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**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

Reference: Transport networks inquiry

THURSDAY, 9 JUNE 2005

GLADSTONE

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Thursday, 9 June 2005

Members: Mr Neville (*Chair*), Mr Gibbons (*Deputy Chair*), Ms Bird, Mr Haase, Ms Hall, Dr Jensen, Mr McArthur, Mr Richardson, Mr Ripoll and Mr Schultz

Members in attendance: Ms Bird, Ms Hall, Dr Jensen, Mr Neville, Mr Ripoll and Mr Schultz

Terms of reference for the inquiry:

To inquire into and report on:

- the role of Australia's regional arterial road and rail network in the national freight transport task;
- the relationship and co-ordination between Australia's road and rail networks and their connectivity to ports;
- policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to:
 - land transport access to ports;
 - capacity and operation of major ports;
 - movement of bulk export commodities, such as grain and coal;
 - the role of intermodal freight hubs in regional areas;
 - opportunities to achieve greater efficiency in the use of existing infrastructure; and
 - possible advantages from the use of intelligent tracking technology;
- the role of the three levels of Government and the private sector in providing and maintaining the regional transport network.

WITNESSES

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Committee met at 9.01 am**BRIDGER, Mr Stephen Robert, General Manager Business Development, Xstrata Coal Queensland**

CHAIR (Mr Neville)—I declare open this public meeting of the House of Representatives Standing Committee on Transport and Regional Services and its inquiry into arterial road and rail systems, their connectivity to the ports, the throughput of the ports, the efficiency of the movement of bulk commodities and the case for inland intermodal ports. The inquiry arises out of a reference given to the committee by Hon. John Anderson, Deputy Prime Minister and Minister for Transport and Regional Services, who has asked us to look into those particular matters. We called for written submissions some time ago, and those calls have been responded to very well. As at this time we have over 80 submissions, and others will come as a result of private meetings we have held in Mackay and Gladstone over the last couple of days. This is the start of the committee's formal hearings. We intend to call witnesses mainly on the basis of submissions as we move around the major ports and arterial transport networks of Australia. The committee has informally agreed to hearings in New South Wales, Brisbane, Darwin, and the west, and we may also do something with regard to the inland rail system further down the track.

I welcome members of the public here today. These are public hearings. Members of the public may not ask questions but are entitled to be here and to listen to the evidence. If anyone is called to the table, they have to be cautioned. That generally does not happen but if, for some reason, we were to call Comalco, for example, to the table to clarify something during Xstrata's evidence, they would have to be cautioned before they gave that evidence. That is not likely to occur, but I just make that point. I welcome today's first witness. Is there anything you would like to add to the capacity in which you appear before the committee today?

Mr Bridger—I am representing Xstrata mainly in a Queensland capacity. I apologise for Mark Eames, our general manager, commercial, who looks after rail and ports globally for Xstrata. He cannot be here today. I encourage that requests with respect to New South Wales and other areas be followed up, and we are happy to meet with you again in the future.

CHAIR—Although the committee does not require you to give evidence on oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently they warrant the same respect as proceedings of the House itself. It is customary to caution witnesses that the giving of false or misleading evidence is a serious matter and it may be regarded as a contempt of the parliament. Would you like to give us a five- to seven-minute opening statement or an overview of your submission? We would then like to interact with you for the remainder of your time at the table.

Mr Bridger—Thank you for the opportunity to make a submission and to meet with you here today. Rather than go through a synopsis of the submission, we would like to stick with some more general views and philosophies as to our views on infrastructure and rail and port interconnectivity in Queensland. There is not a large crisis in infrastructure in Queensland. Whilst there are capacity restrictions and we have been through queue problems, the infrastructure has traditionally been running under capacity. We recognise, both as coal producers and infrastructure providers, that the current jump in demand and pricing was largely not forecast by everyone. So there are steps in place with regard to the queue management

systems at Dalrymple Bay and in Newcastle to deal with the short-term capacity restrictions. We believe that there are a number of adequate infrastructure plans and developments under way in Australia at this time. However, we believe that there is a current opportunity to maximise both the planning and use of efficient investment in these developments and potential developments going forward. What we would see as beneficial is not only better overall coordination in the master planning between infrastructure providers and across the state but also better coordination of the logistics functions along those chains.

I take the liberty of elaborating on a few points with respect to our view of the market and where we believe that the current forecasts that are provided have to be looked at with some healthy speculation in terms of judging the necessity of infrastructure investments going forward, but in a way that underpins one of Xstrata's base philosophies: infrastructure development must be underpinned by long-term take-or-pay contracts from the producers. We do not see that it is the infrastructure providers' or the government's role to forecast the coal market. We see that as a job for the coal producers—it is their business—and it must be they who demonstrate their confidence in this market by stepping up to take-or-pay contracts.

I will give a brief analysis of the global coal market. Consistent with Barlow's, Yonker's, AME's and McCloskey's forecasts, we see that over the next five years the overall global seaborne coal trade will increase from approximately 620 million to 780 million tonnes. Australia has traditionally held about 33 per cent of the market. We believe that there is an opportunity for Australia to increase its market share to about 36 per cent. Out of the approximately 180 million tonnes that we see the overall global trade increasing by, Australia has an opportunity to snare about 60 million to 70 million tonnes of that trade.

The 2004 coal exports out of Australia were about 225 million tonnes—consistent with the ABARE forecasts that came out and which were part of the infrastructure task force's submission—growing at a rate of about 4.7 per cent compound per annum. That takes us to about 287 million tonnes in 2009-10. Currently across Queensland and New South Wales there are plans under way for approximately 326 million tonnes in infrastructure. There is a need to make sure that, throughout that progression to 326 million tonnes, there is efficient infrastructure that is brought on in a manner that is coordinated so that infrastructure bottlenecks do not occur as a result of one of the three main infrastructure providers overcontracting. For example, you have port, you have rail and then you have the haulage operation. As these increase over the coming years, they need alignment in their contracting.

However, when you think of the 287 million tonnes, and when you look at 326 million tonnes in plans that are under way, you see that currently there is planning for up to 462 million tonnes of capacity. It has been Xstrata's philosophy—as pointed out in its submission—that the coal industry is quite prepared to invest in efficient investment. We do not see a role for government investing in the construction of infrastructure developments. However, we do see a role for government in facilitating good planning and coordination between the infrastructure providers so that the coal industry can be confident that it is presented with the range of options and able to make efficient investments. I welcome questions.

CHAIR—I must say that you surprise me. You say in your opening statement that there is not a large crisis in infrastructure, and yet all the commentators—most of the economic and resource writers in Australia—would have us believe otherwise. You say that there is not a role for

government in the development of that infrastructure. Let us start with North Queensland and work south. What is your view on the missing link between North Goonyella and Newlands?

Mr Bridger—If we look at the Goonyella chain—if you are to be consistent with the ABARE forecasts—which delivers to both Dalrymple Bay and Hay Point, we see that last year it facilitated about 82 million tonnes. We know that there are plans under way to take Dalrymple Bay up to in the vicinity of 75 to 80 million tonnes, coupled with a Hay Point expansion from 34 to about 42 million tonnes, which will take that corridor to approximately 120 million tonnes. Consistent with the ABARE forecast of 287 million tonnes out of Australia in 2009-10, when you look at Port Waratah you see that that is about 102 million tonnes, Port Kembla will be about nine million tonnes, Brisbane will be about five million tonnes; you will see it takes you back down to about—

CHAIR—With respect, the fact that there is some capacity coming on-stream in the Goonyella chain is not the question I am asking. One view that has been put to us is that there should be greater flexibility between the various rail systems. The second view that has been put to us is that, because of sovereign risk and reliability in the market—especially regarding the Japanese market—Abbot Point, Dalrymple Bay, Hay Point and Gladstone project a corporate image of Australia to the world and, if there is a weak link in one of those, to some extent all the others suffer.

Mr Bridger—I will go directly to your question. It is most probable that the Goonyella chain will go to about 125 million tonnes, regardless of whether the missing link goes ahead or not. That capacity has been planned and is there. The commitment is to take Dalrymple Bay up to 80 within the next couple of months. So the missing link comparison is for export from the Goonyella chain system for 125 million tonnes plus. Our major concern is that potentially there could be 100 or 110 out of the Goonyella chain in the next five years. We are concerned that in stepping up towards 120 million there will be bottlenecks and potential constraints in coordination between those parties that will affect performance within those five years. For example, right now we have a problem where 58 million tonnes is trying to get out of a chain capacity that is delivering approximately 52 tonnes. Our major concern is that the industry is being looked at to fund hundreds of millions of dollars worth of investment to increase Dalrymple Bay and in two years time we could have a problem where 70 million tonnes is trying to chase a chain capacity of about 60 million tonnes.

CHAIR—Why are you concentrating so much on Dalrymple Bay and Hay Point? Surely the capacity of Abbot Point is a major consideration of the missing link. What is your view on that?

Mr Bridger—We would like to make sure that we are investing in efficient infrastructure. Our view on Abbot Point at this stage, from all the data that has been provided to us from the infrastructure providers, is that it is currently an uneconomic option. We believe that there may be a lot of incentive and interest for specific proponents. As an example, I draw your attention to our Rolleston projects, where we have had to develop all the infrastructure and undertake feasibility studies ourselves to create those spurs. If you say that Dalrymple Bay is going to go to 125 million tonnes, the missing link will deliver about 25 million tonnes itself.

CHAIR—With the new mines.

Mr Bridger—The capacity of the missing link, together with an expansion of Abbot Point, is being discussed as having a capacity of 25 million tonnes per annum. In terms of the missing link, if it is efficient investment and it gets contractual underwriting, there is no issue whatsoever. With regard to the missing link, we are aware that the feasibility studies are going ahead. We remain speculative that, under the same funding structure that the Queensland Rail access regime has adopted at the moment, it is sustainable. We believe there is probably opportunity in saying that, from 125 million tonnes up, we have the options of looking at the Connors Range, which is bandied about as costing \$200 million or \$300 million, versus a \$600 million missing link.

