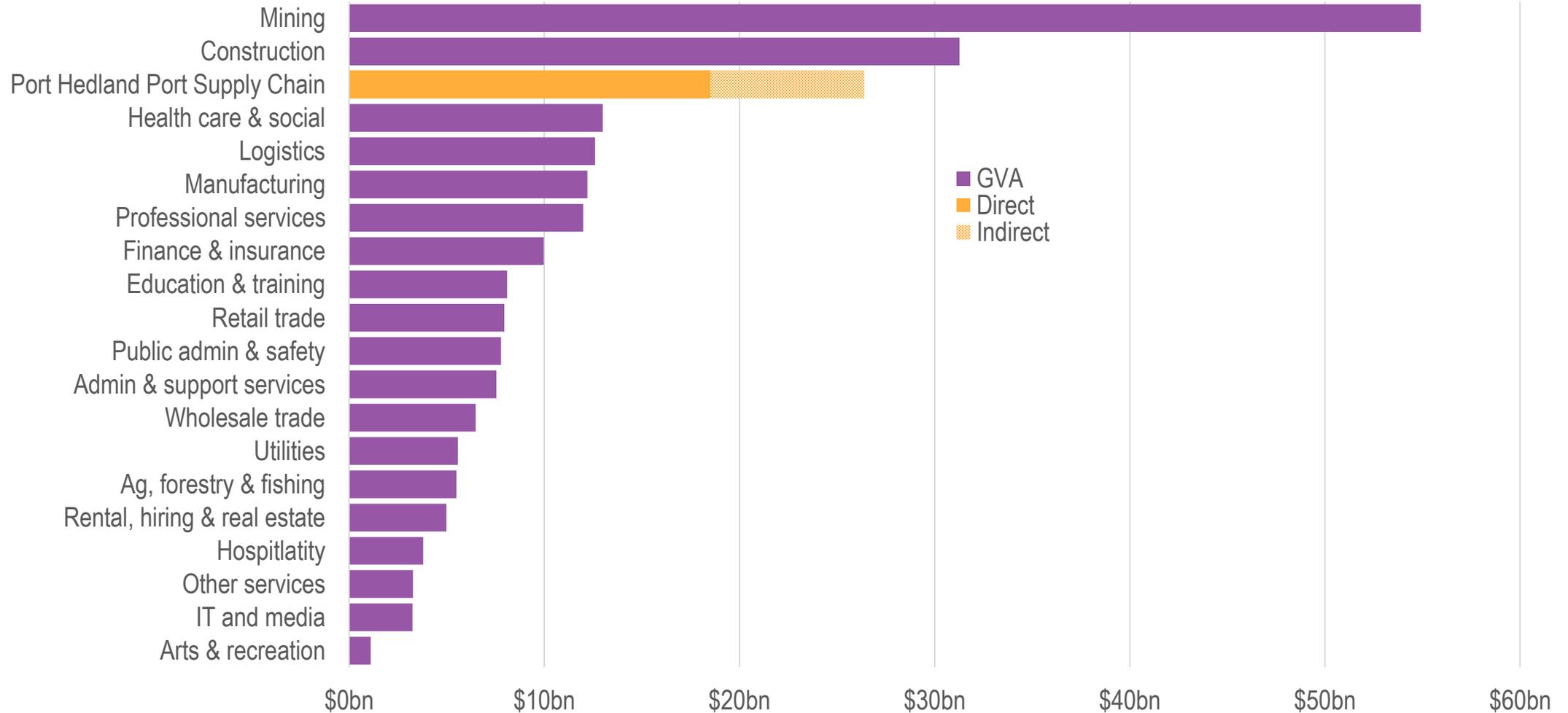
Economic contribution of Port Hedland Port: Western Australia



If the Port was itself an industry...



Gross Value Added, Port Hedland Port Supply Chain vs All Industries, Western Australia, \$bn, 2015-16



The contribution of the Port: Australia



- ▲ The Port Hedland Port Supply Chain alone contributed **\$30 billion** in economic output to the Australian economy in 2015-16.
- ▲ This is equivalent to **1.9% of Australia's GDP**, or approximately three quarters of the total annual economic output of Australia's agriculture, forestry and fisheries industry
- ▲ Excluding Western Australia, the Port Hedland Port Supply Chain directly contributed \$193.9 million to the national economy, and contributed a further \$3.4 billion on an indirect basis.
- ▲ This level of economic contribution supported a total of **86,240 FTE jobs**, with 12,850 of these direct and 73,390 of them indirect.

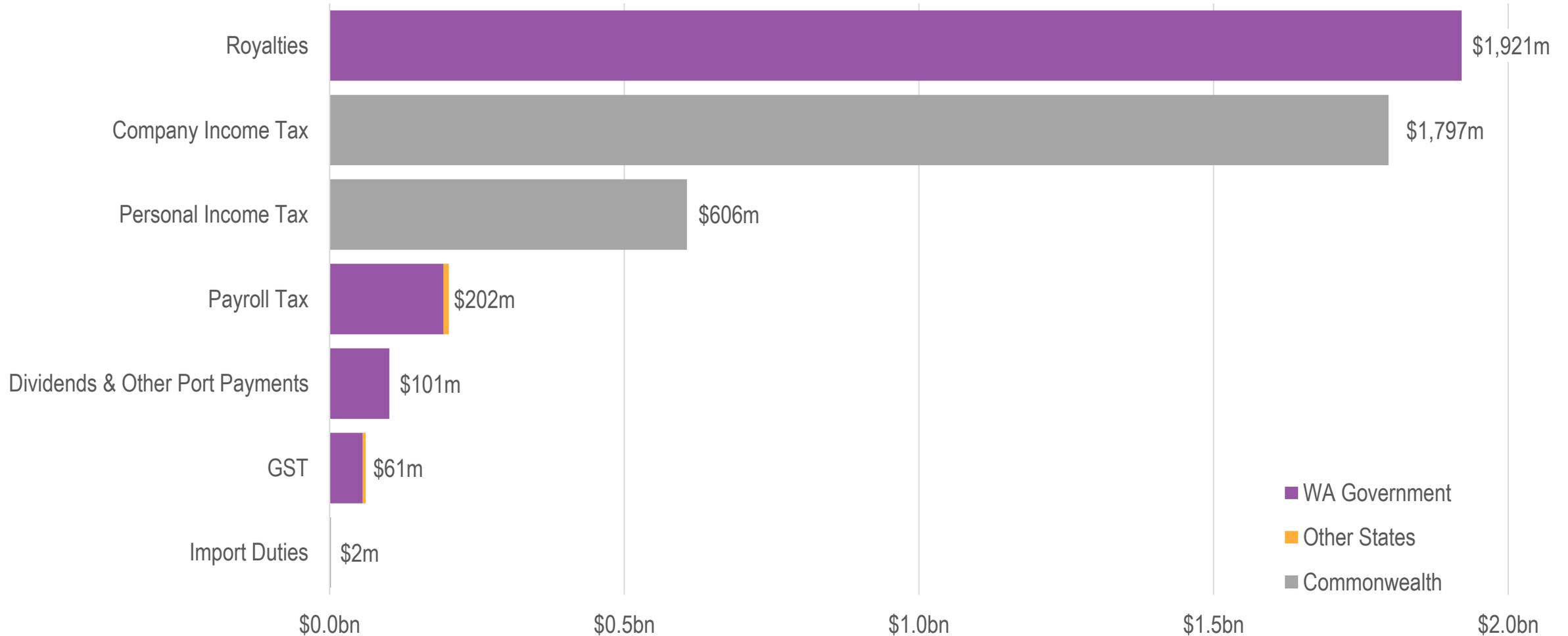
Economic contribution of Port Hedland Port: Australia



