

6 May 2005

The Secretary
Transport and Regional Services Committee
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Sir / Madam

Integration of Regional Road and Rail Networks and their Connectivity to Ports

The Chamber of Commerce and Industry Western Australia (CCI) is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia with a membership of almost 5,000 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private sector businesses but CCI also has representation in the not-for-profit sector and the government sector. About 80 percent of members are small businesses, and members are located in all geographical regions of WA. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

CCI is very pleased to make this submission to your *Inquiry into the Integration of Regional Rail and Road Freight Transport and their Connectivity to Ports*. This submission initially addresses a number of infrastructure policy issues and then outlines a number of regional case studies.

Infrastructure Policy

Enclosed with this submission is a copy of CCI's December 2003 policy document *Infrastructure Policy: A Policy Approach to Key Issues in the Provision and Funding of Infrastructure in Western Australia*.

The first section of the policy discusses recent developments in infrastructure demand and funding in Australia and Western Australia, and in particular, the potential for investment to be undersupplied because the costs and benefits of infrastructure investment fall unevenly between the private and public sectors and across different layers of government. It contains some specific recommendations for current policy changes.

The second section explores the economic theory and policy analysis that underpins the recommendations and discussions in the first section.

WA is undergoing an investment boom, driven largely by projects in the resource industry and related downstream processing activities. The boom has raised some important questions about infrastructure and infrastructure investment policy that need to be addressed as a matter of urgency.

The proposed Gorgon gas development and the development of the Burrup Peninsula have both highlighted the fact that, while the State Government has prime responsibility for the provision of

common user infrastructure of a type that can justifiably be government supported, the bulk of additional tax revenues from major projects flows to the Commonwealth.

The enclosed policy therefore calls for the Commonwealth Government to carry a greater share of the responsibility for providing the infrastructure necessary for industrial development, because it collects the main tax benefit from such projects. The Commonwealth Grants Commission formula used to determine states' relative expenditure needs should also be amended to give greater recognition to the problems caused by the demand for new capital from economic development and population growth.

The policy also recommends that the Commonwealth should review its business assistance programs to create a more transparent and predictable evaluation process and to provide support in cases where there is a demonstrable market failure and where net community benefits are likely to be maximized, such as common user infrastructure. There should also be a joint review between the Commonwealth and the States aimed at achieving better consistency and coordination of assistance programs between jurisdictions.

The policy is broadly supportive of the State Government's Public-Private Partnerships initiative, which clarifies guidelines for doing business with government, and aims to address some of the problems (such as inappropriate risk allocation) that have on occasion been faced by businesses and governments entering public-private partnerships.

Importantly, the policy emphasises that while government infrastructure should only be undertaken in response to identified demand, not all demand for infrastructure should be met. Government should only invest in infrastructure if it is affordable and can plausibly be expected to deliver benefits in excess of costs.

The above recommendations need to be considered in the context of the full set of recommendations contained in the enclosed policy, and in the context of its overarching analytical framework. The above aspects however provide an insight into the issues addressed in the rest of this submission.

Prioritisation of State Infrastructure Provision

CCI was an active member of the Steering Committee convened by the WA Department for Planning and Infrastructure to prepare a draft *State Transport Infrastructure: Freight Program (STIP)*. STIP focuses on transport infrastructure priorities in WA for the next 10 -15 years with the intent of influencing the scope and detail of the *National Land Transport Plan: AusLink* and the National Strategic Transport Plan to be coordinated by the National Transport Advisory Council.

While the final document was not intended for public consumption, CCI argued that further consideration should be given to placing the STIP report into the public domain. CCI has argued that the STIP review process should include provision for wider industry consultation.

Importantly, however, this work was completed too late to significantly influence the priorities outlined in the AusLink program. This underlines the need for greater coordination between State and Commonwealth governments on the identification of transport infrastructure priorities.

CCI is concerned to see the WA Government provide more information on the infrastructure plans it has for the State over at least a five year period, and to support that with planning intentions that will affect businesses over a longer period of at least ten years.

Examination and prioritisation of infrastructure requirements in a transparent fashion by the State Government will provide greater certainty to industry and assist in de-politicizing the prioritisation process.

Inclusion of Wider Economic Benefits

CCI understands that the corridors of critical importance identified through AusLink were derived from the National Highway and Defined Interstate Rail Network and were meant to capture significant freight corridors and concentrations of intermodal activity and link major regional centres and economic regions within and between States and Territories.