The average coal haulage changes from about 207 kilometres to 333 kilometres, so the operational costs are significantly more. In a booming coal market the additional couple of dollars—or in this case significantly more than a couple of dollars—that would be needed to go for the missing link would be available. But suppose the market gets tight. We all know that China and India are looking good, but the resources industry is called cyclical for a reason. For the last 15 years Abbot Point and the Newlands and Collinsville mines have been on the verge of closing down. When push comes to shove, additional costs and inefficient investment could cause a lot of Australian producers to come down the fourth quartile and be cut off the list in times of a constriction in supply. Our concern is that inefficient investment is not sustainable in the long term. If we talk about capacity from 125 tonnes up, we also get to the stage where we ask, ‘Could another 10 or 15 million tonnes come out of that region?’ We believe a lot of focus needs to be on saying, ‘You can divert 10 or 15 million tonnes through the existing corridor right now.’

CHAIR—So are you saying that the three potential mines between Newlands and North Goonyella should be brought down through Dalrymple Bay or Hay Point? Is that your scenario?

Mr Bridger—We would expect the proponents of the three potential mines to be calculating their best option and progressing studies accordingly. We have no problem with that. Part of the difficulty, as we understand it, is that if something is such a good option for potentially—and I could put this into context—

CHAIR—No, it is okay. I take your point. Coming down to the southern end, to the Surat basin, what are your interests there and when are you planning to bring those on stream?

Mr Bridger—That probably goes a little to the issue of commercial-in-confidence, which we will have to discuss here, but generally everyone accepts that the development of a mine, from the commencement of the formal government feasibility process, is approximately five years. We are undertaking some studies there at the moment. Our interests there are the Wandoan resource, which is a significant Surat basin resource. It will require about 200 kilometres of a rail spur to join up with the Moura line around Banana. We would like to see that. Its development and its capacity will be market driven. When there is a spot in the market for that coal—

CHAIR—You do not see any role for government in front ending that operation?

Mr Bridger—At this stage we have been saying that we believe that the coal industry is mature enough to undertake feasibility studies where it believes they are warranted. We have raised these issues with government. We note that some of the government submissions to the

recent task force have stated that they believe that government has a role in undertaking these feasibility studies. However, the construction will still have to be underwritten. We are willing to conform to that government philosophy and way of thinking. We have had discussions with government. We would like to reach a consistent approach with government. Already we have circumstances where the government is funding a missing link. Feasibility studies have been talked about for an expansion of Wiggins Islands, where the coal industry is looking to have to fund it, and in the Surat basin proponents are having to look at funding things. To put it into context, our Rolleston resource was about 150 million tonnes of thermal coal, 420 kilometres from the coast—that is, an overall resource value of about \$8 billion. The missing link is going ahead with government funded feasibility on where there are 500 or 600 million tonnes of coking coal at a resource value of \$60 billion-odd. There needs to be an understanding as to what the government will do consistently and what the proponents are prepared to do consistently.

Mr SCHULTZ—By what you have just said, am I being led to believe that there is some serious concern that the government and the industry are not working as closely together as they should, thereby creating duplication in feasibility studies?

Mr Bridger—It is not duplication, no. I do not believe there is duplication. I believe there is a present opportunity for government and industry to come together with a more coordinated view on master planning and to come to an agreement on what industry should fund and what government should fund.

Mr SCHULTZ—So that climate is not there at the present time and it has not been there?

Mr Bridger—At the moment it is fair to say—and it is no-one's fault—that the coal trains have been running under capacity. The current short-term crisis was unanticipated by everyone. Right now, there is an opportunity for better coordination between infrastructure providers along one system chain, between systems, and then looking at Queensland as a whole. The coal industry needs to participate in that. The coal industry must provide a relative degree of transparency in its development plans. Any path forward will have a range of options, depending on what the coal companies bring forward.

CHAIR—I am going to leave the hearing for an hour or so in order to attend to a civic responsibility. Mr Schultz will take the chair.

ACTING CHAIR (Mr Schultz)—Given the point you just made in terms of the sudden demand for the resource, the industry itself is, I understand, well and truly aware of the depth and quality of the resource. Surely, industry must have been able at some point to have some feedback from offshore that a significant demand was in the wind and would have been prepared for that. I find it reprehensible that industry has been caught basically with its pants down in terms of the export demand that has suddenly hit these magnificent coalfields.

Mr Bridger—It is hard to provide feedback. I am not directly involved in the marketing department. There is a degree of feeling that it was largely anticipated but, having regard to a response from the marketers, it is very hard to predict what countries like China and India are doing. Internally, you can go into these countries and get a number and range of different reports about what they are all forecasting, even within the country. When China turns around and stops exporting thermal coal, a lot of it is done at very short notice. If you look at the overall global

seaborne trade of 620 million tonnes, increasing to 780 million tonnes, for China to turn around and suddenly start looking to export 40 million or 50 million tonnes is something that is of concern to a lot of coal companies at the moment, and it could happen very quickly. But you are right: things like that are very hard to anticipate.

Mr RIPOLL—Do you see this short-term crisis, if you want to call it that, in terms of infrastructure as an opportunity for government to step in and either partly fund or facilitate the funding of key bits of infrastructure such as the missing link? It would not involve that exclusively, but it would enable them to maybe get ahead of the game a little bit, even if it is not fully utilised? We might not realise the full benefit today but looking down the track we would do so.

Mr Bridger—That is the question. When you say ‘government funding’—

Mr RIPOLL—Government funding or government facilitated in some way. I would not say the government would come in and fund it all, but facilitated by government.

Mr Bridger—We are highly concerned that a lot of focus is being put on a missing link option which potentially is addressing the tonnage out of that system, going from 125 million tonnes to 150 million tonnes. We do not see that as a short-term fix; it cannot come on until mid-2009. We are concerned that, over the next two years, that chain will increase by in the order of 110 million tonnes to 120 million tonnes. We do not want to find ourselves in a position where we have paid for 70 million or 80 million tonnes out of Dalrymple Bay, and we are faced with upstream constraints limiting that to 65 million or 70 million, because we will go straight back into a regime where we are paying hundreds of millions of dollars in demurrage and we are all faced with capacity restrictions on our contracts. We just want to get what we have contracted for. Right now, we are concerned about resources being diverted to the missing link. It is a medium-term issue and there are a number of options that should be considered. Right now, we are concerned that the immediate short-term job over the next few years has not been done and coordinated to a level that gives us confidence to say, ‘These hundreds of millions of dollars that are requested now are an issue.’

Mr RIPOLL—Would it be fair to say that there are different interests in terms of what coal companies do as individuals and what, let us say, a national perspective on coal would be? Is it fair to say that there is a divergent view?

Mr Bridger—We would like to understand a national perspective on coal. We are looking at and referencing ABARE forecasts. As we say, we believe there are more than adequate infrastructure plans under way. There are even more planned. We do not think it can be done separately. We are going to be open and we are trying to contribute to the planning, in our view, as much as possible. But, rather than go in ad hoc with responses to individual infrastructure providers’ master plans, it would be nice to be able to coordinate with government and look at coordinated master plans.

It is easy to understand coal companies. We have to act in a sustainable commercial manner. I understand that government has to look at regional development and things like that as well. But it is the understanding of where each party is coming from that lets us assess the relative economics. The commercial economics of the coal industry and the economics of the region

need to be understood. I think you have to have that coordinated master plan. We have said we are concerned about picking winners and saying what has to be done in response until we have viewed all of the options. There are hundreds of millions of dollars at stake and we need to see better coordination.

ACTING CHAIR—I will give a couple of my parliamentary colleagues an opportunity to ask a few questions, but before I do that, I can assure you that this committee is not just focusing on the missing link. There are other issues being raised with this committee with regard to what its inquiry is all about that cause the committee concern. That relates to railroad and port infrastructure.

Ms BIRD—I was interested in the position you are putting that it actually is the role of industry to forecast demand and look at efficient use of investment and infrastructure to address that. But then you made the point that the current jump was largely not forecasted. So, as you can understand, that creates for us some dilemma about how efficient a process that is. You talk about a role in coordinating and planning logistics functions. I notice that, in your submission, you refer to what has happened in the Hunter Valley. I am sorry to go outside of the state, but, just to take the broader point, who drove that process and who sustains it? Do you think there is a more effective role for the national government in that sort of process?

Mr Bridger—With regard to the Hunter Valley, my understanding is that it was largely something that may have been initiated by the producers. But I think the benefits and merits of it were fairly quickly understood by both the producers and the infrastructure providers. The Hunter Valley coal chain logistics team has the function of coordinating the day-to-day logistics of the chain. It also is involved in the step-by-step identification of capacity and expansion increases. I say that it is the coal industry's job to forecast the market, but they need to be in a position where, when they make that forecast and they are prepared to sign long-term agreements, they know what has to happen, they know the quantum of that investment with regard to infrastructure and they know the timing of that investment. So the master plan really needs to identify that. At any point in time there will always be a weakest link in the logistics chain. It will be either above rail, below rail or at the port. That is fine as long as we know, and as long as we know where the investment has to target.

Ms BIRD—You have just started to proceed with a similar model here—is that correct?

Mr Bridger—We are actively encouraging that same model on the Goonyella chain. On the Gladstone chain, it is probably functioning at the moment as a bit of a soft model, but we have not had the same crises there. But the Goonyella chain is definitely the focus of producers alike, where producers have taken the incentive, separate from the rail and port providers, to establish the team. To their credit, the infrastructure providers have joined and are represented on that team to try and have better coordination. Their focus, given the current crisis, has been the short-term, day-to-day logistics. That is good, but what we need now is a coordinated view on the stage by stage increase of the Goonyella corridor.

Ms BIRD—You made a point about the contradictory information you could get within the China market as to what they were predicting in demand. It appears to me it is a very ad hoc gathering, from a national perspective, of good intelligence about where governments and

markets are heading. Do you perhaps see a role for the federal government in providing that sort of coordination of information and predictive—

Mr Bridger—We understand there is significant government interest in, as I just referred to, things like the ABARE forecast. We are all out there forecasting, and I believe the government's master planning has to accommodate their forecasts and discussions with industry as to their forecasts. But, when it comes to the construction, it needs to be the coal companies who are underwriting them with long-term take-or-pay contracts. If government goes out and invests in the infrastructure, and for some reason nuclear becomes the way of the world and the thermal coal market drops off in 2015 or 2020, there will be some coal companies still trying to export who have to pay for double the amount of infrastructure. In terms of the government constructing infrastructure, if it is expecting industry to fund it, under all the regulated models it is all about the stranding risk. There are not too many infrastructure providers out there who are willing to accept all the stranding risk. The way they cover it is with long-term take-or-pay contracts.

