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STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

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GERALDTON

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Monday, 6 March 2006

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: Mr Haase, Ms Hall, Dr Jensen, Mr Neville 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.

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Committee met at 10.06 am**CRIDDLE, The Hon. Murray John, Member, Legislative Council of Western Australia; and Member for the Agricultural Region of Western Australia****PATTERSON, Mr Craig, Past President, Mid West Chamber of Commerce and Industry****TREASURE, Mr Gavin, Chief Executive Officer, Shire of Morawa**

CHAIR (Mr Neville)—I declare open this public hearing of the inquiry by the House of Representatives Standing Committee on Transport and Regional Services into the integration of regional rail and road networks and their interface with the ports. This is the 17th public hearing of this inquiry and it is part of an extensive program of public hearings and visits designed to gather information from people directly involved with the main issues of the inquiry: the arterial road and rail systems of this country, their connectivity to the ports, how efficiently that system is working and whether or not there is a case for inland hubs. We have had hearings in Mackay, Gladstone, Newcastle, Port Kembla, Wollongong, Melbourne, Portland and Darwin, and over the next five days we will be here in Geraldton, Bunbury, Albany, Esperance and Perth, before returning at the weekend. Today the committee will hear from a number of witnesses directly involved with the issues of the transport industry in the general Geraldton area.

Welcome. The committee does not require you to give evidence under oath, but I have to remind you that these are proceedings of the federal parliament; consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, I want you to know that you are most welcome here. Are you going to speak as a group or individually?

Mr Criddle—I have a five-minute submission, which I have given to you. If you want me to run through that, I will.

CHAIR—Perhaps you could give us an overview. I will ask the other two gentlemen whether they would like to add to that and then we will ask questions.

Mr Criddle—The transport system is an essential and integral part of the logistics for the region's developed and developing primary industries. The mid-west region's economy relies on mining, agriculture—that is, grain, wool and livestock—tourism, fishing, crude oil and iron ore, which is the second-largest deposit in Australia. Many of the arterial roads built in the mid-west were constructed simply for eight-tonne axels. Currently we have trucks that cart loads of very high tonnages and that occurs right throughout our road network.

State funds were expended on the first stage of the southern transport corridor. The southern transport corridor is the link around Geraldton. It has not been completed yet. The Magnet and Leinster roads link back into Geraldton. There have been limited upgrades of the arterial roads in the mid-west region. Western Australia contributed about \$40 billion in exports to the national economy—that is, in goods and services—in 2003-04, which is more than any other state, and yet the state receives only eight per cent of federal road funding. There is a developing oil and gas industry in the mid-west. That is transported to Perth by road via the Brand Highway. It is

both increasing road usage and leading to a poorer efficiency due to long-term time frames in trucking. The product takes about five hours to transport to Kwinana.

The Brand Highway is a major route taken by industries to connect to the Port of Geraldton. It connects to the North West Coast Highway, which links the south of the state to the north, up and down the coast. It is a single-lane highway and the route is used by freight: iron ore, fuel and grain. It is a major route for tourism, buses and general traffic. The Brand Highway is a single-lane highway, which in areas has limited sight distances and few passing lanes. In fact, in one area there is a 100-kilometre stretch with no passing lanes. I have just referred to the oil product that goes to that area. There is certainly a general rise in the traffic on that road.

Rail has generally been used for the transport of wheat and a small amount of mineral sands in the past, amounting to less than two million tonnes per annum. Only minimal expenditure has been undertaken on the rail network. Line closures, speed restrictions and reducing train sizes have been used to keep the rail operational for current clients. Currently there is a need to rail approximately four million tonnes per annum on the existing lines. Some of the lines were constructed in the 1920s, leading to significant congestion for road transport because the transport is going on to road currently.

Approximately \$120 million has been spent on the deepening of the port to 13.5 metres, which enables Panamax vessels that are capable of carrying 60,000 tonnes. This has made many of the mineral deposits in the region viable to export and has caused a major increase in demand for access to supporting infrastructure. The Port of Geraldton is perfect for the current Chinese requirements for shipping with Panamax vessels. This requirement, however, will change with the requirement for cape-size vessels. They are the ones that go to a capacity of over 200,000 tonnes and need a draught of at least 18 metres. The Port of Geraldton obviously cannot cater for that particular area.

Some of the recommendations that I will be putting forward include the requirement for infrastructure and investment to overcome the current transport crisis, upgrading of the rail from Geraldton to Mullewa and Perenjori—the rail line needs to be upgraded immediately—and sufficient rolling stock to be purchased to enable iron ore to be transported by rail. The proposal would be to upgrade that particular rail to in the vicinity of a 30-tonne axel loading. It would need passing lanes. The cost I have had indicated to me for upgrade down to Perenjori would be somewhere in the area of \$60 million. The upgrading of existing roads includes the provision of passing lanes to accommodate increased road traffic and increased safety. That is not limited to the Brand Highway; there are a number of other roads in the area that certainly need that sort of an upgrade.