Assessment methodologies for determining the priority for funding of transport infrastructure corridors need to consider the economic stimulus that the improved transport corridor will bring – and not just the initial direct transport user benefits.

The identified corridors of critical importance in AusLink also seemed to be highly influenced by container rather than bulk transport tasks. Bulk transport is especially important in the context of regional Western Australia.

The scope of programs such as AusLink need to be broadened to address the above concerns.

Heavy Vehicle Access to Roads

Substantial economic benefits can be obtained by permitting larger vehicle combinations on sections of the road network, especially in regional areas. It is recognised that despite the efficiency benefits from their use, the issue of road trains is a significant social and safety issue.

It is imperative, however, that the processes that are in place to assess applications for heavy vehicle access are clear and transparent and offer certainty to industry.

Industry has had major concerns with the current heavy vehicle permit system in Western Australia. These concerns are particularly focussed on local authority processes and even more so when the route being sought encompasses roads in a number of local authorities.

Heavy vehicle permits currently only allow the specific applicant to traverse the nominated route, with any subsequent applicant needing to follow the same approval process. A review is presently underway of the State's road networks which will foreshadow the introduction of the Restricted Access Vehicles (RAV's) Notice. This Notice will outline a number of road networks on which categories of RAV's will be approved to operate.

While industry is strongly supportive of the proposed system, concern still remains that the processes required to obtain a new Notice will be prohibitively time consuming due to the delays and complexities involved in negotiating local authority approvals, again especially where a number of local authorities are involved.

Regional Case Studies

Outlined in the following regional case studies are some examples of key areas of infrastructure need in Western Australia.

South West Region Linkages

The Kwinana Industrial Area (KIA) was established over 50 years ago and remains the State's premier heavy industry estate. While real opportunities for growth remain within the KIA, over time it is likely that an increasing range of heavy industries will need to be accommodated in industry precincts other than the KIA. This situation has provided the catalyst for the increasing focus on the South West region for further heavy industry development.

Included in this region is the key triangle formed by Bunbury Port, which is central to the competitiveness of the region, Kemerton Industrial Park, and Collie, as well as the vital alumina and mineral sands developments.

However, no single site in the South West of the State will be able to replicate the complex integrated relationships within the existing KIA. To maximise opportunities it is therefore essential not only that synergies within these South West industrial sites are realised, but also that synergies are realised between the sites, and between the South West Region and the KIA and the wider Perth metropolitan area.

This necessarily puts the focus on transport infrastructure between sites to facilitate those synergies and also transport linkages with the KIA.

An example of the realisation of these synergies is demonstrated by Tiwest, one of the State's leading mineral sands producers. Tiwest transports mineral sands products from its mine site north of Perth, by road to Bunbury for export. The trucks either return to site via Collie where they are back-loaded with coal that will fuel their Chandala processing plant, or carry petroleum coke from Bunbury Port to Kwinana for the company's pigment plant.

The multi modal corridor connecting Perth to the South West has been identified by AusLink as a corridor of critical importance. AusLink also recognises Bunbury as being a major seaport.

Commonwealth funding for the important Mandurah bypass has been committed, but the performance of the Port of Bunbury and the South West region are limited by a range of transport infrastructure constraints. High population growth in the region, together with the further development of significant industries, will necessitate upgrading of road, rail and port infrastructure.

The potential for heavy industry in the South West will be maximised as part of a general hub and spoke concept for heavy industrial development that will rely on the establishment and maintenance of critical transport linkages.

The attached case study *Critical development for south west*¹ provides further details on the importance of addressing transport infrastructure requirements to assist in the development of synergies between south west heavy industry sites and with the KIA.

Burru Peninsula Infrastructure

The Burrup Peninsula is a major industrial area. It is the second most important industrial area in Western Australia behind the KIA. The major sea port of Dampier is situated on the Burrup Peninsula.

¹ Refer attached case study: 'Critical development for south west'

The Peninsula currently accommodates the North West Shelf gas processing plants, Pilbara Iron's iron ore offloading facilities and the newly established Burrup Fertilisers plant. Existing industries have invested more than \$10 billion on the Burrup Peninsula and these investments continue to increase. There are prospects for another \$5 billion worth of industrial development on the Peninsula, particularly petrochemical and chemical industries.

Over the next decade, the Burrup Peninsula has the potential to develop into an internationally significant integrated petrochemical industrial area adding value to Western Australia's substantial gas reserves. The evidence from WA's more mature KIA shows the scale and scope of the industrial integration that can develop.