Ms HALL—I would like to ask some questions around three areas. First, the area that you seem to have highlighted for us is planning and coordination. You have talked a little about the Hunter model. What would be the ideal model that we could set up for government and industry that would lead to optimal planning and coordination of the infrastructure that will meet the needs of industry and ensure the most efficient and effective running of the industry?

Mr Bridger—Talking from a Queensland perspective, in terms of the ideal, the way we approach things is to ask a number of questions. Where are we now? Who are the interests that it pays? What resources have we got to develop this? How do we best move forward?

Ms HALL—Who should be involved in this planning coordination?

Mr Bridger—It has been Xstrata's belief that the best way to move forward is to get understanding across the parties. I believe there is a role for government to be involved in that team. On it there would be government, the infrastructure providers and the producers, to name the predominant three stakeholders. One of the things we pushed for with the Hunter Valley coal chain team was better understanding and coordination. We said that physically this group needs to be located in the same office, with a responsibility to the chain rather than to their individual proponents. So, moving forward, I can leave a copy of and make reference to a four-year capacity plan for the Hunter Valley coal chain, which is a one-page document which sets out the increments of capacity and what has to be done for that chain to make sure they receive every increment. We believe it would be great to have such a plan for each of the Queensland chains.

ACTING CHAIR—That would be helpful.

Mr Bridger—We believe that in looking at the overall demand we have to start looking at synergies between our existing corridors. Take a step back and have a look at Queensland master planning as a whole. At the moment we have specific infrastructure proponents who might be pushing for an expansion of Abbot Point, Dalrymple Bay or Gladstone. We would like to think that in the overall master planning we are looking at new port locations. Twenty years ago in the development of Blair Athol there was discussion of a place called Port Clinton—I think it is also called Port Peterson—halfway between Rockhampton and DBCT. With a 200 kilometre rail link,

bearing in mind that the missing link is 70 plus 170, which is really 240, you may be able to have a port there that satisfies the growth of both Dalrymple Bay and Gladstone and, in doing so, the Surat, but we do not know.

ACTING CHAIR—The consensus is that opening a new port today is nigh impossible, given the constraints on the community, the environment and the government.

Mr Bridger—I do not know. This one was actively investigated. I think it sits near an army base up there. Environmentally it is not extending with long outloading strings; it is just virtually off the wharf and able to take the biggest vessels in the world.

Ms HALL—Who should provide the leadership role in this?

Mr Bridger—I would see that as a role for government. In overall master planning you have the infrastructure providers looking at their corridors and you have the ports looking at their ports, but who is looking at the whole logistics of the state? Then we get into interstate issues like the inland railway and things like that. They need to be brought into the master planning.

Ms HALL—As to the prediction of infrastructure needs, your opening comment was that there is not a crisis in infrastructure. In your report you highlight the problems that occur if you have too much or too little infrastructure. What is the best formula for getting the right balance?

Mr Bridger—I made a quick reference to something that we saw in the infrastructure task force's submission where they talk about lead and lag and about how infrastructure developments are going to be inherently lumpy. There will always be bits of both. The infrastructure can lag, as we have seen in the current climate. The current boom in coal prices can be linked to very minor differentials between supply and demand in the overall global economy, to the tune of a few million tonnes. That sort of mismatch can cause significant price increases. With regard to lead and lag, in the current climate people are actively looking for substitutes for coking coal to make steel. There are unknowns. For example, whilst India likes our coking coal, it might start to prefer coke from China—we do not know. Then there is the overall thermal coal debate and where thermal coal will be in the next 20 years. To lead too far in the current coal industry we see as risky unless there are proponents who are willing to underwrite it rather than spread it across general industry.

With regard to a lag perspective, I make reference to our submission. The value of Australian coal exports has gone from about \$12 billion to about \$24 billion in the last couple of years. The current capacity constraints are affecting roughly five million or six million tonnes. That is how much we are constrained right now. Newcastle is not constrained. The queue at Dalrymple Bay has been caused by about three million to four million tonnes. If the constrained capacity is about five million tonnes, that is about half a billion. In terms of a lead-lag philosophy, currently it is very risky to be leading too far. The effects of a lag still mean that the Australian economy is significantly ahead.

Ms HALL—Which would the industry prefer, lead or lag?

Ms BIRD—A bit ahead, or a bit behind?

Mr Bridger—I cannot speak for industry. From Xstrata's perspective leading is fine if it is underwritten by specific proponents who have the confidence. Lagging is not such a great issue at the moment.

Ms HALL—I would like you to be more definite.

Mr Bridger—It is difficult. We have not come to a real position. Speaking on behalf of Xstrata, we do not really look towards whether it is leading or lagging; we look at it in terms of underwritten contracts. Where development is supported by underwritten contracts, I believe there is still a bit of a mismatch in expansion triggers. We are very interested in expansion triggers. We see that, throughout the developments of ports, some require 100 per cent of the contractual capacity that is going to be constructed underwritten for 15 years on full take or pay, some require 60 per cent for 10 years and others are talking about 30 or 40 per cent. That is a significant concern for us. What our concern and our focus is on at the moment is trying to get a consistent understanding with government, given that we are dealing with private ports, we are dealing with regulated government ports and we are dealing with unregulated government ports, on what the expansion triggers are that give us that level of comfort to lead.

Ms HALL—Would it be fair to say that if the lead was too great it could cost?

Mr Bridger—If the lead is too great, it will cost.

Ms HALL—But if it lags, you can eventually catch up?

Mr Bridger—That is right; the coal is not going anywhere.

Ms BIRD—Yes, but the demand may disappear.

Ms HALL—You prefer a lag to a lead.

Mr Bridger—If you lead too far then you may find a lot of the smaller producers, who may not be sitting lower down on the cost curve in a competitive market, will be outdone by international competition.

Ms HALL—It is a bit of a disincentive to invest in infrastructure too soon.

Mr Bridger—That is right.

ACTING CHAIR—The leading and lagging debate is lagging, so I will ask Dr Jensen to have an input into this.

Dr JENSEN—Jill has pinched most of the good questions I had to ask, but I have got one question with regard to predictions. You mentioned ABARE and other organisations that have done predictions of where the coal industry is headed. I would guess that companies like Xstrata and so on, that are right in the middle of it, would almost be better placed to conduct these predictions than other organisations. What is Xstrata's view for five, 10 and 20 years in the future as far as the coal market is concerned?

Mr Bridger—Trying to predict more than five to 10 years out is extremely difficult.

Dr JENSEN—I understand that.

Mr Bridger—Our view for the five-year period is, without disclosing too much, fairly much in line with ABARE's forecast—maybe not quite as confident, but we are not significant risk takers. If you appreciate the global market, most of them are settled on annual yearly contracts. So even when producers make the commitment to invest the millions it takes to bring on a new mine, they are often doing it without a market to sell it to. When you actually start your production and get it going, you have to go out there with significant 50,000 or 100,000 trial shipments to build the market for your coal. It is not often, until the mine has come on—some of them do it in agreements with power stations and overseas power stations. We are going through it right now with our Rolleston project. That is tipped to be an eight million tonne development that is coming on later this year. Six million tonnes of that will be for export. We are in that position at the moment, and then annually, year on year, you have to secure our contracts.

Dr JENSEN—Okay, you have given the five-year outlook; what about the 10-year outlook?

Mr Bridger—I am afraid I cannot comment on the 10-year outlook. Marketers will generally give you a view from 12 to 18 months. Their job is really forecasting. Once the annual contracts are locked away, they are focusing on the short-term spot markets. You could go to a number of professionals. We get independent market advice for our projects.

Dr JENSEN—For example, in terms of, let us say, developing a new mine and putting in a spur or whatever, what would the lead time be? Obviously, you have to make some prediction somewhere about whether you are going to make a—

Mr Bridger—We are fairly confident that the overall global trade in coal will continue through to 2030. We note ABARE's rate of growth. Coking coal has consistently been growing at about one to two per cent per annum. Even with what people see as the coking boom, it is a boom in price, but largely—

Dr JENSEN—But not in volume.

Mr Bridger—the increase in volume is coming from the lower grade PCI coals that they can substitute. They will get to a level where you can only put so much PCI into a coking mix, but we see coking coal perhaps growing at one to two per cent and—

Ms BIRD—Is that substituting being driven by price or by supply? Are they substituting to bring the price down or are they substituting because they cannot get the supplies?

Mr Bridger—It is because they can get a cheaper coal and include it in the coking mix. If it is cheaper and they can use it, they will. It is not a supply issue.

Ms BIRD—But if the overall price comes down they may move out of that market again.

Mr Bridger—It is what I am saying about things dropping off the cost curve if there is a replacement. Generally, we are confident that that will continue to grow. Thermal/PCI coal has

grown over the last few years due to that substitution at five to six per cent. The ABARE forecast, as we said, is about 4.7 per cent compounded. We believe that hopefully something in the fours may continue into the longer term. There are some concerns. People say, 'Well, China and India are going ballistic and who knows what they will do.' I am no economist, but from the presentations that have been made to us on overall growth indicators, they believe that the growth in Chinese GDP that spiked up around 12 or 13 per cent for a year or two is generally unsustainable and will come back to levels of seven or eight. Predictably, that might happen in India as well, so we do not think there is going to be some overall 10 or 15 per cent growth.

ACTING CHAIR—Could I just digress for a minute into another area that has not been raised before. There have been comments in the press that the boom in demand is putting a strain on the number of ships available to move exports. To your knowledge, are there any indicators that this is likely to become a factor affecting Australia's exports?

Mr Bridger—To tell you the truth, I am not sure. We have not had significant indications at this stage. It does provide us with an incentive in that we cannot afford significant queuing. If there is a shortage, as we saw during the Dalrymple Bay issue, both freight rates and demurrage rates increase significantly. I cannot remember the proportion but a significant proportion of the world ship fleet was tied up in that situation. It is a catch-22 situation because you need more coking coal to make ships.

ACTING CHAIR—My colleague Mr Ripoll wants to ask a couple of questions but, just before he does, can I ask: this is extracting some information that is very beneficial to the committee, so are you happy to continue for a little while?

Mr Bridger—Sure.

