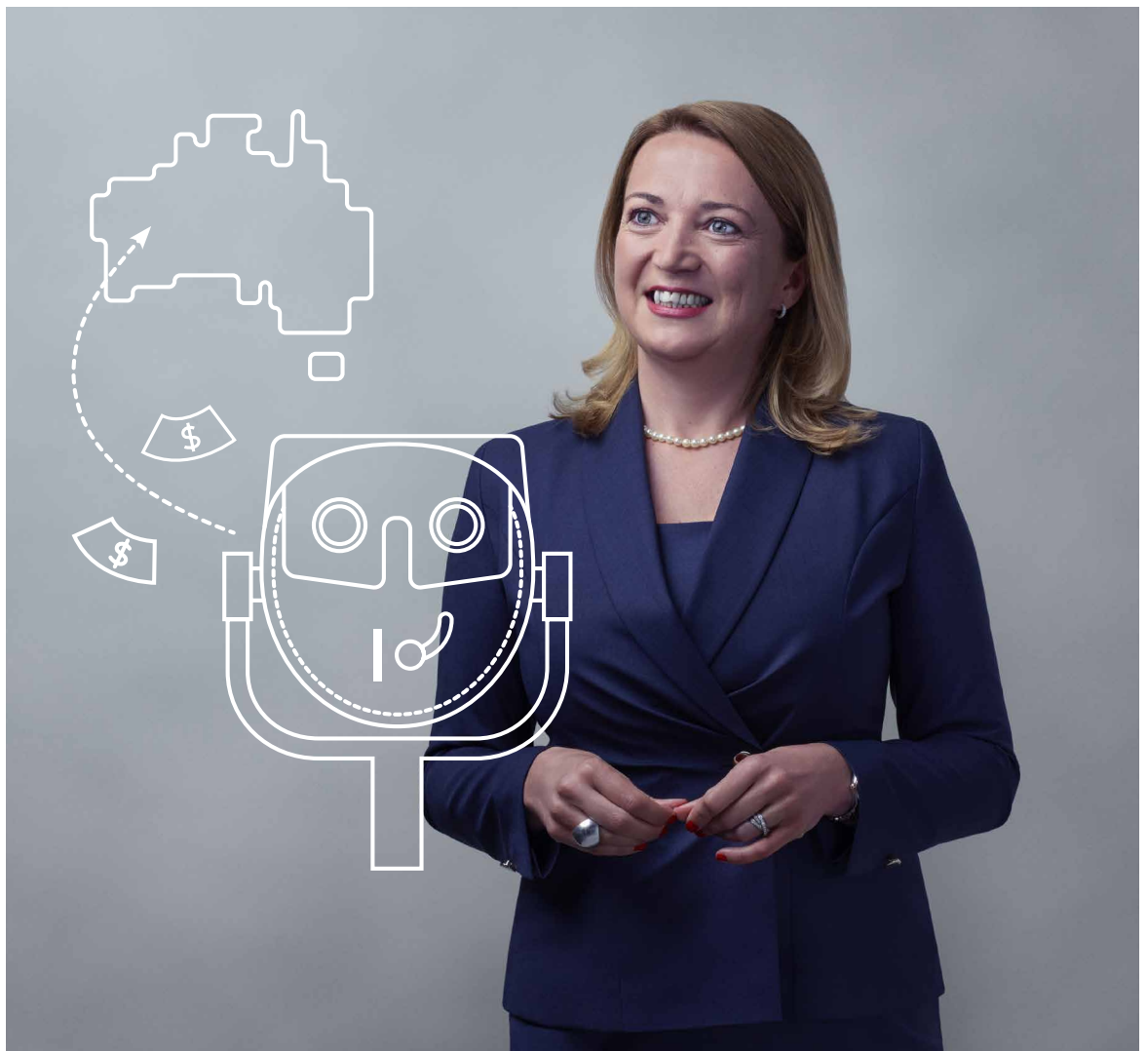


The 2030 Big Picture Series:

Perspectives on economic opportunities for the
Mid West of Western Australia



The COVID-19 pandemic has hit the economy hard. Although the restrictions due to COVID-19 will be temporary, the knock-on effects are likely to last much longer, especially for businesses that had to shut their doors during the crisis.