The contribution of the Port: Estimated taxes



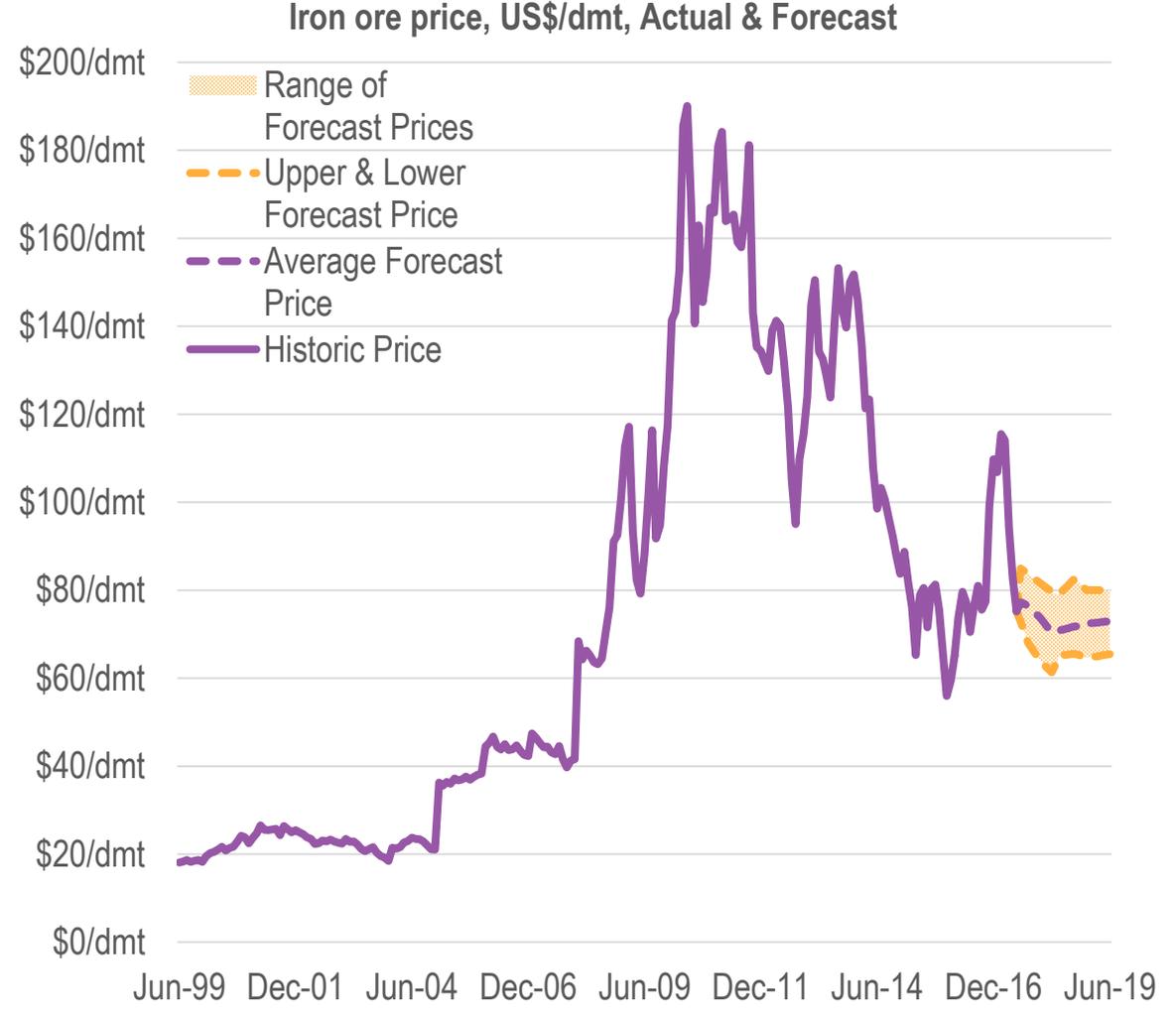
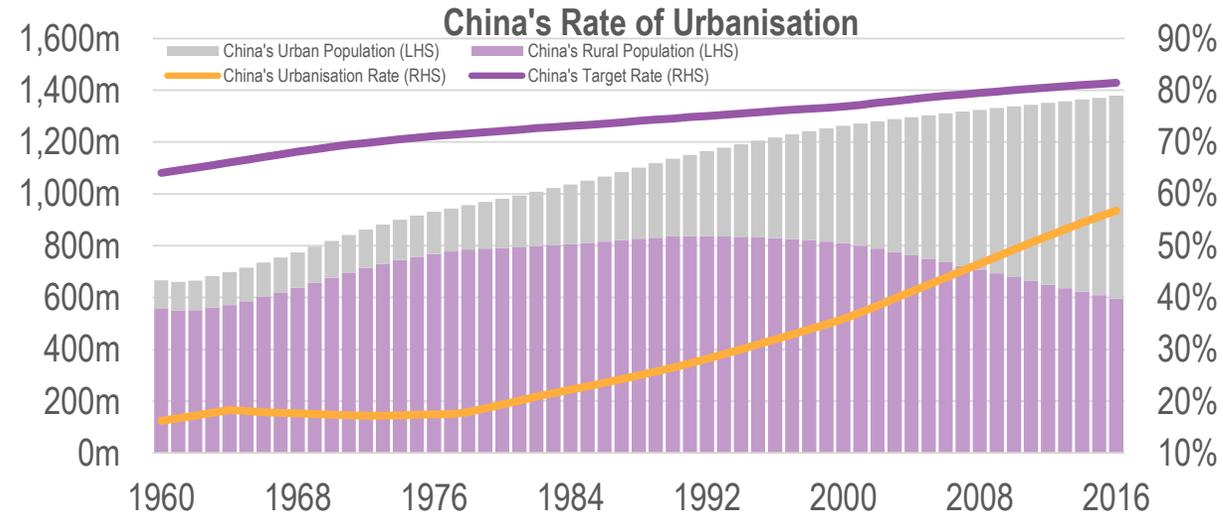
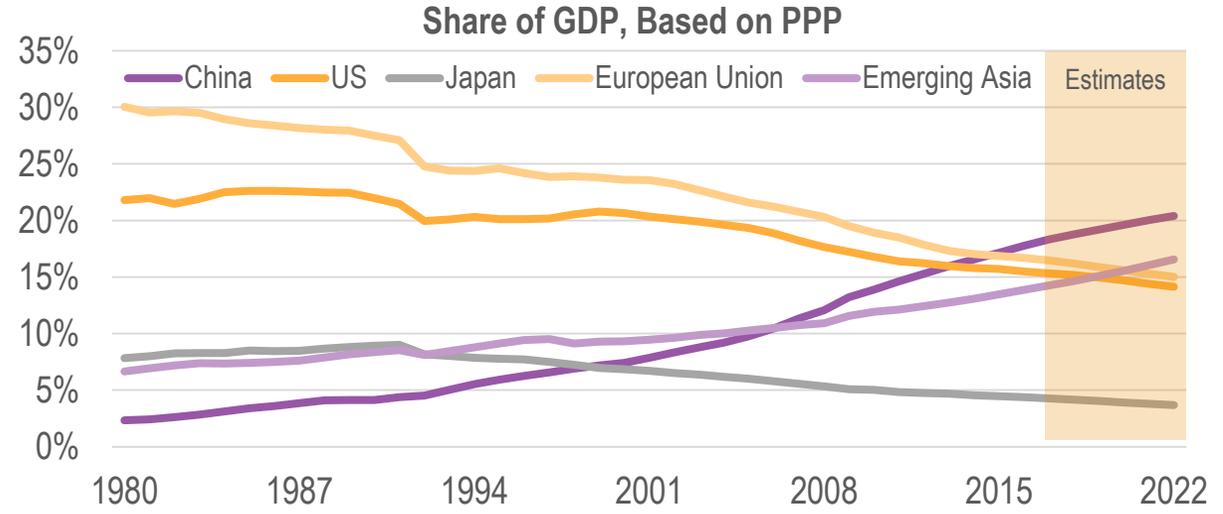
Economic contribution of Port Hedland Port, Major Lines of Taxation, \$bn, 2015-16





