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Email:

16 March 2016

Amanda Honeyman  
Research Director  
Finance and Administration Committee  
Parliament House  
George Street  
BRISBANE Qld 4000

Dear Amanda,

**Re: Finance and Administrative Committee Inquiry into North Stradbroke Island Protection and Sustainability and other Acts Amendment Bill 2015 and on the North Stradbroke Island Protection and Sustainability (Renewal of Mining Leases) Amendment Bill 2015**

At the Public Hearing on 8th March, the SIMO representatives were questioned about the economic impact of mining and about the economic capacity of tourism and other industries. As this matter was not part of the original SIMO Submission, the possibility of addressing the matter by correspondence was discussed with the Committee Chair immediately after the session. The Chair said that the Committee continued to welcome relevant correspondence.

The attached document is a detailed analysis of the economic contribution of mining and a review of economic content of major submissions to the Committee. It is prepared to address the matter raised with the SIMO representatives.

We hope that it can be accepted into the Committee discussion and will be of use in the deliberations.

Yours sincerely

Howard Guille

SIMO Secretary



## Economic contribution of mining and commentary on various economic submissions to the Finance & Administration Committee

### Contribution of mining to the Island

Estimates of the contribution of mining to the Island is as follows

- In 2015, the direct contribution of Sibelco to the Island economy is from wages paid to residents. This is estimated at \$7.2m per year net of income tax.
- Total contribution of Sibelco to the Island is the wages paid to residents plus the amount paid by the company to the Community Benefit Fund. The total contribution is estimated at around \$8m
- If mining continued beyond 2019, it is estimated that there would be 40 more residents employed by Sibelco in 2020 than would be employed by them if mining ceases in 2019.
- The loss of these wages is the main direct cost to the Island economy of mining ending in 2019.
- Using 2015 values, the gross wages of these 40 people would be \$3.12m per year or \$2.50m net of income tax. With a constant contribution to the Community Benefit Fund, the total direct contribution is estimated **at \$3.3m per year**. This is the best estimate of the direct economic cost to the Island of mining ending in 2019.

This information was prepared for and included in the QYAC Submission to the Parliamentary Committee (submission 244). The methodology and sources of information are detailed in an appendix to that submission.

The accuracy of the above estimate can be assessed on the basis of information in the Sibelco submission to the Committee. This states that the 69 Island residents are employed in mining with an average \$114,000 yearly total remuneration. On this basis the annual wage contribution of mining to the Island in 2015 values is **\$7.87 gross** and **\$6.29** net of tax and contributions. These are lower than the estimates made above.



## Summaries

This section summarises the economic component of major submissions.

### Stradbroke Chamber of Commerce

The Chamber of Commerce appears to have

- Substantially over-estimated the number of Island residents employed by its members.
- Notably the Chamber claims that its members employ 150 more persons on a part-time basis than the total employed part-time at the time of the 20 Census.
- This, in turn, suggests an over-estimate of the number of Island residents, other than mine employees, who would lose their jobs if mining closes in 2019.
- The Chamber over-estimates the average wage of Island residents employed in its businesses.
- It uses a gross wage figure to estimate losses to the economy from wages. It should use a net figure less taxes and employee superannuation contributions.
- It makes no account for the continuation of a proportion of the mining work force after 2019 in rehabilitation.

### Redland City Council

- RCC over-estimates employment numbers in mining
- Includes some employment that is off the Island
- Over-estimates the wages earned in and mining
- Makes constructive comment on part of the Economic Transition Strategy including having a Commonwealth Government component in the Worker Assistance Package.

### Sibelco/RPS

- The Sibelco submission shows it has abandoned claims from 2011 of the size of its contribution to the Island
- The level of contribution is still exaggerated as it includes mineworkers who live off the Island and payments made for barge and water transport.
- The submission uses an arbitrary figure to value the ecological cost of mining. The source of this figure is not referenced.
- This approach is very open to conceptual argument about whether ecological damage can be reduced to a market \$.
- There is an assumption that ecological damage can be fully repaired through rehabilitation. This stands against scientific argument that there is permanent change and damage to ecosystems from mining.
- There is an underlying proposition to the Sibelco submission that the future of the Island is for a population of 10,000 and a bridge to the mainland

### The Australia Institute

- TAI corrects exaggerations made about the economic contribution of mining
- It over-simplifies the situation of 'holiday homes' by neglecting multiple ownership, use as tourist accommodation and the overlap with property speculation.
- The 'holiday home' phenomenon is dependent on tax and superannuation concessions for high income earners.
- While it may not be intended by TAI, The notion of '*no economy*' is not very far removed from the notion of *terra nullius*.