The southern transport corridor that I spoke about earlier is an \$88-million first stage. There is a requirement for the second stage, which is in the budget for commencement in 2007-08, but it has been a low priority for this government. That actually links the heavy transport, through the schools, back to the east. It is one of the things that I think should have been built when the initial stage of the southern transport corridor was built.

We are now seeing the requirement for a multi-user, open access, deepwater port at Oakajee, which is further up the coast. The existing port, although recently enhanced, does have a finite limit on future expansion, due to the limited land berth reserves. This port cannot accommodate

vessels with over a 60,000-tonne capacity. There are currently ship delays with mineral sands, because of congestion with iron ore exporting, with some companies experiencing ship delays of up to five days, at \$US15,000 per day demurrage. This may be partially alleviated in approximately 18 months, when the new dedicated shiploader facilities are available and there is a port expansion on berth 5.

The current port is right in the centre of Geraldton, as you would be able to see just behind us. A new deepwater port would permit large vessels with tonnages of up to 250,000 tonnes to be loaded and meet with future growth in the region. It is envisaged that the increase will be up to over 60 million tonnes per year by the year 2015, given that the projected development occurs. For over 30 years, Oakajee has been identified as a strategic industrial precinct to service the mid-west region. Currently this site is undeveloped. However, it is state government owned. Many studies have been completed, including a public environmental review, an environmental assessment and ship-manoeuving testing.

Designs for the development of Oakajee have been presented by several major mining companies with potential co-funding. A heavy industrial area is to be established at the site of the deepwater port to support downstream processing. There are plans for a desalination plant. Water is one of the issues to do with that particular site, and it would be a requirement to have water from Koolanooka transported to that particular site. So that is one of the issues. None of the development has been done. Road, rail, water and gas would all be required to go into that area.

A new standard-gauge rail corridor to Weld Range—and Weld Range is some 400 kilometres north-east of Geraldton, where there are large iron ore deposits—and that rail would be the standard gauge of 1,435 millimetres with concrete sleepers. The development of the new standard gauge from Perenjori to the deepwater port would also enhance the opportunity to transport product there at a far more efficient rate. The north-south highway corridor catering for a dual carriageway road and rail through Geraldton, or indeed around Geraldton, is one of the issues that I think needs to be addressed. Certainly I would be prepared to expand on that if you wanted us to develop that particular discussion. The widening and sealing of the Mullewa-Wubin Road is also certainly an area that needs to be upgraded.

Other roads that need to be touched on in the area are the Mingenew-Mullewa, the Perenjori-Mullewa and Geraldton-Mount Magnet. I have Ogilvie east in there and the completion of the Tenindewa-Yuna roads. All of these will serve the ports—in fact, this port and the port which is to be developed at Oakajee.

There is currently an increasing demand for transport infrastructure in the region. Development of critical infrastructure will lead to export opportunities for Australia. There is an unlimited window of opportunity for capturing the growing Chinese and developing markets, but that window will only be open for so long because some of these projects need to be developed in the immediate future while the market is there. That is the brief overview that I wanted to give.

CHAIR—Mr Patterson, would you like to add to that?

Mr Patterson—I would like to add to that, if I can. Thank you and welcome to Geraldton and the mid-west.

CHAIR—Thank you.

Mr Patterson—I think it is probably prudent to explain to you where we are situated in Western Australia. I know that Mr Barry Haase is probably very familiar with the mid-west, but I would invite you later to look at the major resources project map that is on the wall. You can probably see that there are three clusters of projects up there. There is the Pilbara, the goldfields that Barry represents and, if you look on the coast, that other cluster that you can see from here is the mid-west.

Western Australia is one of the drivers of the current federal economy through its resources project and, as you can see, the mid-west is not only on the edge of the second richest iron ore deposits in Australia; it is also renowned for being one of the richest mineral fields throughout the world. You will see, if you take a close look at that, that the mid-west has a diverse range of minerals and we are ideally situated for downstream processing as well as export.

I think it is also fair to say that the opportunities to export out of the southern half of Western Australia is currently out through Esperance through those mineral fields—there is a rail line from the goldfields through to Esperance—or out through Geraldton. Currently we have a port that was recently deepened to allow us to go to 60,000 tonne Handimax vessels. The port here has potential for about 23 million tonne and is quickly heading in that direction.