The Future Growth of the Port of Port Hedland

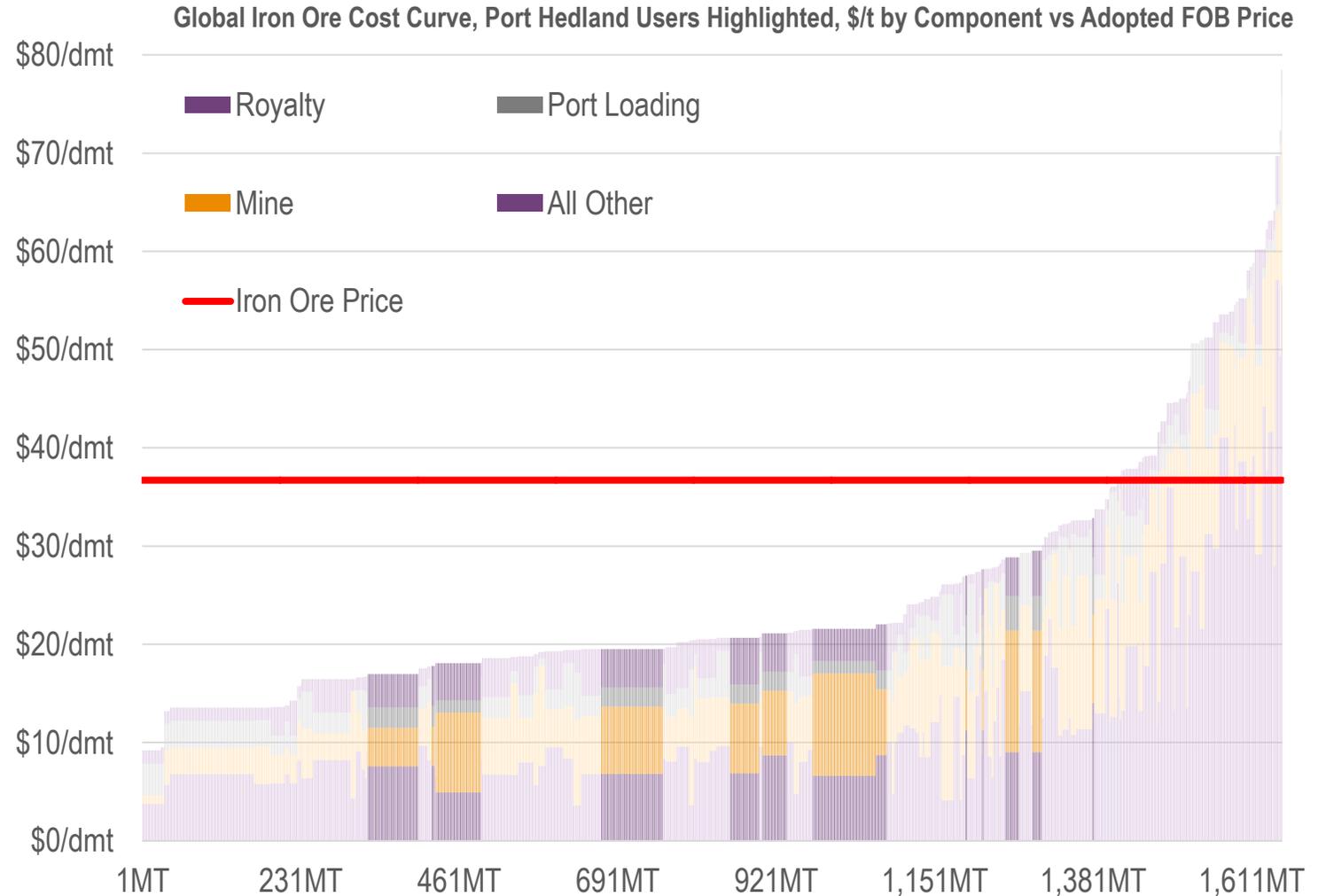
China, iron ore and the WA economy



A supply chain positioned for growth



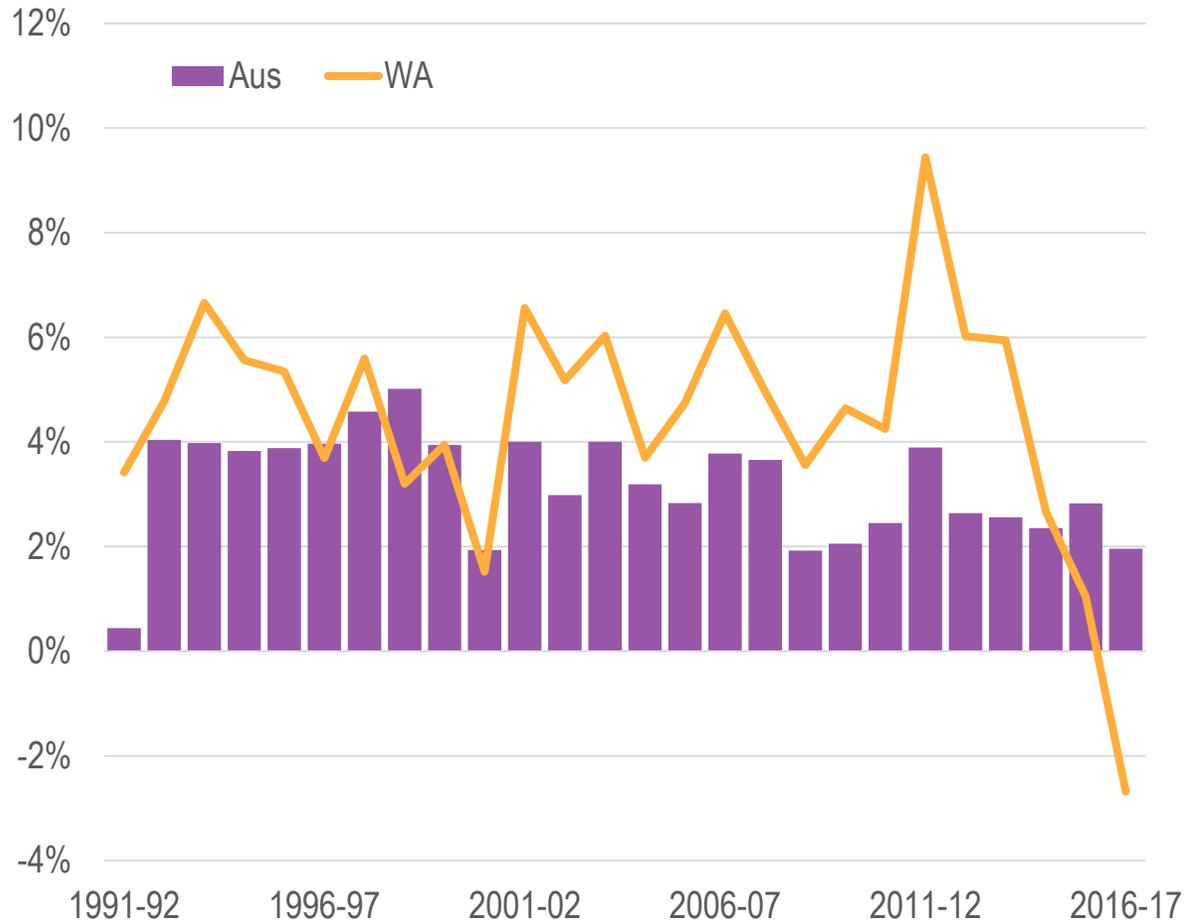
- ▲ Cash cost analysis conducted by ACIL Allen highlights that **all of the iron ore produced by users of Port Hedland Port is economic.**