The following whitepaper includes perspectives and recommendations based on a business-as-usual standpoint. At the time of writing this report, the precise long-term impacts of COVID-19 remain unclear. RSM Australia believes that, once the COVID-19 shock recedes, businesses should re-evaluate the landscape and seek expert advice regarding new opportunities.





EXECUTIVE SUMMARY

The main centre of the Mid West is the Greater Geraldton area, which has been in decline due to dwindling mining activities in the region. The downturn in the mining industry has led to a population exodus, which has affected remaining industries. For example, an over-supply of homes has led to a downturn for builders, many of which have folded or reduced in size.

This has created a very challenging environment for the Mid West. While there are persistent rumours that some mines may be reinvigorated, these have not materialised as firm plans, so the region can't depend on a renewal of the mining industry.

The remaining industries are fishing and farming, as well as tourism. Fishing and farming are already successful industries, while tourism is relatively new in the area. However, this is a key area for development in the Mid West and, arguably, represents the biggest opportunity for growth.

The Abrolhos Islands present an ideal tourism opportunity, especially for the large numbers of Chinese tourists that flood into Western Australia (WA) annually. Once the COVID-19 pandemic recedes and business returns to normal, service industries and related endeavours such as charter boats and fishing tours stand to gain from improved access to and marketing of this natural resource.

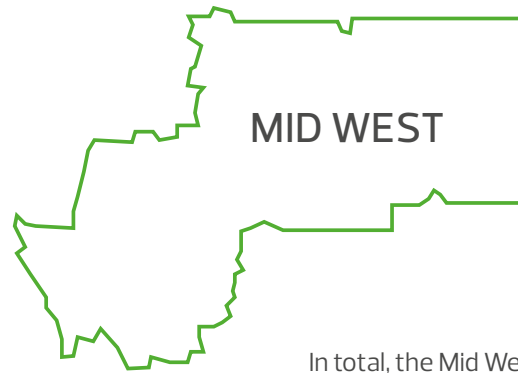
Other tourism initiatives such as the Kalbarri Skywalk can also help attract visitors from Australia and overseas to the Mid West.

Trade with China was positive before COVID-19, and more efficient farming practices are helping farms remain financially viable even as they employ fewer people in the slowing economy. There are fewer family farms as the size of farms has grown to a point where the only potential buyers are corporations, resulting in more corporate-owned farms.

The Geraldton Universities Centre works with universities throughout Australia to deliver a range of locally supported university courses. This has led to increased availability of skilled workers, especially in areas such as accounting, teaching, and nursing.

These indicators show that there are opportunities for growth and a positive trajectory in the Mid West; however, there is also a key challenge around transport for both tourists and workers alike. It's expensive and inconvenient to reach areas of the Mid West, with no direct flights currently available. There has been some redevelopment of the Geraldton airport to accommodate international airlines but, at this stage, it exists merely as an emergency runway and not as a viable transport option. Furthermore, there are requirements to upgrade security and border control to turn Geraldton into a true international hub either for exports/imports or tourism travel. These travel requirements aren't currently available or planned but, with sufficient lobbying, may become a possibility in the future.

Given its current economic challenges, there are opportunities for savvy organisations to invest in the Mid West and, potentially, see strong returns by 2030.



THE REGION

The Mid West region covers approximately 478,000 square kilometres, accounting for nearly one fifth of WA's land area, extending from the west coast to the Gibson desert. It has a diversified economy due to differences in climate in various localities. For example, reliable annual rainfall near the coast allows for broadacre farming while, further inland, mining is commonplace. The Mid West has the highest-value fishing industry in WA, including the lucrative Western Rock Lobster.

Geraldton is highly connected with the NBN in offices and homes. It has a university campus, TAFE, and training for nurses and other medical professionals, making education an important industry. By contrast, other parts of the region are not well connected, and these areas can be disadvantaged due to the shift to a digital economy.