The statistics that we see so far are that, by 2012, the potential is for this area to want to export 60 to 80 million tonnes per annum, and that is impossible with a port that has been enveloped by the town. So really we need to see a further port development for export. I suppose from businesses' points of view—and I may be preaching to people who already know—it virtually works in reverse to the ocean: once the environment is right, big companies, big fish, feed the smaller fish and it flows down throughout the whole economy. Geraldton was definitely in a slump for approximately eight years and the port deepening here gave the emphasis for a number of starter projects—for small companies feeding demand—and that has really seen that flow through the economy and we have really seen it boom.

The Chinese are demanding second choices rather than dealing with the two big players in iron ore, and a number of smaller companies are looking at starter projects. In the mid-west, we have the resource to carry this on for 30 years. It is critical that in the next five to six years we give them the opportunity to be able to export large quantities of materials.

Unfortunately, the progress has been so quick that decisions are now being made in the wave instead of in front of the wave. That is having a detrimental effect with people wanting to invest in this area. We are saying, as a business community, that there needs to be security for investment decisions. People need to understand where it is going and what vision is needed to take it forward. We are seeing that it is already having a detrimental effect.

The Oakajee port is really a chicken and egg situation. People are saying to these companies, 'You prove it up and you prove your customer base and you prove everything and then we will look at committing to a port.' People that are investing are saying: 'We can mine it and we can rail it, but how are you going to get it out through a port? Where is your agreement in place that this will be built?'

Some of the components to be able to bring these exports on by 2010 really need to start development in 2007. That is the time line we have. Really we now need to move forward the decision-making process and give security to investment. We have already seen that decisions made while you are in the wave are poor and impact on local businesses. We have a local transport company that signed up with one of these starter mines to transport their ore for five years. On the eve of commencing the project, after \$3.5 million was spent on a road unloading facility and after significant money—over \$2½ million—had been expended on road upgrades and after the local transport company had bought approximately seven trucks and prime movers, they were told, ‘No, you’ve got nine months to get your product off the road and onto rail.’ That security decision breeds no confidence in being able to invest in long-term projects. From that point of view, as a chamber, we are really looking to see that happen.

One thing we would comment on from the regions is that we understand federally there was a major project to increase the efficiencies of our ports and a lot of money was expended on doing that. When you look reasonably at what occurred, expenditure occurred in the ports of the capital cities to increase efficiency. We would reasonably contend that the majority of what came through those ports were imports. The majority of anything that goes through the regional ports are exports and, unless some effort is made in opening up, freeing up and investing in regional ports, our balance of trade will decline as a result of all the effects that occur.

Here we have an opportunity to develop a great export port. We are saying, as a chamber, that we are looking for leaders and statesmen to step forward and make some of these decisions for the future, to make out a road map of how we develop these projects and how to develop these regions and to say to companies, ‘We will invest if you reach these critical points’. If we have a deep water port based on the coast, we can see an expansion of that. It will be a unique area and it will lead to further downstream processing.

CHAIR—Mr Treasure, do you want to add anything?

Mr Treasure—Yes, thank you.

CHAIR—I do not want to constrain you, but we are halfway through our time and we have not asked a question yet.

Mr Treasure—I will try to be brief. My presentation really complements what Murray and Craig have already presented. I will try to give you more of a local government perspective on the issue and with my background on the port authority too, I have an insight into how the whole system works now. Recently we negotiated a contract with one of those start-up mining companies that Craig was talking about, with Midwest Corporation. The first shipment left the port I think last week. So that is a landmark for Morawa and the Port of Geraldton. I might start talking about the current situation, which probably most of you are aware about. I will talk about the challenges ahead of us in terms of the constraints we are facing at the moment. I will bring a case example of Midwest Corporation and the challenges we faced as a shire. Then I will put Gavin Treasure’s option as a way forward, a solution, to try to meet some of the issues.

CHAIR—On that point, are you the only local authority in the immediate area?

Mr Treasure—We have seven or eight shires, all with mining impacts in the region.

CHAIR—Are you the shire for the City of—

Mr Treasure—No, definitely not. We are one of the inland shires where most of the mining deposits are located.

Ms HALL—What is your shire called?

Mr Treasure—The Shire of Morawa. We are located about 170 kilometres south-east of Geraldton almost due east of Dongara. WA is currently going through a major once in a lifetime resource boom. This resource boom has been triggered by an insatiable Chinese appetite for WA mineral resources, particularly iron ore. WA is leading the nation in terms of our economic drivers, wealth and job creation. It is providing an ideal opportunity for struggling inland rural areas to create much needed diversity in industry going away from broadacre agriculture into mining, which is a good chance for us to generate more income and wealth. Potentially, as I think Craig articulated, that map over there highlights a great picture in terms of potential for the Mid West to become the next mini Pilbara of Western Australia, but timing is critical.