- ▲ This is important as it means even in a low price environment, the Port Hedland Port Supply Chain is likely to remain competitive and able to supply the world market.
- ▲ Indeed, the State's iron ore miners are beginning a new phase of investment, centred on replacing ageing mines to maintain this competitive advantage.



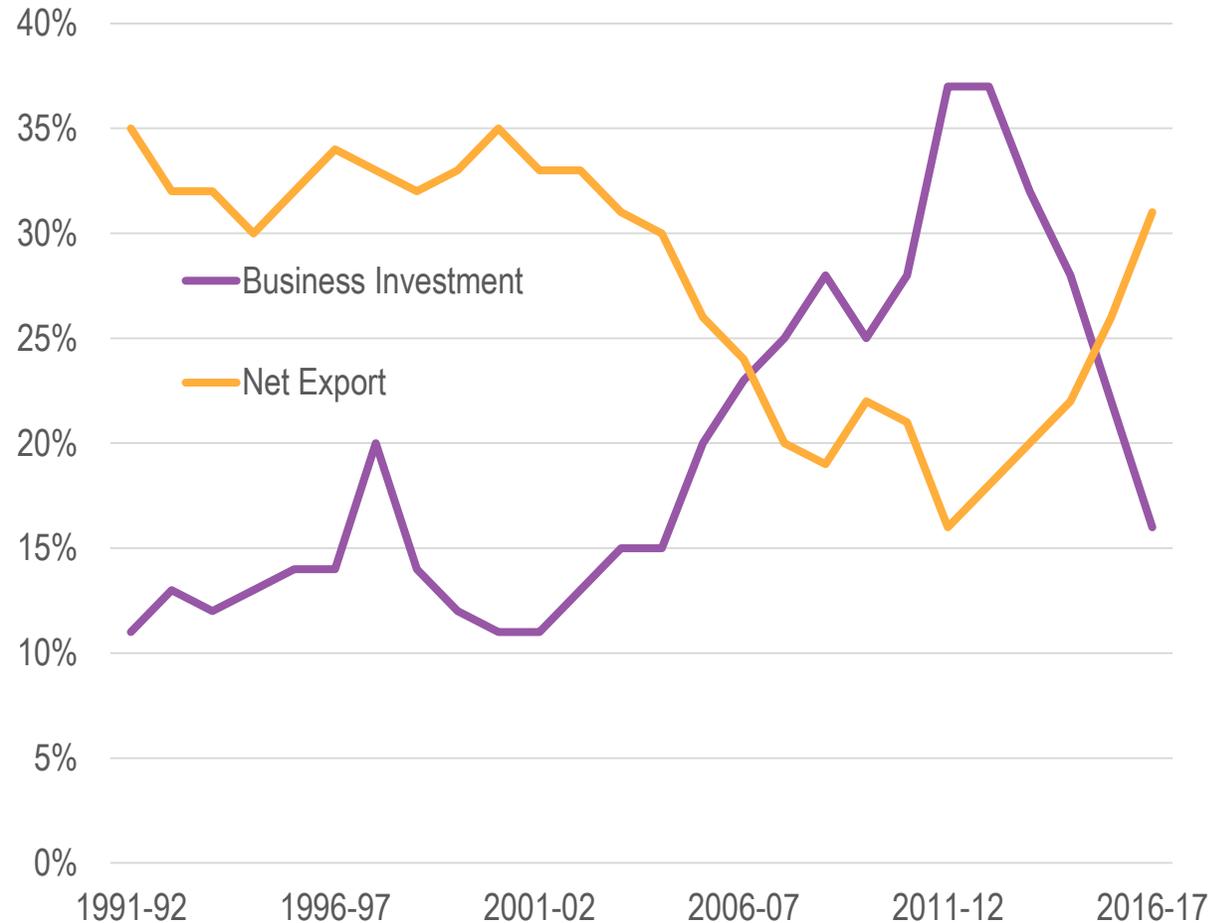
Growth in the Port Hedland Port Supply Chain will be a key driver of WA economy longer term