THE POPULATION

The Mid West has a population of more than 50,000.¹ It is made up of 17 local government authorities:

- Carnamah (population 405)
- Chapman Valley (population 1,422)
- Coorow (population 172)
- Cue (population 194)
- Greater Geraldton (population 38,634)
- Irwin (population 3,734)
- Meekatharra (population 708)
- Mingenew (population 282)
- Morawa (population 750)
- Mount Magnet (population 470)
- Murchison (population 925)
- Northampton (population 813)
- Perenjori (population 276)
- Sandstone (population 89)
- Three Springs (population 594)
- Wiluna (population 720)
- Yalgoo (population 279)

The Mid West Development Commission managed the delivery of \$220 million of funding over the seven years to 2020 for infrastructure projects and initiatives in the region. Of particular focus were economic infrastructure including railways, roads, ports, communication, electricity, and utilities, as well as social and community infrastructure including health, education, town revitalisation, and recreation facilities.²

In total, the Mid West region is benefitting from more than \$15 billion worth of projects including infrastructure, tourism development, non-government projects, minerals and energy (making up 79% of investment) and government projects.³

The Mid West region is attractive for its temperate climate, housing affordability, and general liveability. With sustained focus on jobs programs and speeding up travel between Perth and Geraldton, the Mid West could become an attractive location for tourists and residents alike. However, despite periods of small growth, over a 10-year period, the region's population is forecast to decline or remain static, and this could be exacerbated by the current COVID-19 challenge.⁴

HEALTH

In the Mid West, 86% of the region's population lives in the two (of five) most disadvantaged types of localities in Australia. In total, there are 11 hospitals, 59 general practices, and two Aboriginal medical services in the region.⁵ Geraldton has a regional hospital and, further north, Carnarvon hosts the area's district hospital. There is a small hospital located in Meekatharra and four small hospitals dotted around the major population areas closer to the coast.⁶

Mid West residents suffer from a number of health issues, with 35% of people aged over 16 characterised as obese. The region has a 1.4 times higher rate for alcohol-related hospitalisations compared with the rest of the state, a 1.4 times higher rate of lung cancer, and 2.4 times the death rate for transport accidents. More than half (53%) the number of deaths of people under 75 years were avoidable, while just under three-quarters (74%) of the population was able to receive hospital care in the region.⁷

¹ www.drd.wa.gov.au/regions/Pages/Mid-West.aspx

² www.drd.wa.gov.au/projects/Economic-Development/Pages/Mid-West-Investment-Plan.aspx

³ www.mwdc.wa.gov.au/f.ashx/2019-MPS-FINAL-April-2019-LR.pdf

⁴ www.dplh.wa.gov.au/information-and-services/land-supply-and-demography/western-australia-tomorrow-population-forecasts

⁵ www.ruralhealthwest.com.au/explore-wa/midwest-region

⁶ www.wacountry.health.wa.gov.au/fileadmin/sections/publications/eDoc_CO_WACHS_Health_Profile_Summary_March_FINAL_2017.PDF

⁷ www.wacountry.health.wa.gov.au/fileadmin/sections/publications/Publications_by_topic_type/Reports_and_Profiles/eDoc_CO_Midwest_Health_Profile_2018_ED-CO-17-17834_PDF

TRANSPORT

The COVID-19 effect

The relatively remote geography of the Mid West necessitates a reliance on a mix of personal transport, coach road traffic and airline travel. The COVID-19 crisis all but shut down Australia's domestic airlines for the short term. Virgin Australia has pulled out of servicing Geraldton, which means there is little competition and very few flight options. However, since going into voluntary administration and with new buyers in the offing, the airline could potentially take a new direction in future. This direction remains unknown at this point.

Business as usual

In the future, aviation will remain a hugely important aspect of the Mid West's ability to attract visitors and residents alike. The recovery of the aviation sector following COVID-19 will help boost tourism and population growth. Without a strong aviation sector in the region, it will remain dependent on road traffic, which will limit growth opportunities. Attracting skilled workers to address the skills gaps currently in the region will also be more difficult.

Mid West businesses will need to reopen dialogue with major airlines to attract them back to the region and open up corridors of travel between Perth, Geraldton, Karratha, and more.