The key economic drivers for success are all aligned. There is market demand and price. There is a proven resource base and a theoretical economic delivery—not physical. The challenge ahead of us is infrastructure. As both Murray and Craig have alluded to, we have an ageing road and rail system, so the physical side of things is very constrained. We have no emerging resource companies developing in that area, so there are no BHPs, no Rios, no Hamersleys. So they are all start-up companies with little in the way of financing and backing support. We do know the resource boom will finish some time in the future—I cannot say when. But there is a finish date with all that is happening. Those companies that have not started before the resource boom finishes will struggle to start up. So it is important that these start-up companies do find a way forward.

We find that giving them a pathway delivers an outcome. Once the potential start-up projects get initiated, there is huge potential for them to establish a balance sheet that gives them financial strength and to develop the next stage of their projects—mainly in relation to the magnetite, which is the next layer down from the iron ore, the hematite. I think it is fair to say that state and Australian governments are struggling to keep pace with the potential of these developments as presented on the table. We are reacting, as Craig said, rather than trying to find a way forward and get our planning organised.

I have learned in the last six to 12 months that there are no established ground rules available for potential resource developers to follow in terms of government consideration and approvals, which invariably leads to policy on the run, which does not do anyone any good. You get decision making such as what happened to our mining company, Midwest Corporation, and what Craig alluded to earlier with the local transport operator being exposed financially. Local communities are increasingly requiring their share of the cake in terms of social dividends or payment contributions from the mining companies for extracting and removing their wealth from their areas.

I will take two minutes, if I may, to talk about Midwest Corporation. Midwest is an emerging resource company with proven iron ore tenements located at Koolanooka, Blue Hills and Weld Range. Koolanooka is located on Morawa's doorstep. It is 20 kilometres due east of Morawa. It

previously mined fines, available for immediate collection and transport to China. Koolanooka is an ideal low-cost start-up project to establish the balance sheet I was referring to earlier to give it strength for further investment in other project development.

Midwest were unable to establish an agreed commercial arrangement with a WA rail operator, which subsequently meant they had to revert to a dedicated road haul tasked right from the mine site through Geraldton. I might point out that there is a rail line within 15 kilometres of the mine site. Quotes were then sought for an alternative dedicated road transport option. Quotes received were commercially less than the rail quotes provided. The road haul task would see 100 truck movements per day travelling through at least five communities—Morawa, Mingenew, Irwin, Greenough and Geraldton.

As a result of the change of mode from railroad to road, there was quite a bit of community concern about public interface and safety issues from the number of trucks operating on the road system. The increased community concerns led to a state government reaction in terms of a restricted road train permit, which Craig referred to. From an indicative five-year licence, they were looking forward to a 10-month term, with a requirement that the company revert to rail transport at that time. There is doubt from all parties about whether this time frame is achievable.

The final position by state government was an 11th-hour decision where the commitments were already established and contract parameters set, so it resulted in a lot of turmoil for a number of people in Geraldton and in our area. Doubt also exists from an environmental perspective, with state based agencies placing reactive pressure on sites, requiring review for resource access. It goes back to the reactive decision making I talked about earlier.

The solution I propose is dual. Phase 1 is for starter projects, as stated, and phase 2 revolves around growth projects. Phase 1 involves Australian, state and local governments negotiating agreements with mining companies that result in a balanced and timely outcome approach for commencement of activities. Local governments prepare and issue a charter of corporate responsibility that articulates and sets out proposed relationships and minimum requirements of local communities if permitting mining access into the region. It includes financial parameters, buy, reside, local requests and other local matters of importance to communities. It offers new mining companies easily accessible and transparent guidelines of local government requirements for doing business. Potentially it should streamline negotiations and avoid uncertainties.

From a state government perspective, they need to establish one point of contact or a 'go to' agency that has the necessary delegated senior level authority and powers with direct contact with state cabinet to act as one point of call and inquiry to enable all new projects to be coordinated and ultimately proceeded with in a timely fashion. Whether that is the commission or DEWR, I am not sure, but there needs to be one central point that people can go to and try and get projects up and running.

A mapping exercise should also be conducted to enable all approval mechanisms or necessary agency contact points to be identified as a reference tool for mining company information and use. The state government needs to adopt a flexible position in negotiating permitting mining company access to public transport, roads and rail, with appropriate commercial agreements in place—that is, contracts seeking dollar per tonne payments from mining companies that acquire such access to ensure project commencement. Such commercial agreements would include

public-industry interface conditions—satisfying issues of safety, amenity and perception concerns—and funds received would be placed into a seeking fund investment facility where the ultimate outcome of reinvestment into the actual transport system is utilised. Thus, if any mining companies want to use public roads and public rail, that money gets put aside to redo those systems at the right time. These commercial arrangements are outside of the existing royalty payment requirements of the mining operator. Finally, phase 2, if I may, growth projects—

CHAIR—You did say two minutes, and we are now at seven.