Mr RIPOLL—Through this peaking in demand process, has Xstrata actually lost contracts or suffered some loss in some way? Has it impacted on the bottom line of the company?

Mr Bridger—Yes, it has. There are capacity constraints. Generally, we are not getting what we contracted for in Queensland. In New South Wales we have been. The coal chain logistics team has worked very successfully in both getting rid of the queue and facilitating additional capacity at minimal cost. A lot of the stocks in the Hunter Valley are running very low now. There is not a queue, and it is predicted that they will get as much as they need. In Queensland, however, unfortunately we are not getting what we contracted for. The current scenario that we are facing is that we could lose potentially a million tonnes of coke and coal.

Mr RIPOLL—Is that because of demurrage costs and other penalties? I am trying to understand the regime in terms of why it is bad for Xstrata if it is queued.

Mr Bridger—It is common knowledge. For example, we have a contract for in the vicinity of eight million tonnes for Dalrymple Bay. Dalrymple Bay will be contracted for up to about 60, but it will deliver probably 52 to 54. Under the queue management system, everyone will be cut back by approximately 10 per cent, so we will lose in the order of a million tonnes of export from the queue management system. Whilst we have contracts with the providers to facilitate that, it does not get facilitated. With rail and port infrastructure, traditionally, over the previous years when everything was working well, coal companies were solely focused on production—

what you could produce you could sell—but the current constrained market has a significant effect and it is felt on the bottom line.

Mr RIPOLL—Is Xstrata trying to deal with that issue? Is there some planning ahead to ask, ‘How do we manage that if, let us say, there were another spike in a year’s time or in two years time?’ or if there were something similar to what we have seen, with up to 60 ships waiting offshore?

Mr Bridger—What we see as absolutely essential is that, if you contract with infrastructure providers to provide something, there needs to be an understanding that there is some parity. Currently, I suppose we are a bit concerned that the contracts for infrastructure are fairly one-sided. A lot of them are take-or-pay contracts, with a significant emphasis on us having to pay and live up to our commitments, but we do not see parity in the requirement for the infrastructure providers to facilitate those contracts. We do not see that incentive there. You asked about forecasting for these peaks and spikes. As long as we have our contracted capacity to deliver, and if we have not forecasted a peak or spike, so be it. If we do and we contract for it, we would like it to be delivered.

Mr RIPOLL—Thank you for that.

Ms HALL—The third area I want to ask you some questions about is the queuing area. In your submission you state that planning weakness is the cause of this. Could you highlight the weaknesses in the planning and then, on the other hand, give strategies that can be undertaken to deal with those weaknesses? Also, could you give an overview of the leadership role of government, if any?

Mr Bridger—A classic example occurred at Dalrymple Bay, where Hay Point sits alongside Dalrymple Bay. Hay Point was a single-user system; Dalrymple Bay was a multi-user facility, but shared the same coal chain. Throughout the queue crisis we had in the order of 52 ships—I think that was the maximum—queued at Dalrymple Bay versus a maximum of nine or 10 at Hay Point. What we see when all mines have to blindly compete for restricted capacity is that, unless there is a mechanism in there that says that we have to match, then everyone would rather risk paying demurrage and getting a spot in the queue than losing the opportunity to get any capacity whatsoever.

I believe that there is now a unanimous approach amongst industry, but industry also needs to overcome its competitive hurdles to realise that a queue management system and something that rations us all back will not put fewer tonnes out of the system. It is better to get nine-tenths of your contract and not pay demurrage than get nine-tenths of your contract and everyone has to fork out \$500 million for demurrage costs. The focus of the queue management system was on putting in a team to try to identify where the bottlenecks are. We have found that if the logistics chain is not coordinated you will never know what the true capacity is. A lot of that capacity can change from day to day—for example, if a mine is down. It is a very fluid thing and it can have upstream effects. There needs to be better coordination. If there is going to be maintenance and track out on a rail, there needs to be coordination with the port to make sure that it keeps operating—because it has stocks built up and that is planned—or that maintenance is synchronised so that you do not have things out in succession for long periods of time.

One of the main areas that the Goonyella chain has focused on is the scheduling. It is also working to identify things that the mines can do. Rather than just looking at infrastructure providers, it is going to the extent of saying, 'How can mines help?' and looking at the mine load points and asking how that works in the chain.

ACTING CHAIR—On that point, I would like to raise a question in relation to Gladstone, Moura and Blackwater. Xstrata claims in its submission that rail capacity is the major constraint and says that annual railings into Gladstone port are running at only 38 million tonnes while Gladstone port capacity is 45 million tonnes, increasing to 72 million by mid-2007. You go on to say that the coal industry 'has raised concerns with the rail provider about its ability to match rapidly increasing port capacity and demand'. Could you simplify that a little bit for us, because that is in line with some of the criticisms we have heard?

Mr Bridger—There is investment in the rail component of the Gladstone corridor and there are a lot of plans under way at the moment. When you are undertaking a lot of construction and development of a corridor, you are going to affect the operations. I think Gladstone achieved in the order of 42 million tonnes last year. Now they are proceeding to upgrade and develop it, they may get only 39 million this year. Whilst it is good to see construction and development happening, we would like to see what is in place to try to accelerate some of that.

The rail construction programs that we are hearing about bring it on significantly after the port has available capacity so, as I said, at any one point in time there is going to be three lots of capacity: one from the port, one from the train consists and one from the rail infrastructure. Trying to understand the mismatch in that is an issue. We are looking to get an understanding from infrastructure providers to contract to a maximum for that. I do not think there is an easy answer for the Blackwater corridor at the moment. In the long term we would also like to understand the stage capacities and further increases at Blackwater, because we do see opportunities there to divert tonnes away from Dalrymple.

Ms HALL—Can I draw you back to the answer you were giving to me before?

Mr Bridger—Sure.

Ms HALL—You were talking about the need for a team approach to deal with this. What action has been taken to set up a team? Has a team been established?

Mr Bridger—The team is called the Goonyella Coal Chain Improvement Program, the GCCIP. That program has been focused on short-term gains for probably the last six to nine months. The majority of coal producers are in the process of kicking off a second stage of that team. The second stage of this short-term cooperative body is focused on turning that cooperative body into a separate logistics team with responsibility to the chain. We hope that will happen over the next three to four months, but these things are never easy. This will require certain people to relinquish a little bit of territory in the interests of the chain.

Ms HALL—So membership is the producers.

Mr Bridger—No. The producers funded a logistics and project management team.

Ms HALL—Can you outline the membership of it for us?

Mr Bridger—The membership of it at the moment is largely Dalrymple Bay Coal Terminal Pty Ltd, which is the operator of Dalrymple Bay, and that is the majority of the coal companies.

Ms HALL—Yes. We understand.

Mr Bridger—They have seconded a senior resource to manage that team. That team had been run by a consultant body called Accenture, and they had been receiving full-time input from both QR Network Access, QR Coal and Freight, part-time input from Prime and full-time input from PL, as the operator. The coal producers, as such, are not really on that team. We have been funding that team. The network providers have been funding their part-time input, but we have been funding Accenture. We will continue to fund that team. However, the coal producers have been involved in the steering committee for that team to make sure it is doing the right thing.

Ms HALL—Who is on the steering committee?

Mr Bridger—There are a number on the steering committee: Xstrata, Rio, Anglo and BMA, I believe. I will try to keep it succinct. Full committee feedback and reports are given to the whole of the Dalrymple Bay user group.

Ms HALL—Are those reports public?

Mr Bridger—I do not believe so, at this stage. I can make inquiries about that.

Ms HALL—It would be really good if you could get back to us with some information on that.

Mr Bridger—Sure.

Dr JENSEN—You talk about a coordinated approach, which I applaud, but that is moving a bit further into the future. I would like to pull it back to where we are currently. For example, you have mentioned that with Dalrymple Bay you have identified what was effectively a freak accident—the reclaimer that collapsed—as being part of the problem, but then you mention other restrictions. Can you identify the other restrictions as you see them at the moment, as far as throughput is concerned? I realise that in the longer term a coordinated approach is the best way to go about it but, given that you have identified three areas—rail, the rolling stock and the port authority—where do you see the current restriction?

Mr Bridger—That is a question that is constantly asked of the GCCIP, the team that are getting in there. They identified some short-term restrictions that might be able to be improved by a couple of million tonnes by better scheduling and coordination. Last month it had virtually a record month; it did very well. It is a common understanding by those in the industry that the inloading stations at Dalrymple Bay are an issue. As for back of the envelope calculations on the amount of time it takes to unload a train and how many trains you can get through there, a world record availability means that that terminal will struggle to get above 56 million or 57 million tonnes.

Dr JENSEN—Are you saying it is the capacity to unload the trains or the capacity to get the loads from the storage area to the ships?

Mr Bridger—We believe it is the capacity to unload the trains. Once that is overcome, you are going to shift around.

Dr JENSEN—Sure. That means another constraint somewhere else.

Mr Bridger—We believe that the effect of the stacker reclaimer there is only marginal to assisting pulling it away from the inloading station more quickly and getting a bit more capacity out of the inloading station. As I said, we see the benefit of bringing on that reclaimer as only marginal.

Dr JENSEN—You are saying there is no infrastructure crisis, you have identified something you say is going to bring a marginal improvement, and then it will probably be something else, yet you said we were short by something like five or six million tonnes per annum.

Mr Bridger—Yes.

Dr JENSEN—Is that marginal improvement that you are talking about—bringing on the reclaimer and so on—going to get you over that hump of five or six million tonnes, or are there other bottlenecks?

Mr Bridger—We believe so, yes.

Dr JENSEN—That alone will do it?

Mr Bridger—That alone will do it. Prime is currently out to tender on a number of what we see as urgent infrastructure expansions. We have been told, and we are hopeful, that that additional in-loading station can be delivered early in 2007—within about 18 months. The crisis is that the contractor capacity is in addition to what can be currently delivered. That is the problem but we do see a fix for that in place. We are looking to have to all commit to an investment within the next month or so.

Ms BIRD—Just to clarify, you talked about the regional chain coordination that is starting to happen based on that Hunter model. You briefly mentioned across state. Is that sufficient? Does it need an across-state level above that, or are things pretty much contained to state based issues?

Mr Bridger—I probably do not have the expertise to—

Ms BIRD—It is not an issue here.