OPPORTUNITIES

Geraldton Chinatown

The COVID-19 effect

In August 2019, a plan was announced for foreign investors to create a purpose-built Chinatown on the eastern fringe of Greater Geraldton. The proposed development includes homes for Chinese migrants and associated service industries to cater for their needs, according to an ABC news report.⁸

This project is likely to be affected in the short-term due to the effects of COVID-19 and the likelihood that international travel will be curtailed for some time. Without knowing when borders will reopen and international travel will get back to pre-COVID-19 levels, it remains difficult to predict when this project will return to the priority list.

Business as usual

Geraldton's reliance on China for income has been decimated in the wake of the COVID-19 pandemic. This is exacerbated by trade tensions with China, which could affect the ability to return to business as usual in the short term. In the long term, China is likely to remain an important trading partner so it will be important to keep a watching brief on how Australia/China relations recover.

Mining

With some smaller mining companies operating in the Mid West, this sector is largely immune from the effects of COVID-19. There may be some minor impact if the demand for minerals and ore is reduced. It can be expected that one of the signs of an economic recovery is likely to include the bringing forward of infrastructure projects, which will require materials such as steel. This makes mining a key potential investment opportunity.

Tourism

The COVID-19 effect

With the COVID-19 pandemic putting a momentary stop to tourism around the world, the Mid West region is also suffering. The state government has funded \$12.85 million to support the tourism industry and regional aviation, which had been growing rapidly before the coronavirus hit.⁹

Tours and accommodation businesses were shut down rapidly as a result of COVID-19, which has had a knock-on effect for hospitality and retail businesses in the area. Geraldton was just starting to become a desirable tourism destination after many years of work by local businesses.

The tourism industry also experienced a significant impact as a result of the bushfires in Australia's east. Although the fires didn't affect WA, the negative international publicity surrounding fires created doubt in tourists' minds with regard to their travel to Australia. The downturn due to the bushfires was followed almost immediately by COVID-19.

Tourism will be heavily affected for some time as the Mid West was predominantly relying on Chinese and European tourists. The Mid West was starting to target Japanese tourists but, now that the borders are closed with no firm date for them to reopen, these opportunities have been pushed back.

Once the borders are reopened, the Mid West will continue to build its reputation as a desirable tourism destination. Most businesses are geared up to spring back into action and it's expected that, initially, local tourism demand will fuel the industry's comeback until international travel resumes and people feel confident travelling overseas again. Tourism WA will focus on a 'holiday at home' campaign, which will aim to increase local demand for the tourism sector and jumpstart the recovery.

⁸ www.abc.net.au/news/2019-08-31/foreign-investor-plan-to-create-rural-chinatown-in-geraldton/8537422

⁹ www.mediastatements.wa.gov.au/Pages/McGowan/2020/02/New-funding-boost-for-WA-tourism-and-regional-aviation.aspx



Business as usual

The Mid West offers significant tourism opportunities due to the natural beauty of its landscape and the availability of many tourist experiences from camping to resorts. The Mid West Tourism Development Strategy has identified numerous gaps that can be addressed in the Mid West's tourism, potentially creating stronger opportunities for savvy businesses.

Travel to the area is currently challenging, with few direct flight options. As Virgin Australia prepares for new ownership, this could change; however, it may be more likely that the new owners elect to only service the most profitable routes or limit flights to non-capital cities.

It's important to note that the Mid West differentiates itself from the winery regions of WA, focusing on different tourism opportunities.

Just three of the key opportunities that organisations can consider are:

1. Abrolhos Islands

After more than three decades of discussion, the Abrolhos Islands were declared a national park in 2019.¹⁰ Made up of 122 islands west of Geraldton, the Abrolhos Islands are pristine and play host to many species of birds, reptiles and other animals.

Recreational fishing is just one attraction on these islands, and the state government plans to spend \$10 million building infrastructure including new jetties, an upgraded airstrip, and tourist walking trails.¹¹ There are opportunities for charter boats, fishing, eco-tourism, sightseeing flights, and more.