Economic Output, Annual % Change

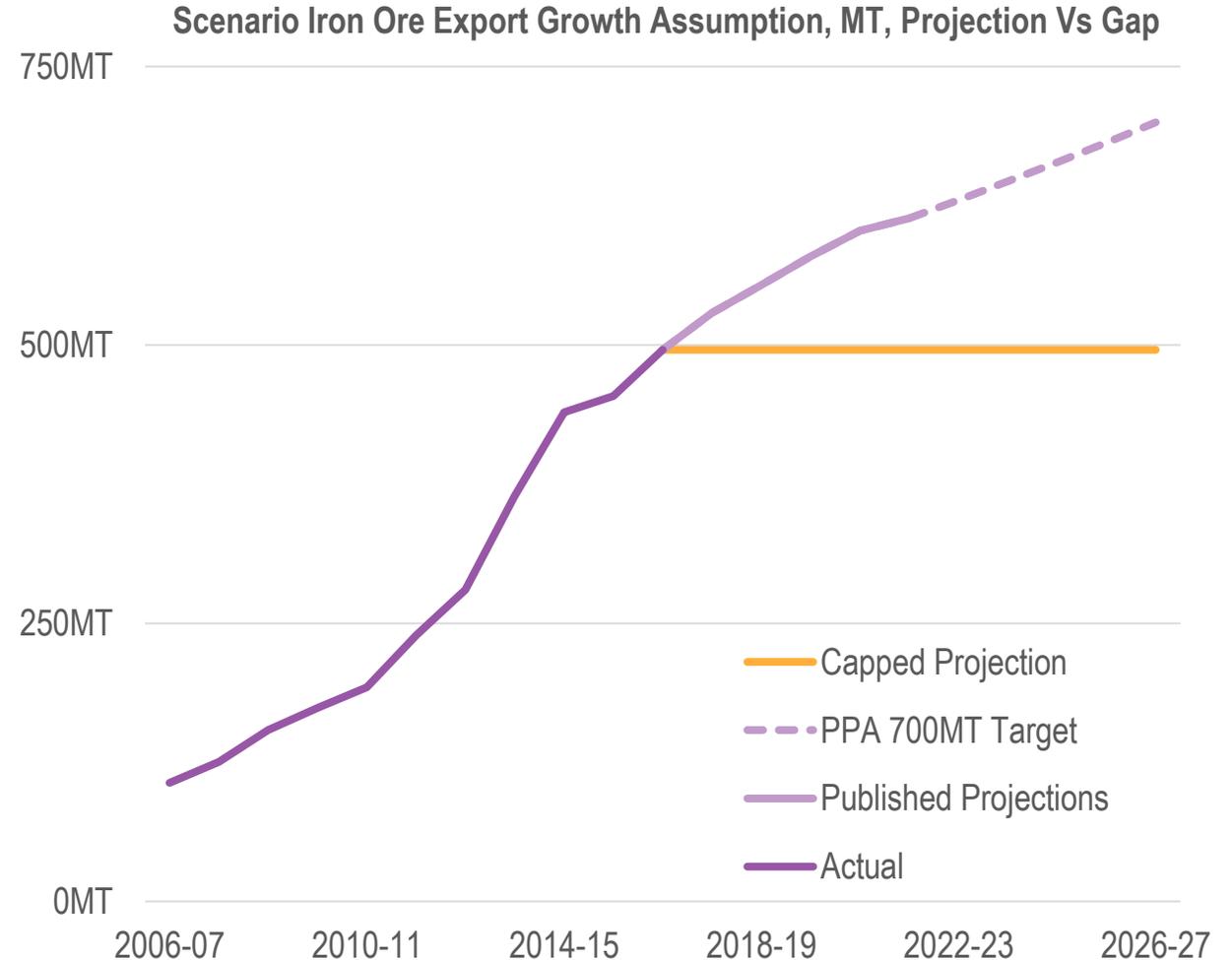


Business Investment & Net Exports, Share of WA Economy, By Year



The opportunity: a 700MT Port

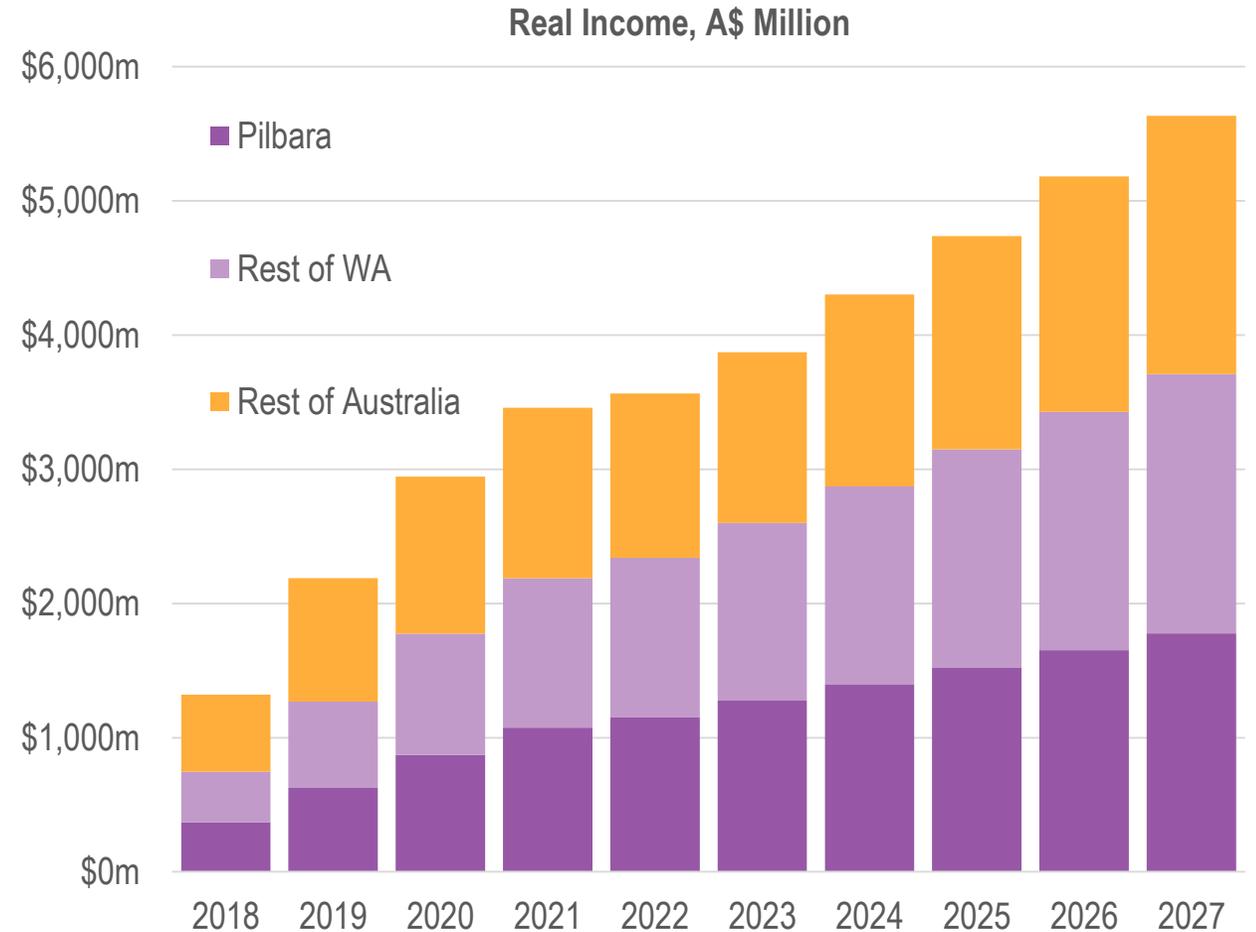
- ▲ In 2016-17, the total tonnes exported from the Port grew to **495.6 MT, with an estimated value of \$49.3 billion** (up from 454.1 MT and \$29.1 billion in 2015-16)
- ▲ To conduct the economic impact assessment, ACIL Allen has developed a short term forecast and medium term projection for iron ore export income growth facilitated by the Port.
 - short term (2016-17 to 2021-22), which is based on market information
 - medium term (2022-23 to 2026-27), which is based on projections of the Port's ultimate inner harbour capacity
- ▲ Using the assumptions outlined above, ACIL Allen estimates that should the Port be allowed to grow to its full potential over the coming ten years, the Port will deliver a cumulative \$316.2 billion in iron ore export income to the local, State and national economies.