Mr Bridger—It is up to governments to coordinate master planning and medium-term planning across states. The integrated logistics team are there to deal with the day-to-day running. As I said, it can fluctuate. They are pretty much system and chain specific.

Ms BIRD—Whose responsibility is it to make sure that happens? It obviously has not been happening everywhere.

Mr Bridger—Yes. We would appreciate a stronger government push on overall master planning and coordination with coal companies.

Ms BIRD—What level of government?

Mr Bridger—We believe state government needs to be actively involved. There are three or four main chains throughout Queensland and working out the connectivity between those chains and looking at potential new areas we see as a state government focus. We are confident that they are moving in the right direction. We all have the opportunity to start developing the right model from here. We are keen to contribute. Then the state government has to cooperate with other state governments and the federal government with regard to inland systems and the rest. Regarding the specific coal chain, we are finding that the coal industry has to drive that. Our interest is focused on what we do best, which is produce coal. We are not the infrastructure specialists. We want to be able to make sure that our coal can then make it onto a ship and not have to worry about all the coordination and logistics in the middle. That is not our speciality. When it starts to not make it there it is a high concern for us.

ACTING CHAIR—Thank you. We need to formally accept the document you have offered to give us.

Ms HALL—I move that the committee accept the document.

ACTING CHAIR—Thank you.

Mr Bridger—I will table the one-page, four-year capacity plan for the Hunter Valley.

ACTING CHAIR—Thank you for your patience and for your contribution to the committee hearing. It is much appreciated.

Proceedings suspended from 10.14 am to 10.30 am

RASHFORD, Mr Greg, General Manager, Project Services, Comalco Aluminium Ltd

SINGER, Mr James, Manager, External Affairs, Comalco Aluminium Ltd

BIDDULPH, Mr Thomas Lindon, Manager, Infrastructure, Rio Tinto Coal Australia Pty Ltd

HOWARD, Mr Lyall, Manager, Government and Corporate Relations, Rio Tinto Pty Ltd

TAGGART, Mr Graham John, Chief Financial Officer, Rio Tinto Coal Australia Pty Ltd

ACTING CHAIR—I apologise for the absence of the chair. He is doing some official work as a local member. He will be back. Although the committee does not require you to give evidence under oath, I advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. I remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Would you like to make an opening statement?

Mr Howard—During our opening statement I will refer you to the document I just distributed. I thank the chair and members of the House of Representatives Standing Committee on Transport and Regional Services for providing Rio Tinto with the opportunity to present its views on the integration of road, rail and port infrastructure in regions where our operations are engaged. I intend to provide you with a brief overview of Rio Tinto. My colleagues from Rio Tinto Coal Australia and Rio Tinto Aluminium will then make some remarks regarding their operations, which are principally located in Queensland. We will be pleased to answer any questions.

In the handout I distributed, the first page shows the major international mining companies. Rio Tinto is the second largest mining company in the world by market capitalisation. BHP Billiton is the largest. Both BHP Billiton and Rio Tinto have a rare structure—they are dual listed companies. Rio Tinto's dual listing is the product of a merger in 1995 between Australia's CRA and the UK's RTZ. If you look at the second page, the headquarters are in London, but the majority of our operations are in Australia and North America. Last year, Rio Tinto's direct investment in Australia was over \$2 billion, and our Australian businesses employ over 10,000 Australians. If you look at the third page, Rio Tinto is a large investor in the coal industry—Australia's largest export earner. Rio Tinto is also a large investor in bauxite production, alumina refining and aluminium smelting—an industry sector that represents Australia's second largest export earner. Rio Tinto is Australia's leading exporter of iron ore, which, due to strong prices, is expected to become Australia's third largest export in 2004-05.

If you look at the next page, Rio Tinto's broad range of products and markets gives the company the strength to weather both commodity and regional economic cycles. If you look at the next page, Rio Tinto has six product groups: aluminium; copper; energy, which is coal and uranium; diamonds; industrial minerals; and iron ore. Each of these product groups is responsible for a number of separate businesses and operations. They are all supported by a global technology group and an exploration group. Rio Tinto is not focused on any single

commodity, nor does it seek to pursue diversity for its own sake. It does seek quality assets that are positive earners through all phases of the mineral cycle. Therefore, a typical Rio Tinto ore body is large, long lived, low cost and efficiently managed.

It is no secret that most resource companies are currently enjoying better returns, largely as a result of strong economic growth in China. China matters to Rio Tinto. Last year China accounted for nearly 10 per cent of group sales, and this represented growth when demand elsewhere was relatively subdued. More than two-thirds of Rio Tinto's trade with China in 2004 was in iron ore. Rio Tinto is China's chief supplier of seaborne iron ore, with around 25 per cent of that market. Last year Rio Tinto Iron Ore exported 52.5 million tonnes to Chinese steel mills, and that is up from 18 million tonnes in 1999. By 2007 we expect that figure to be 70 million tonnes. The group has had a marketing relationship with China since the late 1960s, and iron ore shipments began in 1973.

The impact of China can be noticed particularly in the Pilbara, where iron ore operations are undergoing substantial expansion. The Pilbara iron ore producers expect to increase Australia's iron ore export capacity by 75 million tonnes by 2006 and that will be worth \$3.75 billion in export earnings to Australia. As the Prime Minister's task force said in its May report the vertically integrated, privately owned mine, rail and port facilities in the Pilbara have avoided the problems of the resource companies in the eastern seaboard that are forced to share infrastructure with other exporters.

Companies such as a Rio Tinto are increasing throughput, expanding capacity and opening new mines. Rio Tinto is also examining a significant number of development opportunities, including one which is very important for Gladstone—that is, the phase 2 expansion of the Comalco Alumina Refinery. Thank you for this opportunity. I shall now hand over to my colleagues from coal and aluminium.

Mr Singer—I want to give you an outline of Comalco's local operations. Comalco has a bauxite mine in Weipa. It currently produces 12 million tonnes per annum, and that is about to increase to 16.5 million tonnes per annum. Over the last two years we have invested around \$300 million, and that is all about ensuring the long-term capacity of Weipa to continue to provide bauxite, particularly to the Comalco Alumina Refinery here in Gladstone. In Gladstone we have interests in four operations, and you have probably seen those as you have gone around. We own 100 per cent of the recently completed Comalco Alumina Refinery, a \$1.5 billion investment that was completed in November last year. We currently have a group looking at an expansion of that refinery. We own 38.6 per cent of the Queensland Alumina Refinery, which is the world's largest alumina refinery. It currently produces about 3.7 million tonnes per year of alumina. All of the bauxite for those two refineries is provided from the Weipa bauxite resource. Comalco has a 59 per cent interest in the Boyne Island Aluminium Smelter, which is certainly the largest aluminium smelter in Australia and about the fourth largest in the Western world. As a strategic investment to support the Boyne smelter, in the mid-1990s Comalco purchased the Gladstone Power Station, which you probably saw as you came into the university. It currently produces around 1,680 megawatts of power.

Ms HALL—What is Comalco's percentage of ownership?

Mr Singer—Comalco has 42 per cent ownership. Comalco also has a 100 per cent interest in an aluminium smelter in Bell Bay, Tasmania. It produces around 170,000 tonnes of aluminium a year. It was the first aluminium smelter in Australia and, along with Weipa, celebrates 50 years this year. We also have a research and technical services centre in Melbourne where we are looking at new smelting technologies and new ways of processing bauxite and alumina. They are our operations in Australia. We also have interests in New Zealand, Italy and the UK.

Mr Taggart—Rio Tinto Coal is charged with managing Rio Tinto's coal operations in Australia. In Queensland we have the Hail Creek open-cut coking coal mine, opened at the end of 2003. It produces about six million tonnes of coking coal, which we export through Dalrymple Bay and we are currently expanding that mine to eight million tonnes capacity. We have Blair Athol Coal. We are a 71 per cent owner of that company. It exports 12 million tonnes of thermal coal through Dalrymple Bay. We have an underground coking coal mine at Kestrel near Emerald which produces about four million tonnes of coking coal which we export through Gladstone. We have the Tarong coalmine near Kingaroy producing about seven million tonnes of thermal coal for domestic power generation. In New South Wales we manage Coal and Allied's operations. We are a 75 per cent shareholder in Coal and Allied. It produces about 26 million tonnes of export thermal and semisoft coal which we export through the port of Newcastle and approximately 2½ to three million tonnes of domestic coal for New South Wales.

ACTING CHAIR—I am assuming that the questions that will flow on from the committee will be alike questions to each of the two companies. Perhaps it might be appropriate for you to comment on those questions as individuals representing your own organisations—or are you so entwined that you are able to answer on behalf of both companies? At the outset, I thank you for coming here today to meet with the committee in this inquiry and to give evidence. It is very important that the committee has a very mixed cross-section of input from industries that are affected or that could be affected by the rail-road infrastructure as it relates to our ports. On that note, I open the questioning by asking a general question: do you think Australian transport infrastructure will be able to handle the expected growth over the next 10 years or so, as far as the export of commodities such as coal and alumina is concerned? If not, where do you think it needs improvement? What has your experience been regarding the current short-term—as it has been described—problem related to the backlog of ships out there waiting to be loaded?

Mr Rashford—With respect to alumina, we do not see any issues with the infrastructure as it currently stands in terms of looking forward. Our principal operations are obviously in Gladstone, and we do not see that there would be any major issues in terms of handling our expansion tonnes over the next five to 10 years.

Mr Biddulph—With regards to coal, as you would know and would have read in the newspapers over an extended period now, the infrastructure supplying the coal chain is under stress at the moment. We have a shortfall of infrastructure capacity versus demand in the New South Wales system and in the Goonyella system—that is the system that feeds the Dalrymple Bay Coal Terminal coal export facility. We are seeing a response to that constraint. In New South Wales, the ARTC have recently made a significant announcement about the works that they intend to undertake to increase track capacity in New South Wales. At the same time, Port Waratah Coal Services—which is the owner of the terminal in Newcastle—has recently announced a major expansion there as well to allow the facility to expand to 102 million tonnes. At the same time, the state government is currently in a tender process for a block of land which

is close to Port Waratah, which would enable a new terminal to be ultimately constructed in Newcastle to increase terminal capacity or port capacity in Newcastle.