2. Kalbarri Skywalk

The Kalbarri National Park was already a huge drawcard for tourists attracted to the Mid West. The national park had more than 450,000 visitors in the 2018/19 financial year.¹² To take advantage of the breathtaking views, two skywalks

have been built 100 metres apart. Projecting 25 metres and 17 metres beyond the gorge rim, the skywalks put visitors more than 100 metres above the Murchison River, where they can look out across a vista of wildflowers and sandstone cliffs, all the way to the horizon.

Once open, the Kalbarri Skywalk is anticipated to draw even more visitors to the region. Investors will likely look to capitalise on the increased visitor numbers through hospitality and accommodation, transportation, and associated businesses.

3. Geraldton conference centre

One mining company is considering setting up a fly in/fly out (FIFO) hub in Geraldton and hosting its board meetings at a local hotel. This company intends to build a conference centre, which will deliver a significant positive impact for Geraldton as a business destination.

Transport

The Geraldton Airport is currently being upgraded to accommodate larger aircraft. This provides an alternative landing airport for passenger jets diverted from Perth, which is one hour's flight away. This capability will reduce costs for passenger and cargo planes, which is crucial because it's those high costs that have made Western Australia such an expensive interstate and international tourist destination. By bringing these costs down, the new airport capabilities can lower the overall costs of doing business in WA.

^{10,11} www.mediastatements.wa.gov.au/Pages/McGowan/2019/07/Historic-day-for-WA-as-Houtman-Abrolhos-Islands-National-Park-officially-created.aspx

¹² www.australiascoralcoast.com/destination/kalbarri/kalbarri-national-park/skywalk



Aquaculture and agriculture

Fishing

The COVID-19 effect

The fishing industry was impacted very early in the COVID-19 timeline because the vast majority of crayfish in the region were exported to China. Wholesale supply of fish and other foods were severely impacted by social distancing and the necessary closure of the food service industry. This has caused the price of crayfish to sharply decline. However, the fishing industry will bounce back as restaurants and hotels reopen in Australia and internationally, as there will always be demand for Australia's fresh seafood.

Business as usual

During the 2016-17 period, Western Australian fisheries grossed \$620 million, which was an increase of 5% from 2015-16, and accounted for 20% of the gross value of Australian fisheries production. Australia's major destination for exports is still Asia, and the pattern of exports has shifted toward south-east China and Vietnam regions.¹³

Both Western Australian wild-catch and aquaculture values have declined during the past decade. The value of wild catch declined 6% during this time, mostly due to a decline in total volume production. The value of aquaculture declined 46% to \$89.2 million in 2015-16, which is mostly attributed to the decline in pearl oyster production value.¹⁴

Kingfish breeding program

In 2016, aquaculture operations started in the Mid West region of Western Australia to create more opportunities for the Western Australian fisheries market. Yellowtail Kingfish (*Seriola lalandi*), also known as Amberjacks or YTK, are one of the species being monitored in the spawning operations.¹⁵ The Yellowtail Kingfish, which is indigenous to Australia, can be found in tropical and temperate waters of the southern hemisphere and northern Pacific. This is usually in areas from North Reef, Queensland, to Trigg Island off Western Australia, and as far south as Tasmania.¹⁶

In 2018, major aquaculture company, Huon, secured a lease for 2,200 hectares to establish a farming zone for Yellowtail Kingfish off the Houtman Abrolhos Islands in the Mid West Aquaculture Development Zone.

The program is expected to create more than 3,000 direct and indirect jobs when fully operational.¹⁷ Currently the program is still in the process of development, with plans and other activities being finalised. No date has been set by Huon to start introducing fish into the waters.¹⁸

Farming

The COVID-19 effect

Because of the relative isolation of farms and farm workers, agriculture is likely to remain largely unaffected by COVID-19 in terms of a direct impact; farms did not have to close, and workers were generally safe from infection from COVID-19 due to geographic isolation.