- ▲ For modelling purposes, ACIL Allen estimates there would be a gross gain of iron ore export income of **\$62.0 billion** in the ten years ending 2026-27



SOURCE: ACIL ALLEN CONSULTING, PPA

The benefit: Real income

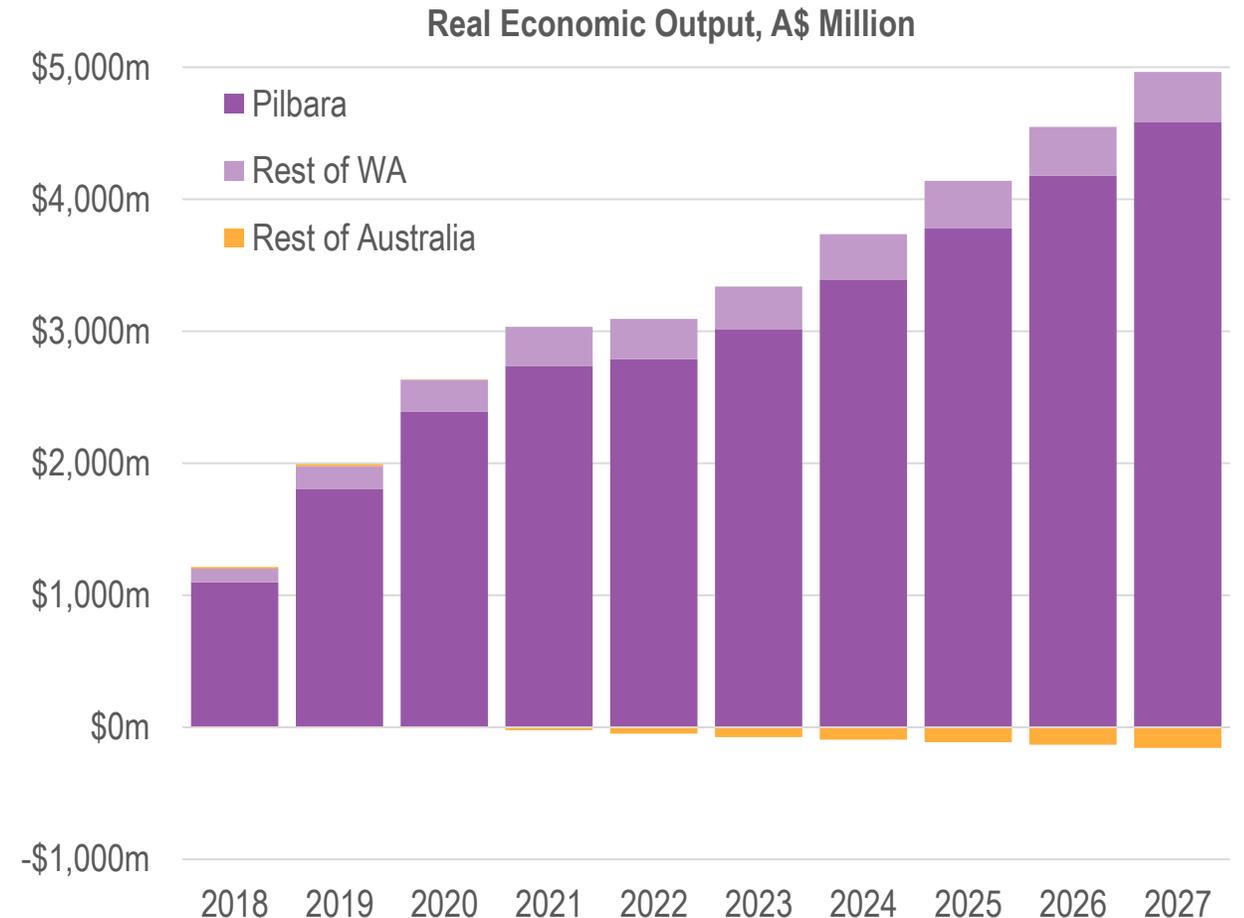
- ▲ Cumulative increase in real income across Australia of \$37.2bn by 2026-27, or \$3.7bn pa.
 - Real income impact is projected to increase from \$1.3bn in 2017-18 to \$5.6bn by 2026-27.
- ▲ Almost two-thirds of the increase in real incomes is expected to be realised in WA (\$24bn) over the study period, or \$2.4bn pa.
 - **Equivalent to a 2.5% salary increase for every full time worker in WA (approx. 930,000) each year...**
- ▲ The highest concentration of the net income benefit will be in the Pilbara, where it is estimated that real incomes would potentially increase by \$12bn over the study period, or \$1.2bn pa.