Mr Treasure—I will be one minute; I promise—it is very quick.

CHAIR—You can take the whole hour, if you want to, talking to us. But we want to talk to you, because we will make recommendations on how well you answer the questions. I am not trying to limit you, but I really want to get to the core of what the problem is here.

Mr Treasure—Can I be brief?

CHAIR—Yes.

Mr Treasure—The Port of Geraldton, as identified, is an area with a finite capacity for expansion of development. Although regional iron ore reserves are already established and proven, similar potential exists to establish a new port at Oakajee. It is essential that mining companies develop a project plan and articulate the joint and agreed position as a way forward for this to happen. Project plans should also include security of funding and financing as a payment for the use of the new port. There should be arrangements with Australian state governments to negotiate required funding arrangements before all this happens to make sure it gets put in place. This investment should commence as soon as possible once all the agreed development arrangements have been established and then we can do business.

CHAIR—Please do not misunderstand me. We really want to get to the core of your problem. Is there a town or city council?

Mr Patterson—Yes.

CHAIR—Were they invited to be part of the delegation? They have not put in a submission and I am quite amazed at that. We are talking about Geraldton as being the focus of all this with what will undoubtedly be huge impacts on civic infrastructure and we do not have a submission from the core council.

Mr Patterson—I think the underlying reason was that the chamber in the Shire of Morawa together with Murray Criddle put in a submission and there was a concern by some of the local authorities that it could cut across the state Labor government and they did not want to be seen to be damaging relationships.

Ms HALL—Have you talked to them?

Mr Patterson—We have talked to them.

CHAIR—We do not play any party politics on this committee, I assure you. Our reports are generally unanimous. I do not think we have had a vote on this committee for eight or 10 years; we usually come to consensus. Please do not be worried about local political sensitivities because they do not exist among us. Say it as you see it.

Mr Criddle—I do not think we have any party political issue here. In recent times there has been an understanding that we needed to have a port and a couple of ports were suggested. Everybody has pointed to Oakajee and there has been a firming of that position in the area. From my point of view, from living in the area and being born here, the whole of the concentration of those companies now is towards developing Oakajee. I think that is a fair understanding of what is going on regardless of any political ramifications.

CHAIR—Thank you. I just wanted to make that opening comment. My colleague Mr Schultz said to me that it seems to be a planning matter here rather than anything else. Who is the core agency taking responsibility for the development of the port of Oakajee, or is it all a general thing with different people expressing a vision but no-one pulling it together?

Mr Patterson—It has been identified for 30 years.

CHAIR—But nothing is happening, is it?

Mr Patterson—Yes. The land has been purchased, but it is currently zoned development, which is really a way of saying, ‘When you come to us with your signed agreements then we will look at progressing the development.’

CHAIR—How many mining companies do you have that are hot to trot?

Mr Patterson—An alliance has been formed of four local mining companies.

CHAIR—Have any of the international or Australian based companies expressed interest as well?

Mr Patterson—The Australian based iron ore companies are not part of it but each of them has taken on an internationally renowned producer, normally a steel producer, as a partner in what they are wanting to produce.

CHAIR—You have talked about the deposits at Cue and Meekatharra and you have talked of a 400-kilometre line. When I say ‘you’ I am talking collectively. Would that encompass all the mine sites—that 400 kilometres—or is there a need for other branch lines?

Mr Criddle—There are two distinct areas. One goes to the north-east, which would be Weld Range, Jack Hills and that area where there are substantial deposits. There is another area in the line that already exists out to the south-east. So there are two distinct separate areas.

CHAIR—So there will need to be two forks to this train line?

Mr Criddle—There is already one there. That is the one I have talked about that is upgrading.

CHAIR—Is that standard gauge?

Mr Criddle—No, that is narrow gauge.

CHAIR—It would have to be upgraded to standard.

Mr Criddle—Not necessarily to standard initially. But later on, if it were to go into the port of Oakajee, there would need to be a standard gauge going there to link in with the other one.

CHAIR—If you did standard gauge, would that have any implications for the grain industry as well?

Mr Criddle—No. The grain industry across Western Australia is narrow gauge, principally.

CHAIR—That was not my question—I understand that. But if you did put in a standard-gauge line, does that go through wheat country?

Mr Patterson—Yes.

Mr Criddle—Yes, it does.

CHAIR—Plus past silos et cetera?

Mr Criddle—Yes, a few.

CHAIR—Why wouldn't you get the standard-gauge rolling stock and make that line more efficient for grain as well?

Mr Criddle—Because you would only be covering a very small amount of the grain.