Business as usual

Agricultural land occupies approximately 42% of Western Australia, accounting for 1,064,700 square metres of the total land area. Most commonly this land is used for nature conservation and minimal use (37% of the state) but is closely followed by grazing native vegetation (36% of the state).¹⁹

¹³ www.agriculture.gov.au/abares/research-topics/fisheries/fisheries-and-aquaculture-statistics/key-trends-2017

¹⁴ www.agriculture.gov.au/abares/research-topics/aboutmyregion/wa#fisheries-sector

¹⁵ www.oceanwatch.org.au/seafood/aquaculture/species/yellowtail-kingfish

¹⁶ australianmuseum.net.au/learn/animals/fishes/yellowtail-kingfish-seriola-lalandi

¹⁷ www.abc.net.au/news/rural/2018-10-12/huon-reveals-wa-fish-farm-plans/10366240

¹⁸ www.huonaqua.com.au/about/operations/western-australia-kingfish-lease

¹⁹ www.agriculture.gov.au/abares/research-topics/aboutmyregion/wa#regional-overview

In 2017–18, Western Australia's agricultural yield, grossing \$8.6 billion, represented 15% of the total gross value of Australia's agricultural production (\$59 billion). The commodities that represented the biggest contribution to Western Australia's yield were: wheat (\$2.1 billion); wool (\$995 million); and canola (\$989 million).²⁰

Due to unfavourable seasonal conditions in Western Australia, the forecast for the winter crop production has fallen 35% to 11.6 million tonnes in 2019–20. In the Geraldton region, this forecasted yield will be the region's lowest total in a decade.²¹

Grain production

The grain industry is the largest agricultural sector in Western Australia, contributing over \$4 billion annually to the state's economy. Approximately 14 million tonnes of grain are produced each year from around 4,000 farms across the state. Wheat is the main grain crop sourced (approximately seven million tonnes are produced yearly), followed by barley, canola, oats, lupins and peas.²²

The yield from Western Australian wheat varieties is growing at a higher rate than the world average, rising 1% during the past 30 years.²³ Western Australia exports 80–90% of annual grain production to more than 50 countries.²⁴ However the most prominent grain markets are Asia and the Middle East, with Indonesia being the largest, accounting for an average 2.3 million tonnes exported annually.²⁵

Agriculture contributes 8% to the Mid West's economy, with Geraldton the second-largest grain export terminal in Australia.²⁶ The Geraldton zone mainly includes the grain products of wheat, lupins, and canola.²⁷ The yield from these grains supplies more than half of the profits in the region from agricultural farming, with a recent harvest of \$432.7 million.²⁸

Due to the dry conditions of regions across Western Australia, including the Mid West, grains and wheat are being produced at a higher quality due to the low moisture content, low discolouration and high bulk density. This means that the wheat can be used for a larger range of products.²⁹

FUTURE CONSIDERATIONS

Potential as a renewable energy hub

The Mid West has a surfeit of both wind and sun, making it an ideal destination for solar or wind power farms. With so many renewable energy opportunities, the area may develop into a desirable location for the technology industry and other energy-intensive sectors.

The Mid West is an emerging frontrunner as a centre for developing hydrogen power, which requires water, power, and land, all of which the Mid West can provide.³⁰

Square Kilometre Array project

The CSIRO and an international consortium are building the world's largest radio telescope. The Square Kilometre Array (SKA) project aims to build a collecting area larger than

one square kilometre. This massive-scale project is one of the largest scientific endeavours in history and will let astronomers view the sky in unprecedented detail.³¹

WHERE TO FROM HERE

The COVID-19 effect will give way to business as usual

While COVID-19 is top of mind for all businesses, the overwhelming consensus is that industries will recover once the immediate threat recedes. However, business as usual may not look the same as it did before 2020.

The effect on small businesses

With most businesses in the region reflecting the business landscape across Australia, the Mid West's economy is dominated by small and medium businesses (SMBs). Small businesses will be the hardest-hit by the COVID-19 crisis and many may not reopen once the immediate crisis is over.

These businesses are unlikely to be bolstered by huge amounts of available working capital, which means that, to survive the COVID-19 downturn, they need to make smart decisions regarding the cash or equity that they do have.

When businesses are ready to fully resume their operations, they will need to determine whether to invest in new working models so they can adjust their trading activities to the new environment. Alternatively, some business owners may need to withdraw any equity from the business and use it for living costs, which suggests those businesses may not be well-placed to recover in the future.