### Detailed Evaluations

This section provides detailed analysis and review of the submissions summarised above.

#### Stradbroke Chamber of Commerce

##### Number of employees

The Chamber states

*We estimate that there are 158 FTE and 487 PT employees within Chamber businesses (excluding the mining company)*

##### Evaluation

The 2011 Census (postcode 4183) shows

Total persons employed

full-time	459
part-time	337
all	850

1. Note the Chamber claims **487** part-time employees in Chamber businesses; this is **150 more** than the total Island residents employed part-time at the time of the 2011 Census.

Either

- 150 persons travel regularly to the Island for part-time work other than in mining &/or
  - 150 persons are working for Chamber businesses in the 'black economy' &/or
  - 150 persons not resident on the Island are working in Chamber business that are off-the Island. This may include Stradbroke Ferries who are members of the Chamber. If so, which Stradbroke Ferries as they have employees on the SMBI transport and at Gladstone. &/or
  - The Chamber's estimate is wrong
2. Note the Chamber estimates **645 persons** are employed in Chamber businesses
    - The estimate (DERM Situational analysis from journey to work data) is that 20% of Island residents work off- Island - this is 170 persons.
    - In addition 112 person employed in mining (Census 2011)
    - On this basis no of residents employed on Island other than in mining is **568**.
    - There are a total of 207 persons employed in public administration (49), education and training (69) and health care and social assistance (89). The main employers of education, health and social assistance employees are government (all three levels) and Quandamooka health and housing organisations. Conservatively assume that 104/207 are not employed by Chamber businesses.
    - Hence estimate that  $568 - 104 = 464$  persons resident on the Island are working full or part-time on the Island and not in mining or public sector or
    - On this basis the number of employees used by the Chamber in its analysis seems to **be at least 40% above the Census figures**.

##### Impact of closure of mining

The Chamber states

*However, the results speak for themselves with a closure in 2019 resulting in:*

- *The immediate loss of 22 full time position and 66 part time positions, resulting in a loss of 197 positions (including the mining company's 110 FTE)*



- *An estimated removal of \$4.2 Million dollars in wages from the North Stradbroke Island economy (based on average NSI wage data), and*
- *An estimated realistic replacement number of hospitality jobs would be 307 FTE positions to return to current status quo*

### Evaluation

3. The Chamber gives no source or methodology for its claim of *an immediate loss of 22 full time positions and 66 part time positions*. The numbers amount to 13.9% and 13.6% respectively of the full-time and part-time estimated to be employed by Chamber members.
4. No source is given for the '*average NSI wage data*'. There is no official statistical source for this. The Chamber does not state whether it has done a wage survey of its members.
5. Taking the 22 full time positions and estimating the 66 part-time at 50%, gives 55 full time equivalent (fte) jobs lost from other than mining. Also presume these are all Island residents (may not be if calculation includes Stradbroke Ferries)
6. The \$4.2m in wages would not seem to include the 110 FTE mining jobs. Hence the average payment per fte job is  $4.2m/55 = \$76,363$  per year or \$1,468 per week.
7. ABS data for average weekly earnings for adult full-time workers in May 2015 (most recent data) was \$1,484.50.
8. However, Island jobs with Chamber businesses are probably below average pay (other than mining) so that the wages 'lost' are over-estimated.
9. The Chamber states that tourism (accommodation & food) are its main areas and it uses a wage of 53% of the 'Island average' for this sector in its own calculations.
10. The more serious over-estimate is that the contribution to the Island economy is the **net wage** after tax, and super, which should be estimated at least at 20%. On this basis the estimate (on the Chamber's job numbers and wage rates) is **\$3.36 m per year**
11. Even this is, on our evaluation, an over-estimate.