CHAIR—Not significant enough?

Mr Criddle—Not significant enough, no. It would only be from Perenjori to Mullewa and then branch off; you could bring it a little further and branch off.

CHAIR—What is the significance of Perenjori? How far out is that?

Mr Treasure—It is nearly 35 kilometres south of Morawa.

Mr Criddle—It is about 200 kilometres by road.

CHAIR—Is there a line there at present?

Mr Treasure—Yes.

CHAIR—And it is narrow gauge?

Mr Treasure—Narrow gauge.

CHAIR—There is an iron ore deposit there, isn't there?

Mr Treasure—The iron ore is located another 30 to 40 kilometres further east of Perenjori.

Mr Patterson—Koolanooka, which is located at Morawa, was the first iron ore exporting mine in Australia. It had infrastructure built to it 35 years ago, which is really what these developing mines are reusing.

CHAIR—You said before—I think it was you, Mr Treasure—‘You bring us these plans then you will provide the money for the port.’ Who is taking responsibility for pulling that together? Is it the department of state development or is it you as a local focus group? Have you been provided with specialist personnel by the state government to pull that together? It is a monumental task for a small community to do that sort of work. What is driving this and who is pulling the loose threads together?

Mr Criddle—An alliance has just been formed between four mining companies. They are doing it through one representative who was a former minister in the government and they are pulling that together. Beyond that, I think it is fair to say that there is not a hell of a lot going on, from my observation, outside of that.

Mr SCHULTZ—I raised my concern with the chair. In these submissions that we have read today a significant number of projects related to railroad port infrastructure needs have been identified. But I cannot see anything, nor have I heard anything today, that tells me what forward planning and associated implementation projects have been undertaken and coordinated between the state local government and private enterprise for those projects. It makes it very difficult for this committee, unless there is some identified need that has been undertaken and planned out among all of the various agencies, to get these projects up and running. Anybody can identify projects and say, ‘Look, somebody has to pay for these to implement them,’ but I have not heard anything today that convinces me that these projects we are talking about have been well planned and costed.

CHAIR—That is not said as a criticism of you, but it repeats my question: who is pulling this together for you?

Mr Treasure—I think there are two sides to it. As we have already mentioned, the Geraldton Iron Ore Alliance is a recently formed unity of all these emerging iron ore companies.

Ms HALL—How recently?

Mr Treasure—They had a launch last Friday. It is the first time they have got together as a group to formalise their planning. I think they have all gone on their own different agendas to look at their own deposits and how to get from there through to here. In doing so, they have done their own costings.

CHAIR—They are going to appear before us in Perth, so we need not go into the detail now.

Mr Treasure—A lot of individual planning had been done by the companies before they realised—particularly from Oakajee’s point of view—that they should get together and form one united stance on planning, as Mr Schultz has articulated.

Mr SCHULTZ—I will give an example of what I am talking about. You have indicated that a dangerous situation exists on the Brand Highway. What is currently being done to deal with it? Do you have any estimates of the cost of upgrading to an acceptable standard?

Mr Patterson—To answer your earlier question, the Mid West Development Commission has pulled together an infrastructure subcommittee and is working at trying to answer these very questions, because it will be very empowering to the local area. That needs to happen in a very quick fashion. On the Brand Highway, this region and all the regions around it have put together two submissions. One is to complete the ocean drive, which will take all of the traffic that is not industry related and bring it up along the coast rather than down the Brand Highway. That has been price costed and designed, as I understand it. It requires approximately \$40 million. There is a plan to commence it in 2007, but it will not be completed until 2011. We are saying that that is critical to this region and for the region below us in the development.

Mr SCHULTZ—Does the state government have carriage of that?

Mr Patterson—The state government has put in that delay. But I would have to also say that the benefits of developing this area are widespread and they spread right through to the federal area. When you look at large projects that have had additional federal funding, like the Peel bypass, you see that they do not exist in this region.

Mr SCHULTZ—I can understand where you are coming from. I pick up the point I think you made earlier that we have to get these projects up and running by 2007. We are a bipartisan committee that comes to listen to people talk about the needs in their area and the problems related to port infrastructure. We cannot make sound recommendations in our report if the forward planning has not been undertaken and we do not know exactly what it will cost, who should contribute to it and what contribution the Commonwealth can make to it. That is the only reason for me raising what I have just raised.

Mr Patterson—We are a committee that felt that this area might not be represented and we should at least put forward a representation. I know that you are hearing from the Mid West Development Commission next. The figures are available and we will pass them on to you, and we have put it in phases for you.

Mr Criddle—The issue about the coastal road has been well and truly on the agenda for quite some time. There is a document that specifies the advantages and so forth with regard to that. That has been available for a while. The government has just chosen not to build it.