SOURCE: ACIL ALLEN CONSULTING

The benefit: Economic output

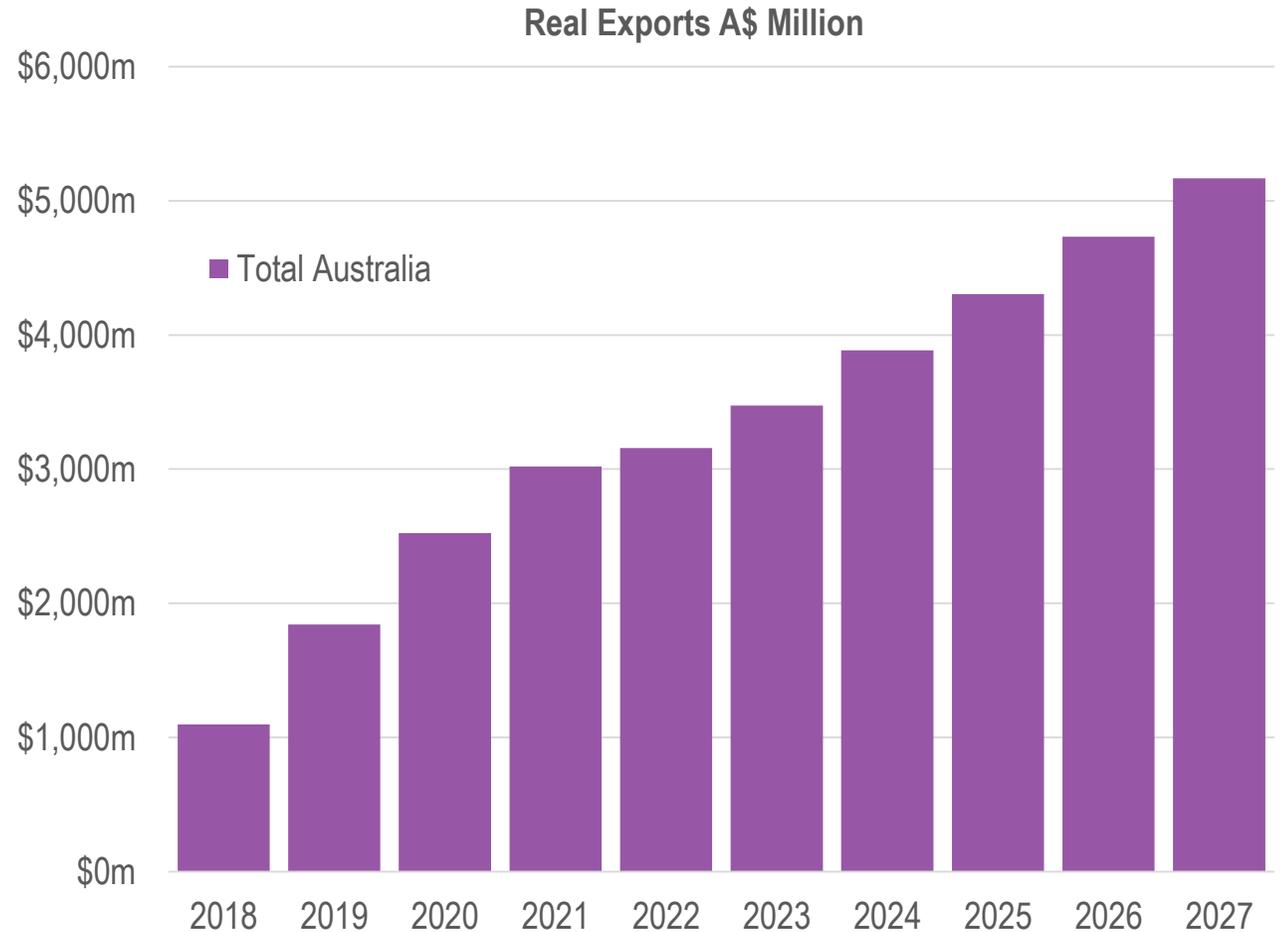
- ▲ Cumulative increase in Australia's real GDP of \$32bn by 2026-27.
 - Increase in GDP is projected to increase from \$1.2bn in 2017-18 to \$4.8bn by 2026-27.
- ▲ GDP impact will be concentrated in the Pilbara region, with a cumulative increase in GRP of almost \$30 billion, or 94% of the increase in Australia's GDP.
- ▲ For the Pilbara region, the average potential increase in the Region's total output is equivalent to **7.4% of the Pilbara economy's GRP in 2015-16.**
- ▲ **The increased economic output is equivalent to half of WA's total agricultural production in 2016-17**
- ▲ **When combined with the Economic Contribution Study results, ACIL Allen estimates the Port will account for \$34.8 billion of GDP by 2026-27, and account for over 10% of the WA economy.**