### Number of tourism jobs

12. The Chamber estimates 307 FTE jobs are needed in tourism to replace the estimated 165 FTE to be lost with the closure of mining.
13. This puts current jobs at 1.86 times the wages of tourism. The estimated current wage is \$38.60 per hour; the replacement tourism jobs are this divided by 1.86 which is \$20.77 per hour. This is around the entry level in the restaurant award.
14. It seems that the average pay levels of the jobs that will be lost are over-estimated and the average pay rates of the jobs to be created are under-estimated.

### Loss of mining wages

The Chamber states

*We encourage you to check your figures. The average wage of Sibelco employees is estimated at \$110,000, therefore there will be a further \$12 million dollars in wages removed from the local economy at the end of mining.*

### Note

- This puts the average Island resident employed by Sibelco with a wage of \$2,115 per week
- This also uses the gross wage figure not net of taxes and superannuation.



### Evaluation

15. The weekly wage for sand mining is a gross wage before tax and any employee superannuation contribution.
16. The 2011 Census shows that 27/343 men in Dunwich (7.8%) received more than \$2,000 per week. The Census is based on income received - that is a net wage. This is also the 'contribution to the Island economy'
17. On this basis, the net wages of Sibelco in 2011 re better taken at \$1,500 per week. Taking a cpi increase from June quarter 2011 to September quarter 2015 gives an estimate of current average net wage as \$1,633. This is much closer to \$1,692 which is \$2,115 discounted by 20% for tax and employee superannuation contributions.
18. Separate to this, not all 112 mining jobs will cease if mining closes in 2019. A proportion of the workforce will be required to continue with rehabilitation. The Chamber should ask its member Sibelco to provide the necessary information and recalculate its estimate of loss.

### In summary

The Chamber of Commerce appears to have

- Substantially over-estimated the number of Island residents employed by its members.
- Notably the Chamber claims that its members employ 150 more persons on a part-time basis than the total employed part-time at the time of the 20 Census.
- This, in turn, suggests an over-estimate of the number of Island residents, other than mine employees, who would lose their jobs if mining closes in 2019.
- The Chamber over-estimates the average wage of Island residents employed in its businesses.
- It uses a gross wage figure to estimate losses to the economy from wages. It should use a net figure less taxes and employee superannuation contributions.
- It makes no account for the continuation of a proportion of the mining workforce after 2019 in rehabilitation.



### Redland City Council

The RCC states that *'The mining sector accounts for around 17 per cent of local employment directly' and*

*...indirect and induced employment associated with the mining sector, which potentially contributes another 2-3 per cent of employment across a range of sectors, not all of which are based on the Island*

And

*Additionally those employed in the mining sector on average earn up to \$1500 per week more than those employed in the Accommodation and Food Services Sector, and \$1400 per week more than in the Retail Sector (based on ABS 2015, full-time average weekly earnings).*

### Evaluation

1. According to the 2011 Census mining was **13.2% of total Island employment**. Since then the number of people employed in mining has decreased. Sibelco, in its submission refers to *\$13 million in annual employment spend on the Island, consisting of 108 full time and 8 casual employees.. Of these 116 employees, 69 call North Stradbroke Island home. This is **8.3% of the 2011 total Island resident employment***
2. The RCC says that some of the 2-3 per cent indirect employment is off-the-Island. This does not contribute to the Island economy.
3. It seems to be using wage data for the export coal sector. Workers in sand mining are not paid at the rates of those in the export coal industry - see QYAC submission for comparison in personal incomes between Dunwich & Morranbah. Sibelco in its submission uses an average of \$114,000 yearly total remuneration per employee which is \$2,192 per week.

### In summary

- RCC over-estimates employment numbers in mining
- Includes some employment that is off the Island
- Over-estimates the wages earned in sand-mining
- Makes constructive comment on part of the Economic Transition Strategy including having a Commonwealth Government component in the Worker Assistance Package.