CHAIR—There is a different program now, of course, under AusLink. But, at the time, did the government ever make an application for co-funding under Roads of National Importance?

Mr Criddle—I do not think they have on that particular—

CHAIR—It is a pity that they did not, because that sort of thing is what it was meant for.

Ms HALL—If I were to ask you whether the projects that you have listed here have the support of Geraldton council, would I get a yes or a no?

Mr Patterson—Yes.

Ms HALL—The Western Australian government—yes or no?

Mr Patterson—Yes.

Mr Criddle—Certain the southern transport corridor is in their funding arrangements for 2007-08. I think they are going to complete that stage 2. The road from Morawa has had some immediate money made available—I think it is \$2.4 million—but that needs substantially more. Certainly they have in the budget further passing lanes in the—

Ms HALL—We are meeting with them on Friday. I will ask them about some of the things that you have identified here.

Mr Criddle—I hope you do.

Ms HALL—Do you have any idea of the total cost of all the proposals? We will start with the immediate investments. You have listed five points under immediate investments. How much do you think that will cost all up? I see a \$30 million, a \$65 million and an \$85 million, but there are others that I do not have costings for. That brings me back to the issues that have been raised by Mr Schultz and the chair.

Mr Patterson—Phase 2 of the southern transport corridor has been estimated at \$88 million.

Ms HALL—Yes, we have that figure. The provision of passing lanes?

Mr Criddle—Wait a minute—phase 2 of the transport corridor?

Mr Patterson—Yes.

Mr Criddle—Phase 1 was \$88 million. Phase 2 was about \$25 million.

Ms HALL—What about the rail line from Geraldton to Mullewa?

Mr Criddle—I said \$60 million on that.

Ms HALL—We do not have that here.

Mr Criddle—It is in mine.

Ms HALL—The provision of passing lanes?

Mr Patterson—A passing lane costs generally somewhere between \$500,000 and \$1 million per passing lane.

Ms HALL—How many do you want?

Mr Patterson—We would like to see at least 12 more on the Brand Highway.

Ms HALL—That is \$12 million.

Mr Patterson—Yes.

Ms HALL—Thank you. That gives us a bit of an idea. Who are you asking to pay for the upgrade of the port—the Commonwealth, the state or will it be a joint arrangement?

Mr Patterson—The existing port is being upgraded with a new ship-loading facility. That has already been committed to. There are a number of options for the deep water port at Oakajee. Individual mining companies have put in low-cost options that commence at about \$300 million, but a fully developed deep water port will be somewhere between \$1 billion and \$2 billion.

Ms HALL—There are no majors in the companies that have indicated they are interested; I think I wrote a note saying that. Was it the consortium that was launched on Friday?

Mr Patterson—Yes.

Ms HALL—So that is the four companies that came together in December and had their launch in March. Is that right?

Mr Patterson—That is correct. The mining companies are Murchison Metals, which has a large deposit at Jack Hills and Weld Range; Mid West Iron and Steel, which has a deposit at Koolanooka, which is Morawa and at Weld Range, which is Cue; Golden West Alliance, which has a large deposit at Wiluna; and the fourth party that has just joined that alliance is Mount Gibson Iron, which has deposits at Koolanooka, Mount Gibson, Perenjori and Mullewa. They have already virtually taken over the infrastructure that was built 35 years ago. They are saying that they can use the existing port, but they will definitely look at further port development.

Ms HALL—With Oakajee, you are talking about co-funding with the state—and the Commonwealth, I presume. Are you asking the Commonwealth or just the state and looking at the private companies?

Mr Patterson—What is being put forward by each of the mining company is either they use an infrastructure provider, such as private funding of it, state government funding of it or state and federal. But at the moment there is no clear direction as to the way forward.

Ms HALL—No planning whatsoever, in other words?

Mr Patterson—As it is at the moment, the options have been put on the table. We are saying that we do not have three or four years to make that decision; we have probably got six months to make that decision and clearly paint a picture of what is acceptable to state, federal and local to enable these mining companies to invest with security.

Ms HALL—How long has it been apparent that you would need this infrastructure at the port of Oakajee?

Mr Patterson—A lot of the forward work was done seven or eight years ago, when there was a company called Kingstream Mining, which was looking to develop downstream processing. The environmental approvals were put in place and a lot of the planning for that area occurred. Unfortunately, coinciding with the turndown in the Asian economy, that project fell over. The boom conditions that occurred with iron ore have really only occurred in the last three years and we have been clearly articulating the need for at least 12 months.

Ms HALL—But no planning?

Mr Patterson—The planning has commenced with people meeting; but, as to the way forward, no-one can securely say at the moment how we are going to do it.

Ms HALL—What about this desalination plant that was mentioned in the presentation?