SOURCE: ACIL ALLEN CONSULTING

The benefit: Real exports

- ▲ Cumulative increase in Australia's exports of \$33.2bn by 2026-27.
 - Increase in exports is projected to increase from \$1.1bn in 2017-18 to \$5.2bn by 2026-27.
- ▲ The increase in exports is equivalent to just over 1% of Australia's total exports over the past 12 months.
- ▲ For WA, the average potential increase in exports over the study period represents approximately **5% of WA's total exports in 2015-16.**
- ▲ **The average annual increase in exports arising from the expansion is greater than the total exports to Singapore – WA's 6th largest trading partner – in 2016-17**

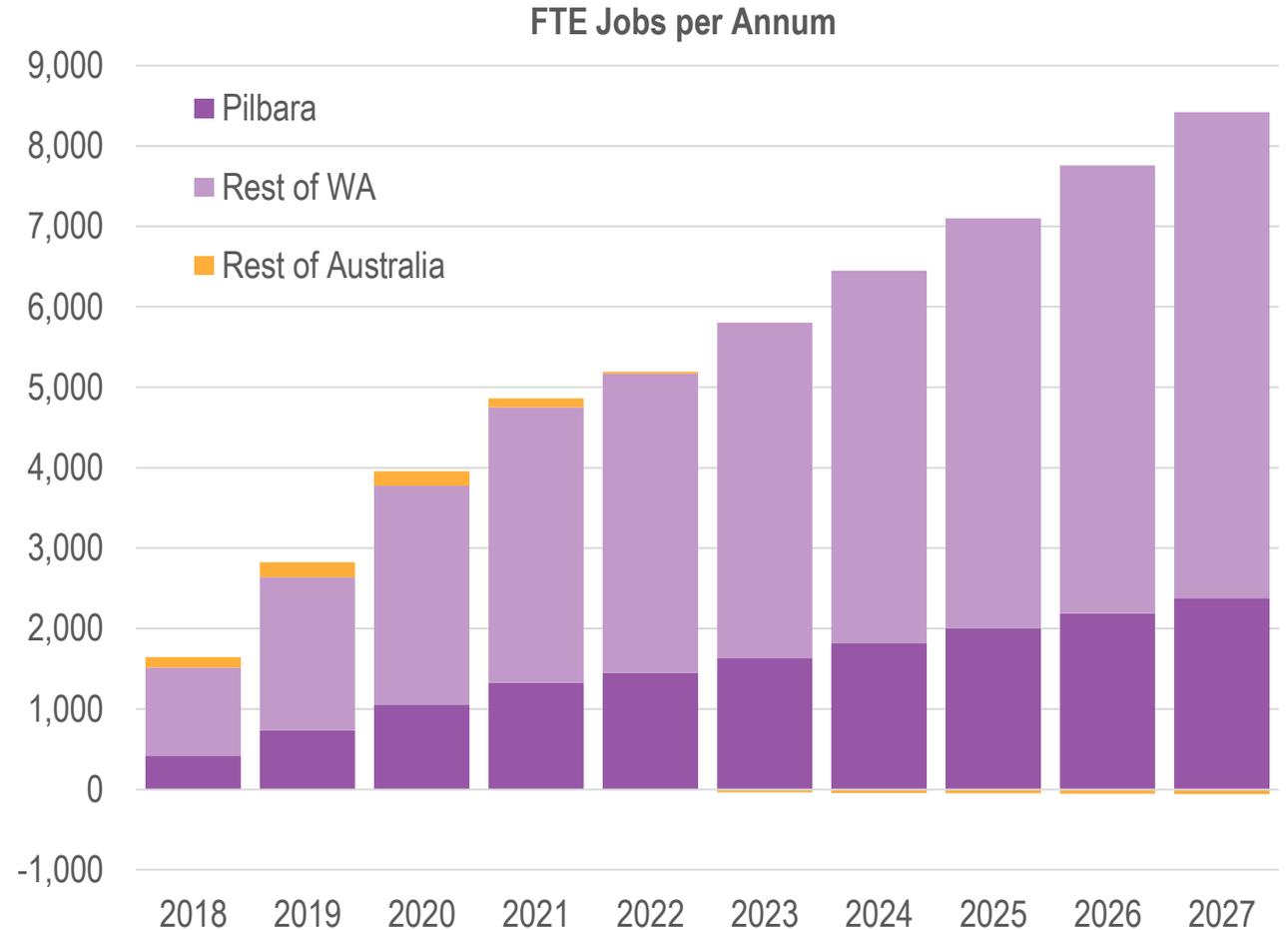


SOURCE: ACIL ALLEN CONSULTING

The benefit: Employment



- ▲ National employment is forecast to increase by **5,337 FTE jobs per annum** over the study period, with the jobs expected to be concentrated in WA
- ▲ The Pilbara region's workforce forecast to increase by 1,500 FTE jobs per annum, or 28% of the total increase in jobs
- ▲ Across the rest of WA it is forecast that an additional 3,838 FTE jobs per annum would be created, or 71% of the total increase in jobs
- ▲ **The average increase in FTE employment from the expansion is equivalent to the combined full time employment of the Big 4 banks in WA**



SOURCE: ACIL ALLEN CONSULTING

The benefit: Taxation

- ▲ Cumulative increase in taxation and royalty income for the Commonwealth and State Governments of \$20.6bn, or **\$2.1bn per annum**
 - Taxation and royalty income increases in line with the growth in exports, from \$734m in 2017-18 to \$3.2bn by 2026-27.
- ▲ For WA Government, the average increase in tax and royalty receipts is **\$516m per annum**, which is enough to fund:
 - 46km of dual carriage highway every year for 10 years...
 - The WA police force every year for 10 years...
 - 27,000 of the State's secondary school students every year for 10 years...
- ▲ The Commonwealth Government will be the biggest beneficiary, with company and other taxes expected to raise an additional **\$1.5bn per annum**
 - If the increased company tax was returned to WA in the form of GST payments, our per capita GST share would increase from 3.3% to 5.5%...



SOURCE: ACIL ALLEN CONSULTING

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- ▲ We advise companies, institutions and governments on economics, policy and corporate public affairs management.
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- ▲ We are differentiated by our highly analytical and objective approach and a focus on pragmatic long term solutions to our client's problems and issues.

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