## Sibelco

The economics part of the Sibelco economic uses material from the RPS Consultants undertaken for Sibelco and released in November 2015. In brief

- A cost-benefit analysis of the contribution of mining to the Island with the contributions
  - Direct benefits only (no multipliers)
  - Profit generated from mining operations not been included as a benefit for the assessment.
  - Benefits paid to workers who are employed by Sibelco Australia and work on North Stradbroke Island.
  - Operational benefits in this assessment take the primary form of payments to barge and ferry operators for transport to the Island
  - Sibelco contributions to the North Stradbroke Island Community Benefit Fund
- The primary cost of continued sand mining operations identified is the opportunity cost of disturbing the natural environment and the associated loss of ecosystem value from the clearing of land.
  - The 'ecosystem value' is estimated at \$15,000 per hectare per year
- RPS on behalf of Sibelco makes two other critical assumptions
  - Sand mining operations subsidise cost of living and doing business on the island - notably barge fares, price of electricity and fuel
  - That there is no evidence that sand mining operations on the island prohibit, constrain or exclude any other economic opportunities being pursued and implemented
- The Sibelco submission states at one point (pages are unnumbered) that closure will mean *'The loss of approximately 300 direct and indirect jobs on the Island'*. At another point on the same page, it states *Sibelco currently contributes \$13 million in annual employment spend on the Island, consisting of 108 full time and 8 casual employees. Of these 116 employees, 69 call North Stradbroke Island home,*

## Evaluation

1. The assessment of benefits is much more realistic than the Synergies consultancy of 2011 which seriously exaggerated the contribution of mining to the Island. The figures of a contribution to the Island (sometimes the local economy) used by some company spokespersons and politicians have been abandoned.
2. The claim of 300 direct and indirect jobs on the Island is not compatible with the second statement of 69 Island residents who are Sibelco employees.
3. RPS appear to exaggerate the wage component of the benefit of mining by including all people employed by Sibelco who work on the Island; it is more appropriate to count Island residents employed by Sibelco
4. RPS appears to assume that all mining employment ends on closure (irrespective of date). It should use a net job loss figure taking account of continued employed in rehabilitation.
5. Payments to barge operators are made to companies off the Island - they are not benefits to the Island economy. There is no analytical difference between payments to barge operators and those for any other goods or services that are supplied from of the Island.
6. Note that payments to barge operators (defined as operational benefits) are 13.6% of the net present value of mining to 2019.





7. The community benefit fund was introduced at the recommendation of Rowland as part of the campaign it designed for Sibelco under the name 'sustainable stradbroke'. The public relations firm Rowland was, in their own words, 'engaged to develop and implement a public affairs strategy to influence public opinion and political decision-making, to ensure the continuation of sand mining until at least 2027'.
8. The concept of ecological cost is based on work by SEQ Catchments. This is referenced by RPS.
9. The SEQ Catchments work explicitly excludes valuation. SEQ Catchments state *It is recognised however that some stakeholders may be interested in the monetary value of ecosystem services. The Framework (to date) does not provide such information.* It does provide a general account of what techniques might be used. But SEQ Catchments does not provide \$ numbers.
10. RPS uses an ecosystem value per hectare estimated at \$15,000 per hectare per year. This is referenced but the footnote is empty! **Thus there is no source or justification** for this number.
11. It also appears to assume that there is no permanent loss in ecological value due to mining but just a 'temporary cost'.
12. The way cost-benefits are calculated acts to make later closure better than early. The submission states *the ecosystem value cost peaks during the initial clearing and then only partly recover during both active (60% of ecosystem value) and passive (90% of ecosystem value) rehabilitation phases. Full ecosystem value is assumed to only return after 20 years from initial clearing*
13. In other words, by having mining going to 2035, the company 'avoids' a considerable part of the cost of ecological losses because these are absorbed during the mining process itself.
14. The claim about increased electricity prices if mining ceases is not documented. Currently there is a regulated single price for domestic electricity across SEQ so that the price on the Island is the same as the mainland. Furthermore, it is understood that the domestic supply mains are separate to those supplying the mine operations.
15. The evidence that barge fares will increase is based on a comparison of fares to Moreton Island and Fraser Island. RPS makes the point that Fraser (and by extension Moreton) have very small residential populations but does not extend this to its comparison of barge fares.
16. The argument that sand mining operations on the island do not *prohibit, constrain or exclude any other economic opportunities* is not documented. It is a matter of opinion.

#### Preferred Island development

17. The Sibelco submission should be read in conjunction with the recommendations on development made by RPS to Sibelco in *North Stradbroke Island Economic Opportunities Assessment*
18. A central part of this report is for *a critical mass of residential population must be achieved*. This is a population of 10,000 and '*enhanced connectivity with the mainland*' (pp3-4). The latter is presumably a bridge.
19. Sibelco need to be closely questioned as to whether such population growth and a bridge to the Island is part of its vision.