However, while the Burrup Peninsula has a number of attractions, there are significant obstacles facing proponents considering the development of petrochemical related heavy industry on the Burrup Peninsula. In other competing locations proponents of heavy industry development can "plug in" to existing power, pipeline and offloading facilities. The types of projects that might locate on the Burrup Peninsula are also footloose. The proponents of these projects could easily choose to locate in countries other than Australia.

The State Government has made a substantial contribution to the provision of common user infrastructure on the Burrup Peninsula. It has provided a \$183.3 million package including a major upgrade to the Port of Dampier, a water supply/brine return system, a service corridor and investment in roads. The Commonwealth Government's current Strategic Investment Coordination Programme administered through Invest Australia provides company specific support for infrastructure but this has had limited success in facilitating the provision of infrastructure on the Burrup.

Notwithstanding existing Commonwealth and State support for infrastructure development on the Burrup Peninsula there remains a critical requirement for additional infrastructure. To ensure that the Burrup Peninsula remains an attractive location for petrochemical development, the Commonwealth Government should increase its funding of common user infrastructure.

The Port of Dampier is identified in AusLink as a major sea port. A high quality road linkage between the Burrup and Perth is however also critical to the success of the region.

The North West Coastal Highway is currently excluded from the corridors of critical importance identified by AusLink. The Great Northern Highway is identified as one of the corridors of critical importance in AusLink. It is the major north – south arterial road and services the mining and agricultural regions. It provides a more direct land transport link to northern Australia and plays a critical role in the nation's defence. The highway however bypasses the Burrup peninsula and the Port of Dampier.

CCI has recently initiated a study, to be undertaken by ACIL Tasman, into the factors inhibiting industry development in the North West.

It is expected the study will highlight the critical role that the expansion of common user infrastructure would play in unlocking the Burrup Peninsula's industrial potential and in turn underline the need for a transport linkage to the Port of Dampier to be included as a corridor of critical importance in AusLink.

Goldfields Freight Hub

Kalgoorlie-Boulder is a major regional centre and freight hub for the Goldfields-Esperance region of Western Australia and mining areas to the north and west of the region because of its central position and its proximity to the Perth-Adelaide National Highway.

It is an important rail centre, being the junction of the Trans Australian and Leonora-Esperance lines. Kalgoorlie-Boulder has grown as a transport hub, and as an industrial and technical service centre for the regional mining industry. Kalgoorlie-Boulder is also the supply centre for much of regional and remote WA, including the Northern Goldfields, many remote Aboriginal communities and the widely spread Eyre Highway community of pastoral stations and roadhouses.

The road and rail networks within the region link major mining operations with the Port of Esperance, being the closest Western Australian port to the eastern states and the outlet for much of the mining and agricultural products from the region and potentially from areas further to the north.

Esperance is the major port for nickel from Murrin Murrin. With the development of BHP Billiton's Ravensthorpe Nickel Project and the future development of the Kalgoorlie Nickel Project, this area of export will rapidly increase. Similarly, Portman's expansion of its Koolyanobbing Project will see capacity increase from 5 to 8 million tonnes per annum of ore, all of which will be transported by rail to the Esperance port.

Facilities at the port have recently been expanded, including the development of a third berth. The port channel has been deepened, such that Cape Class vessels (large ore-carrying vessels normally associated with North West ports) can now be berthed.

There are now proposals being developed to revisit the concept of further developing Kalgoorlie as an intermodal freight hub (in addition to the existing services) to service the Goldfields and surrounding regional areas.

The importance of Kalgoorlie-Boulder as a freight hub and its strong connections to the Port of Esperance underline that issues regarding connectivity to ports extend hundreds of kilometres from the port itself.

High Wide Load Corridors

There is a strengthening trend in the construction of major projects towards fabricating modules, or pre-assembled units, in workshops and transporting them to site. This provides cost savings, and considerable scheduling and programming benefits for project developers compared to traditional methods requiring greater on site construction.

This move is also being driven by the difficulties these projects face in accessing skilled labour. Utilisation of these methods can substantially reduce the far more costly site construction manpower requirements, and also reduce manpower requirements overall.

The Commonwealth and WA governments have already addressed this move to modularisation with their substantial investment in common user facilities at the Australian Marine Complex (AMC) at Henderson, south of Perth.