It's important for businesses to work through the steps of recovery strategically and methodically to ensure they're robust enough to survive into the future. This is crucial for the ongoing viability of the region as a whole, as its many small shires rely on each other in various interconnected ways. It will be necessary to work at a micro level to encourage and sustain investment in these businesses.

²⁰ www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/7503.0Main+Features12017-18?OpenDocument

²¹ www.agriculture.gov.au/abares/research-topics/agricultural-commodities/australian-crop-report/western-australia

^{22,24} www.agric.wa.gov.au/grains-research-development/western-australian-grains-industry

²³ www.agric.wa.gov.au/crops/grains/wheat

^{25,29} www.agric.wa.gov.au/grains-research-development/western-australian-wheat-industry

²⁶ www.drd.wa.gov.au/Publications/Documents/A%20regional%20profile%202018%20-%20%20Mid%20West.pdf

²⁷ www.agric.wa.gov.au/wheat/grain-production-western-australia-map

²⁸ www.cgg.wa.gov.au/work/economic-profiles/sectoral-performance.aspx

³⁰ www.mwdc.wa.gov.au/resources/news/mid-west-a-frontrunner-in-new-hydrogen-economy.aspx

³¹ www.skatelescope.org/the-ska-project



Organisations need to consider different opportunities, different ways of marketing the organisation, and different ways of doing business to become **more efficient and attractive to customers and investors.**

Focus on local rather than international markets

Australia's recovery from COVID-19 will be driven largely by local rather than international demand. As the immediate restrictions of COVID-19 are lifted, businesses will start the rebuilding phase and the economy is likely to improve relatively quickly. When it does, economic opportunities in the Mid West will be strong.

For example, a weak Australian dollar could encourage overseas investors to buy meat, grain, and other Australian exports, which means now could be an ideal time to invest in Australian products.

For a strong economic recovery, it will be essential to build local supply chains rather than rely on large international supply chains to the extent that Australia has previously. As COVID-19 has clearly illustrated, these international supply chains are highly vulnerable to market impacts.

The start of a new normal

For many businesses in the Mid West, the COVID-19 crisis provided the impetus to examine the business and consider a strategic reset, which would probably have become necessary in the next few years due to changing consumer behaviour and market conditions. Many businesses were already struggling before COVID-19, so they can now either seize the opportunity to reshape for the future or accept the reality that their business model is unsustainable.

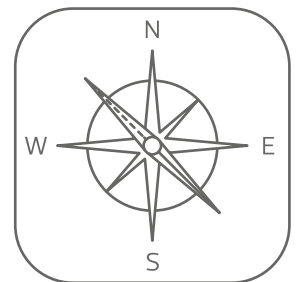
If a business hasn't been thriving for the past five years, then the COVID-19 crisis isn't the only event that could threaten its future. For these businesses, future survival is likely to hinge on innovation and a complete strategic rethink. Organisations need to consider different opportunities, different ways of marketing the organisation, and different ways of doing business to become more efficient and attractive to customers and investors. It may be prudent for competing or complementary businesses to look at partnerships where they can drive growth and create new opportunities together. The outcome of the COVID-19 pandemic will be a new normal for businesses. Those that are prepared to innovate and think creatively will come out on top.

CHARTING A COURSE FOR 2030

While the current focus is on the short-term impacts of COVID-19, smart business owners are avoiding a knee-jerk reaction and instead planning long-term opportunities beyond this crisis. While most businesses will need to embrace change to survive, many of the opportunities that existed prior to COVID-19 will continue to exist, although in some cases in a different form.

This means organisations should consider investing in the hot areas of tourism and hospitality, transportation, agriculture, and, to a lesser extent, retail. Mining will continue to play a role in the Mid West's economy, and the success of all industries will depend, at least in part, on efficient and affordable air transport.

The region remains committed to encouraging population growth to address skills gaps and bolster its small towns. Tourism will certainly be the focus in terms of job opportunities and business development, but education opportunities and the region's general liveability can also contribute to the Mid West's reinvigoration and success to 2030.



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