With regard to the Dalrymple Bay Coal Terminal, we have Prime Infrastructure currently going through a detailed tender process. We believe it is about to let some contracts very shortly for some new stockyard machines and also for a third inloading station at the port which would increase the capacity of that terminal as well. The issue with all infrastructure, as you are no doubt aware, is that these big lumps of capacity do take some time to be installed. So we are going to experience some constraints over the next couple of years until that capacity can come online.

ACTING CHAIR—I refer members of Rio Tinto to their submission, particularly to recommendation 3. You say that the Australian government should act to remove threats to the continuing operation of vertically integrated and efficient privately owned integrated mine, rail and port facilities by amending its own legislation, specifically part IIIA of the Trade Practices Act, and working with the states to ensure that their relevant policy frameworks recognise the national importance of these operations. Would either of you like to expand on that particular recommendation so that the committee is fully aware of what you are saying with regard to the Trade Practices Act and how it affects you?

Mr Howard—If you look at the opening paragraphs of the report to the Prime Minister from the infrastructure task force, you will see that they draw attention to the contrast between the infrastructure bottlenecks in the eastern states and the situation in the West, in the Pilbara, where there are no bottlenecks. They say that there is a stark contrast. The Prime Minister's infrastructure report says:

Where Australia's logistics chains are vertically integrated and are subject to less economic regulation, the response to increased global demand has been timely, effective and efficient. In contrast, in those parts of the economy where regulation sits between investors and export infrastructure, lengthy delays have been widespread.

It goes on to say:

The focus where there is regulated infrastructure has been on shifting the slices of the pie rather than the pie itself expanding.

The task force identified this situation themselves in the report. In the back of the report they talk about part IIIA and the national access regime. In the body of the report, on pages 39 and 40, they also talk about the risk to dedicated, privately owned, integrated infrastructure in the West that is operating efficiently, that has expanded to meet the demand from China and where there are no bottlenecks if competition policy is pursued for its own ends. What they point out in this report is that increasing competition for its own sake through part IIIA could lead to efficiency losses that are greater than the competition gains and therefore create a net loss for the economy. That explains our reference to that in our report.

Dr JENSEN—I have actually seen your operations in the West and I have to say that I found them to be really well integrated. I was amazed, actually, at the smooth integration right through the system right from the pit to the port. You probably heard the previous submission. Mr Bridger pointed out that, in Xstrata's view, the way to go about some of this vertical integration

that you have been talking about is probably to have a coordinated authority that is a conjunction of all interested groups. Would you agree with that? How would you see that operating? What part do you see government playing? The second question I have is particularly for Rio, because Comalco are saying that they do not really have a problem so far as infrastructure and transport to Gladstone is concerned. Where do you see the specific bottleneck right at the moment occurring? Do you concur with the previous submission? If not, where do you see the problem?

Mr Taggart—I apologise, but I was not here to hear the last submission. Our plane was cancelled this morning.

Dr JENSEN—Better still: you have not heard the previous submission. Tell me how you see it.

Mr Biddulph—With regard to performance of the chains, New South Wales is a very good example of where you have a number of different parties all involved in a single coal chain and where that coming together and working together has actually liberated additional capacity. Although maybe not being able to achieve the same levels of efficiency that you would have in a fully integrated system, they are removing some of the losses that they otherwise would have. There has been a significant improvement in New South Wales. This year, they are intending to move 84 million tonnes of coal, where a few years ago it was around 60 million tonnes, so there has been a significant improvement.

On the Goonyella coal chain, we are starting to see some improvements emerge there as well. We have had an improvement program running now for almost six months which has been about identifying what we have labelled as ‘quick win initiatives’, which are things that if changed today might actually start enabling you to liberate some capacity. We have been implementing those quick win initiatives and there are some more that will be coming online over the next six months. Also, we are trying to get the planning people from the rail and the port working together to actually make sure that they minimise the losses. That will hopefully be starting to pay some dividends in the next few months. We had a very good month in May. Performance increased substantially in May. The issue will be whether it was a one-off or whether we can sustain it.

Dr JENSEN—So, as far as coordinating authorities are concerned, what part do you see government playing? What I was asking for before was a specific: is it rail, is it rolling stock or is it the port? What aspect is in your view causing the specific constraint?

Mr Taggart—In New South Wales, it is rail.

Dr JENSEN—And in Goonyella?

Mr Taggart—In Goonyella, it is the port. Two systems, two different answers.

Dr JENSEN—As far as a coordinating authority is concerned, what role do you see government playing in that, if any?

Mr Biddulph—The industry needs to step up to the plate on this one and the particular stakeholders in the industry need to work together.

Dr JENSEN—Thank you.

Ms BIRD—You bring bauxite from Weipa to the refineries here. How do you transport that? I assume it is by ship?

Mr Rashford—That is correct.

Ms BIRD—The incoming and outgoing does not cause any conflicts? Are there any issues there for you?

Mr Rashford—At the moment, the Gladstone port capacity handles our trade reasonably well. One issue for Gladstone is that most of the future development is going to happen in the top end of the port and therefore those trades would have to go past the coal terminals. Then you have the interaction of shipping and potential congestion some time down the track. Having said that, the port authority have quite a sophisticated modelling system in which they can model those various trades and understand those interactions well ahead of time, so planning can be—

Ms BIRD—So you do not anticipate a problem from that increased movement both ways?

Mr Rashford—In terms of handling the physical capacity, obviously there are long channels that ships need to navigate and over time they will need further development. Provided that the planning is done far enough in advance, there will be time to overcome the lead times in terms of environmental permitting et cetera to enable that work to be carried out. In terms of a physical sense, we see that, as long as there is adequate planning between the various trades and the port authority, that should be handled fairly well. One concern is that at the moment the port authority also operate the two coal terminals in the port. They basically have the role of managing the overall efficiency of the port as well as the coal terminals. So, in the longer term, there is the potential for there to be a conflict or an opportunity for the port authority to pick winners. We would hope that would not happen. If that were addressed structurally it could prohibit that from happening.

Ms BIRD—Is that what you were talking about in your submission where you referred to the authority?

Mr Taggart—Correct.

Ms BIRD—This question is probably more directly to Rio. I am a little bit frustrated with respect to the industry addressing work force planning issues for potential peaks and troughs. We are seeing skill shortages in significant areas, particularly across the mining industry. I am pleased that you are talking about cooperative approaches, like you have discussed in Newcastle, but I am a bit suspicious about whether that will be sustained when the heat comes off the market. I understand it is a fact of life for private industry, driven by its own imperatives, but I am concerned that some of the good stuff that is happening now, coming out of the fact that the heat really came up and there was potential there—which I suspect should be sustained as a smoothing mechanism across the peaks and troughs—and that commitment from industry will drop off once the heat goes off and it will not come back until we see another lot of front-page articles and issues about the industry. I am sure you are going to allay my concerns, but could you comment on why you believe that will not happen or whether there is a role for government

in ensuring the ongoing existence of those smoothing mechanisms in infrastructure? Obviously skills is not an issue for this committee, but I am interested in the infrastructure area.

Mr Taggart—Highs and lows in cycles in the commodity business do drive behaviour, as you described. I think a lot of us are hoping that the current buoyant conditions are going to be around for a bit longer and therefore things that are put in place may actually grow legs and last. When talking about skills, you cannot upgrade the skills of people overnight. So something we start now is going to take some time to come through. Providing that is successful, it can continue to be built on. I think that is the same for the infrastructure—for example, getting a process in place that is aimed at delivering optimum efficiency through that system. If working together is the only way to achieve it, that is what we have to do. Even if the cycle does come off, that will drive us to be even more efficient because the margin that we are going to get for our product will decline. We will have to find efficiencies in everything we do.

Ms BIRD—Do you see a role for government in sustaining that? I take on board what you are saying about efficiencies, but I am a bit cynical that that is what actually happens. I think there tends to be a bit of a walking away and closing down on costs. Would you see a role for government? What would be the most constructive way for us to encourage that tremendous commitment to those sorts of measures—without being heavy handed? I do not think being heavy handed should be the approach.

Mr Biddulph—I will give you an example. Dalrymple Bay Coal Terminal operated as what we call a push system, which is where mines order the trains depending on their needs and send them to the port. The coal was stockpiled and we organised our own ships and the port tried to manage around the stockpiles, the shipping and all the rest of it. That was seen in 1999 to be causing some major issues for that whole coal chain. The industry at that time made a fundamental choice to switch that whole coal chain to be a pull system. That was done at a time when coal prices were pretty low. That system has remained in place since 2000. When you make some fundamental changes in the way in which you operate and structures are put in place, there tends to be a lasting effect, even though circumstances change from time to time.

Ms BIRD—Do you think government should have a role in that? I am looking for a ‘No, stay out of it; we can do it’ or a ‘There is a coordinating role.’ Should it be port by port, depending on the ownership structure?

Mr Biddulph—It is horses for courses. Also, monitor it and see what we do. If you think that we are going completely out of line, you might come back and ask us what we are up to.

Ms HALL—Thank you very much for your submission. It makes good reading but unfortunately we received it only this morning. You raised some important issues that I will ask you about. Firstly, I notice that in your submission you spent a lot of time talking about competition. Could you give us some examples of anticompetitive behaviour within the industry, restrictive trade practices and the kinds of issues that need to be dealt with? How is competition preventing the best outcome for infrastructure and production within your industry?

Mr Howard—The point we were making in the submission is that over in Western Australia we have a world-class iron ore industry that is built on high-quality and extensive ore reserves, and that is because of the infrastructure, systems and technology that are used to move that

product from the Pilbara, from the mine, to the ship's rail in the most efficient and optimised way possible. That is done because it is privately owned, dedicated, integrated infrastructure. We have ramped up the production at the mines. For example, the Robe River West Angelas mine has been ramped up to 20 million tonnes two years ahead of the original plan. The Yandicoogina mine has been ramped up this year. Those capacities were able to be brought forward in response to demand because we manage the infrastructure that gets the product to the port. There have been no bottlenecks there at all. The risk to that is if third parties apply through the national access regime to access our infrastructure. That causes enormous efficiency complications. The point we are making is that there is an opportunity that the task force identified for certain facilities. The Pilbara is a good example of one that is in the national interest to leave what works well alone and not create in the west the problems that we have had in the east.