Local fabricators are, however, currently restricted in their ability to compete for this work due to power line and road furniture impediments within the metropolitan area and along the key corridors from the metropolitan area to the regions. There is an urgent need to establish a high wide load

corridor network in Western Australia by clearing away these impediments to the movement of over dimension loads.

If acceptable routes are not available to allow local fabricators to compete for this work, these modules will be fabricated overseas, off-loaded at regional ports and transported to the project site, bypassing the bulk of the transport impediments facing local companies.

Alternatively, the higher construction costs in comparison with those available elsewhere, may preclude resource development from occurring in Australia.

These corridors will also allow existing over dimension loads to be transported more safely and with less disruption.

CCI has been campaigning for the development of a network of high wide load corridors across the State since late 1998 with, to date, only the Kwinana to Henderson corridor (within the Perth metropolitan area) being implemented (in the middle of 2002).

CCI has prepared a number of reports on this issue, the most recent being:

- High Wide Load Corridors for Western Australia (November 2002);
- High Wide Load Corridors Whole State Trip Data (November 2004); and
- Review of Benefits of High Wide Load Corridor (Kwinana to Henderson) (November 2004).

CCI's most recent work has confirmed the key metropolitan and regional nodes that need to be connected via high wide load corridors. It also confirmed the extraordinary benefits that industry is already receiving from the existing Kwinana to Henderson corridor. The direct benefits to the State's economy of the Government's \$2 million expenditure on creating the Kwinana to Henderson corridor is in excess of \$9 million per annum or in net present value terms, a benefit in excess of \$100 million.

An extension of the high wide load corridor network will greatly enhance the competitiveness of the AMC and the competitiveness of companies located in or considering locating in the AMC.

While sea transport is necessary for the larger loads over longer distances such as to the North West, smaller loads would face disproportionately high barge or heavy lift vessel mobilisation costs, especially to closer destinations such as the South West of the State. In addition, the AMC needs to be able to effectively call upon the resources of the fabrication sector across the metropolitan area if it is to meet its future challenges with the massive projects that are in prospect.

CCI has called on the State Government to make available \$20 million in 2005-06 to implement the most prospective extensions to the existing Kwinana to Henderson corridor. These are between Kewdale / Welshpool and Kwinana (within the Perth metropolitan area) and between Kwinana and the South West.

Corridors would, however, still need to be created between Kewdale / Welshpool and the Goldfields in the east, and to the Pilbara in the North West.

Conclusions

WA is undergoing an investment boom. This has raised some important questions about infrastructure and infrastructure investment policy that needs to be addressed as a matter of urgency.

The Commonwealth Government needs to carry a greater share of the responsibility for providing the infrastructure necessary for industrial development, because it collects the main tax benefit from such projects. The Grants Commission formula used to determine States' relative expenditure needs should also be amended to give greater recognition to the problems caused by new capital demands from economic development and population growth.

Both State and Commonwealth governments need to examine and prioritise infrastructure requirements in a transparent fashion to provide greater certainty to industry and assist in de-politicizing the prioritisation process. There also needs to be far greater coordination between state and Commonwealth governments on the identification of transport infrastructure priorities.

However, while government infrastructure should only be undertaken in response to identified demand, not all demand for infrastructure should be met. Government should only invest in infrastructure if it is affordable and can plausibly be expected to deliver benefits in excess of costs.

Assessment methodologies for determining the priority for funding of transport infrastructure corridors need to consider the economic stimulus that the improved transport corridor will bring – and not just the initial direct transport user benefits.

The processes that are in place to assess applications for heavy vehicle access also need to be clear and transparent and offer certainty to industry, particularly when the routes being sought encompass roads in a number of local authorities.

The regional case studies outlined in this submission provide some examples of key areas of infrastructure need in Western Australia.

The expansion of heavy industry in the South West will rely on the establishment and maintenance of critical transport linkages to facilitate synergies between heavy industry sites in the South West and between these sites and the Kwinana Industrial Area.

Notwithstanding existing Commonwealth and State support for infrastructure development on the Burrup Peninsula there remains a critical requirement for additional infrastructure. While the Port of Dampier is identified in AusLink as a major sea port, the land transport link to the port and its adjacent industrial areas, also needs to be included as a corridor of critical importance in AusLink.

The importance of Kalgoorlie-Boulder as a freight hub and its strong connections to the Port of Esperance underline that issues regarding connectivity to ports extend hundreds of kilometres from the port itself.

Industry oriented infrastructure projects which provide economic benefits beyond the road user benefits, such as high wide load corridors, need to be raised in priority for funding.