### In summary

- The Sibelco submission shows it has abandoned claims from 2011 of the size of its contribution to the Island
- The level of contribution is still exaggerated as it includes mineworkers who live off the Island and payments made for barge and water transport.
- The submission uses an arbitrary figure to value the ecological cost of mining. The source of this figure is not referenced.
- This approach is very open to conceptual argument (can ecological damage be reduced to a market \$)
- There is an assumption that ecological damage can be fully repaired through rehabilitation. This stands against scientific argument that there is permanent change and damage to ecosystems from mining.
- There is an underlying proposition to the Sibelco submission that the future of the Island is for a population of 10,000 and a bridge to the mainland.

### Addendum Deloitte Study

This was reported in the media on 6 March. A full copy has not been available.

From the media statements

- The report states sand mining generated between \$60 million and \$80 million per year for the local economy and employed 95 island residents.
- The transition strategy would create up to 151 jobs across the construction, conservation, tourism and aged care sectors.

### Evaluation

1. The \$60-\$80 m per year is for the 'local economy' - this is undefined and would seem to be the SEQ area. It is clearly not a contribution to the Island economy.
2. The figure of 95 Island residents employed in mining is in line with the 2011 Census less jobs at Vance and Yarraman mines that are now closed. It is higher than the 69 Island residents stated by Sibelco
3. It is unclear whether the analysis takes account of continuing employment of some Sibelco workers in rehabilitation after 2019.

### **The Australia Institute, Sandstorm in a teacup, April 2015**

The report argues

*North Stradbroke Island (NSI) has no "economy" of its own. Most of its residents don't work at all, mostly by choice. Its houses are mostly owned and used by people who live and work on the mainland and come to the island for holidays and relaxation*

*'ending sand mining would have little effect on most residents. It would have no effect on the majority of NSI home owners who use their houses for relaxation and holidays.*

*'55 per cent of housing is owned by non-residents' so that 'Property prices show no correlation with changes in government or mining policy'.*

*It concludes 'NSI is not "dependent" on sand mining and claims that its phase out would "decimate housing prices and leave exiting families in penury" are based on hyperbole rather than data'.*



### Evaluation

1. The TAI assessment of the input-output analysis undertaken by Synergies and used by Sibelco in 2010-11 reinforces the critiques undertaken by the State Government and by this author over the years.
2. The valuation of the 916 unoccupied dwellings on the Island at \$460m is a useful contribution to analysis of the Island economy and a good antidote to the exaggeration of the contribution of mining.
3. The report does not discuss the distributional aspects of the 'holiday home' sector. Some portion of the owners of holiday homes become permanent residents -usually in retirement or pre-retirement. This contributes to the high level of income inequality on the Island. The ratio of the top to the bottom decile is 9.8 for the Island compared with an Australian wide figure of 8.6. Instructively the ratio for Russell - where the mean income is lower than NSI - is more equal.
4. The use of the housing stock that is 'unoccupied' is more complex than the report indicates. Some holiday homes are used for that purpose but also for 'holiday rentals'; some owners have multiple dwellings. In consequence, the tourist industry is distorted by being partly 'accommodation' and partly a speculative property activity.
5. It is also very clear that much of the holiday home sector depends on high end superannuation concessions and on negative gearing.
6. The report state that *there is so little retail employment on the island* and criticises a Queensland DNRM report for its comments on the 'limited' employment in retail. While there are no large supermarkets, the 2011 Census shows 9.1% of all employment is in retail trade; this compares with 10.7% for Queensland as a whole.
7. The TAI statements about there being *no "economy"* on the Island and that '*Most of its residents don't work at all, mostly by choice*', are ill-chosen. They are disrespectful to the 860 people who are employed. They are especially insensitive to the Quandamooka community who are actively trying to build a local economy and society around their native title lands. While it may not be intended by TAI, The notion of 'no economy' is not very far removed from the notion of *terra nullius*.

### In summary

- TAI corrects exaggerations made about the economic contribution of mining
- It over-simplifies the situation of 'holiday homes', multiple ownership, the extent of their use as tourist accommodation and the overlap with property speculation.
- The 'holiday home' phenomenon is dependent on tax and superannuation concessions for high income earners.
- While it may not be intended by TAI, The notion of '*no economy*' is not very far removed from the notion of *terra nullius*.