ACTING CHAIR—Are you saying that the infrastructure that Rio Tinto has put in to service its mining operations in that instance needs to remain at Rio Tinto and should not be encroached upon by a mining company that may start up and that, because of the infrastructure that is already in place, such as that owned by Rio Tinto, it should not have access to that infrastructure to get its raw material to the port? That is the first question. The second question is: if that is so, how do you relate to Rio Tinto coming into the publicly owned system that has been designed to cater for everybody?

Mr Howard—I will let the coal people talk about the east coast.

ACTING CHAIR—The point I am making is that that mentality, in my view as a person out of private enterprise, creates a situation where there is scope for the industry to increase its capacity to supply a commodity to the export trade and there is a restriction on that supply because they have said: 'This is our train line and it is our rolling stock on it. If you want to export your contribution through your iron ore resources, you have to find other ways of getting it to the port.' That might be an unfair comment but I just make the point for what it is worth.

Mr Howard—The point is that the infrastructure that has been built in the West is privately owned and has been built by the shareholders of Rio Tinto. That operation is being run as efficiently as it can be. The sovereign risk to shareholders is that others might attempt to use the national access regime to access that facility. It is a bit like a big factory—the railway line is like a conveyor belt and the whole thing is integrated and optimised. When someone else wants to get access to it, there are potential efficiency losses. The country as a whole has to appreciate and understand what those losses might be, because they are not trivial.

Ms HALL—You see it as being in the country's interest, as far as gaining efficiencies goes, that another company should have to duplicate the infrastructure that you have to perform a similar task. Would that be the optimal outcome for Australia?

Mr Howard—It is hard to get into hypotheticals, but—

Ms HALL—But you are basically saying that it is in the shareholders' interests, in terms of efficiency and effectiveness, to have that infrastructure 100 per cent for the use of Rio. Then you made the statement that it was also in Australia's interests. To my way of thinking, maybe there could be a slight conflict in duplicating infrastructure alongside of Rio's to do a similar task, as compared to forming some sort of agreement where you could share.

Mr Howard—Probably the best way to deal with this is to look at the report that Brian Fisher’s task force have produced. They look at this issue, and page 39 of the report explains that there is no current mechanism under part IIIA for examining the efficiency losses. They say there should be a clear mechanism allowing for an efficiency override for applications for access under part IIIA.

ACTING CHAIR—Was that resource or infrastructure built wholly and solely with Rio Tinto finances or was it complemented by public money?

Mr Howard—If we get into too much detail on this subject—

ACTING CHAIR—I am asking that question because it leads to the question, from the government’s point of view, as to whether or not the government should be making contributions of taxpayers’ money to resources that are partially owned or contributed to by private enterprise and/or other levels of local or state government. That is a very critical question to ask in a situation where there is difficult economic circumstances or other pressure on industry, such as the pressure on the coal industry at the moment, where the existing rail infrastructure may not be able to handle efficiently the quantity of coal that needs to come through the system without some sort of duplication, spurline construction or construction of missing links on rail lines. Because of the short-term demand of the industry—and indeed the country as a whole—to get that export commodity to the port and offshore and to get the money in, government may need to consider making a contribution. That is the only reason that I ask the question.

Mr Taggart—Certainly with the Queensland coal fields, generally speaking, we have contributed to the construction of the rail line. We then handed those assets to QR and are charged to use them. There is no government money in that. I am not familiar enough with the situation in the iron ore industry.

Ms HALL—Could I just take it a step further: we heard from Xstrata when they were talking about Dalrymple that, when they had the real queue off the coast, at the same time they had a minimal if not non-existent queue at Hay Point. It was put to us that an efficient way to deal with that would have been for some of the ships that were waiting to go into Dalrymple to go on to Hay Point. But Hay Point is 100 per cent owned by BMA and, as such, the wall was put up. What I am trying to get at here is—and you talked about Port Waratah, which is a good example of cooperation—would it not be in the national interest to go down the track that was recommended by Xstrata, as opposed to what you are advocating here?

Mr Biddulph—I would say that the Hay Point coal terminal is operated as an integrated part of their coalmining operations. They have a number of mines upstream from the Hay Point coal terminal—

Ms HALL—I understand that.

Mr Biddulph—and they manage all of their shipments—they use that facility as essentially a mix master to provide the coal types that they require going onto those vessels.

Mr Taggart—And I think that, at this point in time, it is operating at its maximum capacity anyway. I think that every tonne that any of us can dig out of the ground we get on the train and

we get on the ship. So while we had 50 ships off Dalrymple Bay and Hay Point had whatever the number was, I am not sure there would have been any capability to move our customers' ships to their berths because they had their own customers coming over the horizon on a regular basis.

Ms HALL—So you would not support the proposition that, where you have got an under-utilisation in one area and in another area you have got an over-utilisation, some of that over-utilisation could be put to the area where there is an under-utilisation? You would not see that as something that would be in the national interest?

Mr Biddulph—I think that it may be not an under-utilisation or an over-utilisation. I think the situation that you saw emerge at Dalrymple Bay was that the vessel arrival rate was greater than the capacity of that terminal and upstream of it to deliver coal to put onto those vessels. For the Hay Point coal terminal, they have a very good understanding of what the capacity of that facility is and they ordered their vessels to match the facility. And that is essentially what we are doing at the moment: we are trying to match the vessel arrival rate at Dalrymple Bay to the capacity of Dalrymple Bay so that we do not have a re-emergent queue.

Ms HALL—We were talking about competition policy and Hilmer. Hilmer addressed his reforms mainly to the public sector, didn't he? Do you see room for that to be expanded to the private sector?

Mr Howard—The point we were making in there is that we believe that that was an unintended consequence and that the capacity to access private infrastructure—

Ms HALL—So you believe there should be competition only in the public sector and not in the private sector?

Mr Howard—I can only speak for the case of the Pilbara Rail, but that is operating to full capacity and maximum efficiency and allowing the expansion of the mines.

Ms HALL—I might just change tack a bit here and move to infrastructure. Xstrata said in their presentation that there was some benefit in having a lag period with infrastructure as opposed to leading with infrastructure. Would you agree with that?

Mr Howard—It is a very difficult question because every situation is different and what has occurred in the Pilbara—and I can speak only for that and not for coal—is that the investment all along the chain, from the mine through the corridor to the port and the stockyards, railcar dumpers and all of the wharfing facility, has all been able to be managed simultaneously, so that there is not a problem with a limiting factor in the chain or a lead and lag situation. It has been able to be optimised. And, as Brian Fisher's report points out, that is in stark contrast to multi-user facilities in the east.

Ms HALL—Would Coal or Comalco like to comment on that?

Mr Taggart—In an ideal world we might get to mine perfectly—as demand for the infrastructure arrives the infrastructure is there to cater for it. History has shown, and it will occur in the future, that there are times when infrastructure leads and at other times demand is there before the infrastructure is in place.

Ms BIRD—It is interesting that what I am hearing is fundamentally a nationalisation argument—things are more efficient when one person owns everything from digging it up to shipping it out. I understand that in the Pilbara it is a very specific circumstance where, I assume, you do not have multiple user pressure at this time. You are only identifying the potential for that. I am interested in the issues where there is going to be conflict if we set up national approaches. I assume that is what you are saying about the Pilbara, that the national approach of competition policy is not flexible enough to allow for circumstances where it actually is not efficient. My concern is for the east coast, which is probably where we have seen the major problems. If the most efficient model is a one-owner/coordinator approach—obviously that is not going to happen at the mine but talking about the transporting and shipping components of it—and we are actually moving towards multiple different models and more and more away from common models to very different models, don't you think we are creating more of a problem with that approach by then requiring the mining companies to deal with all these different models and ways of doing it?

Mr Rashford—I think we make the point that there is no one-size-fits-all approach. You have to look at the various particular chains and what would be the applicable model there. What might be applicable in the Pilbara may not necessarily work in Newcastle. In the east you need to look at what sort of model would be the most efficient model to apply there. It does not necessarily mean that model transfers over to the west.

Ms BIRD—Are you saying that should be driven by a more centralised coordinated approach, rather than a market rules approach?

Mr Biddulph—The issue is one of how many interfaces there are in any chain. The more interfaces you have, the more potential you have for loss. Essentially, what we are doing now is trying to understand and manage those interfaces in a much more consistent way. That has liberated some additional capacity in some of those chains.

Dr JENSEN—I would like to change the focus a bit, given that we are in a specific geographic area. We have heard arguments from certain groups about the missing link and the fact that it would be beneficial to complete that missing link, particularly when Abbot Point is expanded and able to deal with quite a few different grades of coal. What is your view on the missing link? Is it something that you see as necessary to improve productivity and throughput in this region or is it something you think the current infrastructure would be able to cope with, with minor variations?

Mr Taggart—For our mines, going the current route of the missing link would incur more costs for us. It is an extra 100-kilometre haul.

Dr JENSEN—So you do not see it as a beneficial thing to complete?

Mr Taggart—It is cheaper for us to put our coal out through Dalrymple Bay than it would be—

Dr JENSEN—The point is that you have identified that there is a capacity constraint with the port itself.

Mr Taggart—I think the time frames to expand Dalrymple Bay or build the missing link are probably very similar.

Ms HALL—What about the missing link that has been identified down this end?

Mr Biddulph—That would open up a whole new region. It will be driven by whether those new resources are opened up or not.

ACTING CHAIR—Would you agree with the infrastructure task force's finding that infrastructure bottlenecks are mainly to do with regulations and not the physical capacity? If so, how?

Mr Biddulph—On our part, bottlenecks are a combination of multiple factors. In the Dalrymple Bay coal terminal case, the situation was that, while the terminal was leased in 2001, we have gone through quite a lot of change over the last three years. We have had a stage six expansion, which was commissioned in 2003. We have had the new owner becoming familiar with their assets. We have had international demand taking off. We have had, at the same time, regulation being introduced and we are still going through that process at the moment for the terminal. We have had Queensland Rail go through their regulatory processes. So we have had some major changes over the last four years and how infrastructure has dealt with that all goes into the pot for the emergence of the current circumstances.

ACTING CHAIR—Can I take you back to the original comment we were making before about the Rio Tinto owned infrastructure, but relate it to the specific problems that have been highlighted in the area—the CQPA. Page 5 of your submission, which we received today, seems to indicate that you have a very real concern about the way in which the CQPA manages its port. Whilst you do not directly say it, in the preceding paragraph you say:

When a publicly owned infrastructure facility is large and complex, servicing users with diverse interests spread across a range of trades with very different characteristics, fresh issues arise.