CCI would be pleased to provide further information on any of the matters addressed in this submission. Please contact our Director Industry Policy, Mr Bill Sashegyi on (08) 9365 7567 or email: sashegyi@cciwa.com for further assistance.

Yours sincerely

J L Langoulant
Chief Executive

CASE STUDY: Critical development for south west

The Kwinana Industrial Area (KIA) has experienced strong growth for the past 50 years. Today the KIA is the State's premier industrial area. It contains a unique blend of integrated heavy, support and infrastructure industries and accounts for around \$4.3 billion in sales. When all multipliers are considered, the KIA is responsible for the employment of some 25,000 people.

Important and very real opportunities for growth remain within the KIA, especially through capitalising on industrial synergies with existing companies, but also with the existing infrastructure and surrounding industries, including those to be established within the new Hope Valley - Wattleup Redevelopment area.

The economic impacts of the KIA were outlined in the joint CCI / Kwinana Industries Council *Kwinana Industrial Area Economic Impact Study* released in 2002. This report also describes the growth of the KIA over the past 50 years and the extensive interactions between industries in the KIA, as well as exploring the potential for further development.

However, over time it is likely that an increasing range of heavy industries will need to be accommodated in industry precincts other than the KIA.

This situation has provided the catalyst for the increasing focus on the South West region for further heavy industry development - an issue that is explored in the 2005 edition of CCI's *WA Resource Development Services Directory*.

This South West Focus explores the key triangle formed by Bunbury Port, Kemerton Industrial Park and Collie, as well as the vital alumina and mineral sands developments.

Alcoa and Worsley stand at the forefront of alumina technology and production worldwide, while the development of the mineral sands industry since the 1950s has closely reflected the changing characteristics of the South West.

The Bunbury Port is central to the competitiveness of the region. Millenium Chemicals and Simcoa within the Kemerton Industrial Park exemplify the transformation of commodities into high-value, high-quality products and are symbolic of Kemerton's future.

The Collie coal fields have powered Western Australia for over a century, and recently CollTech and Pinetec have formed strategic alliances with Western Power and other resource providers, making the most of the infrastructure at Collie and building on regional synergies.

Capitalising on the opportunities and synergies available in the South West will come about through efficient use of existing and future infrastructure, the high quality and world competitiveness of the major industries and strong local support industry base, plus the dynamism of the South West community.

A recent study by the Chamber of Minerals and Energy of Western Australia *Mining in the South West (December 2002)* highlighted the potential for further mining related investment.

It conservatively found that there was the potential to extract mineral resources, valued in the range of \$250 billion dollars from the region. Successful realisation of these opportunities will in part be dependent on the availability of suitable locations for the processing of these resources.

However, no single site in the South West of the State will be able to replicate the complex integrated relationships within the existing KIA. To maximise opportunities it is therefore essential not only that synergies within these South West industry sites are realised but also that synergies are realised between these sites, and between the South West region and the KIA and the wider Perth metropolitan area.

This will require an increased focus on ensuring that efficient transport linkages are in place within the South West and between the South West and Kwinana.

An example of the realisation of these synergies is demonstrated by Tiwest, one of the State's leading mineral sands producers.

Tiwest transports mineral sands products from its mine site north of Perth, by road to Bunbury for export. The trucks either return to site via Collie where they are back-loaded with coal that will fuel their Chandala processing plant, or carry petroleum coke from Bunbury Port to Kwinana for the company's pigment plant.

Presently, a multi modal corridor connects Perth to the South West by way of the Old Coast Road and the South Western Highway, and the narrow gauge South West railway line that connects Perth via Pinjarra to Bunbury.

This corridor has been identified by AusLink as a corridor of critical importance. AusLink also recognises Bunbury as being a major seaport. Commonwealth funding for the important Mandurah bypass has been committed, but the performance of the port of Bunbury and the region are limited by a range of transport infrastructure constraints. High population growth in the region, together with the further development of significant industries will necessitate upgrading of road, rail and port infrastructure.

The potential for heavy industry in the South West will be maximised as part of a general hub and spoke concept for heavy industrial development that will rely on the establishment and maintenance of critical transport linkages.

ADDITIONAL INFORMATION HELD BY THE COMMITTEE

ATTACHMENT TO SUBMISSION NO. 19

ATTACHMENTS, APPENDICES AND PHOTOGRAPHS PROVIDED WITH SUBMISSIONS ARE HELD IN THE COMMITTEE OFFICE