Then you talk about, and I quote:

The sheer scale and complexity of the task of managing the facility—

such as that—

including the interfaces of the different transport modes...

You then go on to say:

Where that manager has a number of related responsibilities, there is scope for conflicts of interest to arise.

In the next paragraph, you then indirectly relate that to the operation of the CQPA's port facilities in Gladstone. Would you like to make a comment on that? What you are saying is that, in those circumstances, there is a potential for the perception to arise between terminal users as to whether coal is treated more favourably than other trades.

Mr Rashford—As a non-coal trade through Gladstone, and with future port expansion expected to happen at the top end of the port at Fisherman's Landing, the traffic associated with those future trades has to go past the coal terminals. The port authority has a responsibility to manage the overall efficiency of the port. It currently has a dual responsibility to also manage two dedicated coal terminals.

ACTING CHAIR—Do not get me wrong. It is not meant to be a criticism; it highlights the area we are looking into—that is, what creates efficiencies and inefficiencies in the system.

Mr Rashford—The issue for a non-coal trade through Gladstone is that relationship, and would there ever be a situation where the port authority may be able to pick winners with its coal responsibilities versus its overall port efficiency responsibilities. That was the point we raised in the submission.

Ms HALL—Mr Schultz asked you a question about regulation. I would like to push that a little bit further. What level of regulation do you believe is required? At what point is that required, if at all? Or should it basically be left to market forces or the players to determine? All of you are welcome to answer.

Mr Biddulph—Again, in the situation we have gone through, it is unfortunately not one size fits all because the relationship between an access seeker and an access provider can be different in different circumstances and the degree of regulation as a result needs to recognise the different types of access seekers and access providers. If you have a monopoly provider where obviously there is no alternative and you are an access seeker then there is potential for that access provider to have a significant lack of power in any particular negotiation. The issue then is how you balance the playing field in a way in which you can come up with a reasonable outcome. The upshot there is really the minimum level of regulation that provides that level playing field and a timely outcome in those particular negotiations. In the situations that we have seen in Queensland a regulatory process which facilitates a negotiated outcome would be a good structural model. We are still reviewing the Fisher report—

Mr Rashford—In respect of Gladstone, the port authority is basically a monopoly provider and there is limited regulation around that monopoly provider. That has not been an issue to date but in the future, if there were to be issues, there is very limited recourse at the moment other than lobbying the state government who is a shareholder, if you like, of the port or maybe seeking a judicial review, which has limited powers anyway. Our view would be that to date it has not been an issue, but in the longer term we should look at what could be put in place to provide some sort of regulatory override.

Ms HALL—Could you tell me what role you believe government has in the planning and coordination of infrastructure for this area or generally to meet the areas that you have interests in?

Mr Rashford—I guess I will just be selfish for a moment and talk about the Comalco aluminium refinery. The expansion at this stage is marginally subeconomic but if you look at what that expansion would create for Australia it is a very attractive investment for the nation. To date we have been in discussions with the state government as to how we might proceed with that investment. When you look at the benefits of the project they are of overwhelmingly benefit

to the federal government rather than necessarily to the state government and while we have got enormous support from the federal government for the project that does not seem to be an avenue for some direct assistance or support that might get that investment over the line. We have had a number of discussions and have received a huge amount of support but that does not seem to be able to convert itself into something tangible. If there were some sort of avenue that the federal government could open up so that it could get more involved with tangible support for projects that may be overwhelmingly in the national interest that would be something worth looking at.

Ms BIRD—Can I follow up on one of your previous questions? I am still working through this. You talked about the potential problem with monopoly providers and you acknowledge that that has not been a problem at Gladstone to date. Then we hear that when you are the monopoly provider you do not want government intervention. There is an inherent contradiction. I perfectly understand that it is horses for courses and you have your own perspective on whatever best suits the company's outcomes and that efficiencies are what you would drive for.

Having made that cheeky comment, I will come back to the actual question. Why do you think you have not had a problem with the Gladstone port to date having been a monopoly provider? I should have prefaced that by asking: do you think it is not only the provision of the service but the ownership that affects that? If the ownership are motivated not by their own profits but by national interest—perhaps because they are a more government controlled entity—would that make it easier to work with them? If they were just a private provider out to do the best they could, they are more likely to pick and choose winners who can pay them better, aren't they, than if they had a national interest requirement as a government owned business?

Mr Rashford—We should make a distinction between the Gladstone situation and some privately funded and owned assets in the west in terms of a monopoly. A monopoly service provider—

Ms BIRD—I was just being a bit cheeky. I will cop that.

Mr Rashford—Okay. It has not been a problem to date because we have had an authority that has seen itself as an efficient infrastructure provider to industry and one also that very much has a high community interest as well. The coal terminal expansions have been funded off the back of take-or-pay contracts, so there has not been a huge risk for the authority in that sense. To date, there has not been an issue. If through its monopoly position it became more commercially aggressive or whatever, then there could be a change. That is why I alluded before to the question of whether some form of regulation should be looked at going forward. But, as I said, to date the port authority has seen itself—I believe—as an efficient infrastructure provider with sophisticated tools to look at forward demand.

Ms BIRD—And that is the motivation you think works most effectively for industry: that motivation of being an efficient provider?

Mr Rashford—An efficient infrastructure provider, yes.

ACTING CHAIR—I have a question about Dalrymple Bay. I want to go back to the effect of the construction of the missing link in the north, which was referred to before. Would there be a

security advantage—and when I say ‘security’ I do not mean terrorist security but security for the industry—in having the missing link make it possible to divert Dalrymple Bay shipments to, as an example, Gladstone if some sort of natural disaster—a cyclone for example—closed the Dalrymple Bay container terminal? What happens if a cyclone affects the infrastructure at Dalrymple Bay to the extent where it is put out of action for a couple of months? Wouldn’t the construction of the missing link in that area enhance Australia’s reputation as a reliable supplier, especially in places like Japan and other Asian countries?

Mr Taggart—The answer is yes. However, to fund the missing link and the port expansion, I would anticipate that the providers would be going to want take-or-pay contracts from the coal producers and therefore the facility would already be fully utilised. If there was an incident at Dalrymple Bay, Abbot Point would still be fully occupied by its producers, so the coal would have no opportunity to go there anyway—unless you are going to impact on the producers who are contracted to go through that port.

ACTING CHAIR—So from the economical point of view the infrastructure cost of building the missing link there could not be justified on the basis of some disaster happening up in Dalrymple Bay and cutting out the potential export from that particular port?

Mr Biddulph—It is akin to an insurance premium, how much insurance you pay to cover a particular event. With the Dalrymple Bay scenario we have an alternative already: we can ship coal to Gladstone. Gladstone is fully contracted though, so for the scenario that you describe you need to install spare capacity—

ACTING CHAIR—Is that down on the coastline?

Mr Taggart—No, you go down through Oaky Creek, German Creek—

ACTING CHAIR—I am not a Queenslander so I—

Mr Biddulph—If you are in Central Queensland, the rail lines from Dalrymple Bay go west and then they go south. They join into the Blackwater system that then comes back east and then south to Gladstone.

Ms HALL—Taking it back to the question that you were answering a little while ago when you spoke about infrastructure and the role for government: do you believe that there is a need for government to establish an infrastructure fund? I note that not all of you have a chance to answer the question that I put about the coordination and planning. Perhaps you could address that part and then widen it out a bit.

ACTING CHAIR—You are not trying to access the Future Fund, are you?

Ms HALL—No, I am trying to get an idea of what people that need the infrastructure believe should happen.

Mr Biddulph—I think that it would be valuable if the government could access funds to support projects it thought were overwhelmingly in the national interest.

Ms HALL—Maybe some other people would like to comment on the planning and coordination issue I raised.

Mr Howard—The only point that I would make is the point of general principle made by the infrastructure task force. People often point to market failure and say that government should step in. The task force says that there are also examples of government failure and as a general principle it is preferable to start at the end of the spectrum of industry self-regulation and only move through grey letter law and eventually to the heavy hand of black letter law where there is demonstrable market failure—

Ms HALL—So you see no role for government in coordination and planning of infrastructure needs?

Mr Howard—Every situation is different. As a general principle it is preferable to start at the end of industry self-regulation and see whether commercial market forces can solve the problem. Then if you have to move through the continuum the heavy hand of government regulation should be at the end—

Ms HALL—I am not talking about heavy-handed regulation; I am talking about planning, coordination and facilitation.

Mr Howard—That is at that end.

ACTING CHAIR—I think what Mr Howard is probably referring to is the past record of government in private enterprise. One thing that I can remember in my brief time in the federal parliament has been the issue of the wool stockpile. There are examples where government should be involved in private enterprise, and I think that is what you are alluding to. I was not meaning to put words in your mouth—

Ms HALL—That is not what I was referring to—not government involvement but a coordination and facilitation role. Basically what you are saying is that the best way to plan the optimal infrastructure for Australia is leave it to industry and government does not have a role unless things do not work.

Mr Biddulph—The owners of the assets will have the best understanding of how those assets should be managed and expanded. When you are a new mine starting you will approach the asset owners to seek access and that then triggers the expansion process.

Ms HALL—And that is going to deliver the best outcome in our national interest?

Mr Biddulph—As long as you have a diligent owner of an asset that has plans and approvals in place that allow for expansions to occur, that is probably the most appropriate course.

ACTING CHAIR—Thank you, gentlemen, for your indulgence and patience in answering the questions. It is very much appreciated. Our role in this inquiry is to extricate as much information as we can by whatever means are available to us under the guidelines we operate under. Sometimes the questioning does get difficult, but it is all designed to be in the best interests of a positive outcome for the committee. The committee will continue to undertake this

inquiry. As the chair pointed out before—some of you were here earlier this morning—the committee has a long way to go in gathering further information around the country. It is endeavouring to ensure that it gets the in-depth information it needs to put out a very sound report. We cannot get it unless we have contributions from people and organisations such as you. So thank you for coming in today. It has been a very constructive meeting. If you people have no problem with this document, the ‘Rio Tinto presentation to the Standing Committee on Transport and Regional Services’, being published as an exhibit, the committee will authorise the publication of the evidence.

Resolved (on motion by **Dr Jensen**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.42 am