Mr Criddle—That is one of the options that has been talked about, but I would not say that has gone any further than the discussion stage.

Ms HALL—You would need that for Oakajee.

Mr Criddle—We need a water supply for Oakajee, yes.

Mr Patterson—We have a large water deposit at Allanooka that will see us through. We have a large pipeline into Geraldton that only supplies Geraldton. Really, to go further, it needs expansion—

Ms HALL—As my colleague has just said: how much will that desalination plant cost and how much would a dedicated pipeline cost? Have you looked at that? I think it was \$25 billion for Sydney. Is that the sort of figure we are looking at here?

Mr Criddle—No. The desalination plant for Perth just recently was \$350 million. For a pipeline from Allanooka, obviously it would depend on the amount of water you wanted to put through it. I would have thought it would be \$10 million or something like that—I do not know.

Mr Patterson—It is a 40-kilometre pipeline.

Mr Criddle—We have just had one put through our area.

Dr JENSEN—Mr Patterson, you mentioned the decision to take traffic off trucks and put them onto trains, and a nine-month deadline. What was the basis of this decision? Was it an economic decision based on a study that was done, or is it just an ideological—

Mr Patterson—No. Unfortunately, with the way it occurred, the route for the company was already a dedicated road train route. At the commencement of the trucking operation, a public meeting was held at Geraldton. Concern was expressed, rightfully, that a lot of road train traffic was going through residential areas, which we felt needed to complement the pressure to

complete the arterial network out of the port. So public pressure was exerted probably over an eight-week period and the state government used a law that they had that said they could determine how materials were transported over that network. They used that to say, 'You have a nine-month deadline.' There will be grain, fertiliser and everything else in road trains going down that road. They have just said, 'You can cart everything else in road trains down that road but not iron ore.'

Dr JENSEN—In terms of what is required for the future, a whole lot of infrastructure development has been identified, but I guess what concerns me is that, in effect, it has not been prioritised. In what order would you see them bringing these different infrastructure projects into place B, given that obviously there is a constraint on the capacity to export? In what order would you look at doing these, in order to relieve some of the constraint?

Mr Patterson—I think the immediate order is that we need to finish what we call the southern transport corridor, which takes material from the east into the port. That is a \$25 million project. That allows us to reroute the heavy transport out of residential areas and past schools and put it on a dedicated road.

Dr JENSEN—So that is the immediate constraint that you have?

Mr Patterson—That is the immediate constraint. All of these projects are predominantly using road transport.

The other concern with rail transport is rolling stock. The mine that is already exporting has waited for 16 months to get rolling stock dedicated to be able to do it. They have used the old rolling stock from 35 years ago to get going, but it does not fit in train unloaders and so on. That would be the first issue.

The second immediate issue is passing lanes on the Brand Highway. You have massive amounts of oil going in one direction and all the general freight that comes to Geraldton going in the opposite direction. Mixing in between it, you have tourists who are traditionally known here as the grey nomads. They head north in summer and they head back again, and there are no passing opportunities for 100 kilometres. So you have people, general freight, oil and everything else that is on that highway trying to pass each other, and there will be a disaster. If something is not done in that area, you will read about it in the paper.

An immediate fix we can do is to put in some passing lanes. But we in this area are saying that the way to manage it is to separate it. So, if you put in the Indian Ocean Drive, which will cost \$40 million, then you separate all your commercial traffic from your tourism traffic and general traffic and you have a clear separation. That is what needs to occur next. That is what we are talk about as phase 1.

Mr Criddle—Added to that, though, is the work that needs to be done on the rail itself so the capacity is there immediately on the narrow-gauge rail going to Mullewa-Morawa-Perenjori, because that is going to develop. That is where the trucks are now. If that is not fixed, we have a major situation.

Dr JENSEN—You are identifying rail and road infrastructure development. I have not heard Oakajee port mentioned in this. I heard your earlier discussion, but it seems that it is a fair way down the track. How much additional capacity can be handled by the port of Geraldton at the moment?

Mr Patterson—Our problem at the moment is that the decision time for the projects we have just listed was two years ago. Really we should have had them before experiencing the boom we have now. Our infrastructure is bulging because we did not do it then.

It is my understanding that the port of Geraldton—and I know that they will be speaking to you—previously used to export about three million tonne out of this port; they are now up over six. The payback period for the deepening went from 35 years to six years. That is the economic driver. But we were only briefed last week as to what some of these mining companies are looking at. They are saying, ‘We have to give commitments to our customers that we can export to them by 2010, 2012.’ Their time lines say that, to achieve the export in those times, they really need to start development of a deepwater port by 2007. We have said to you and others ‘within seven years’, but that time line is coming back all the time.

Dr JENSEN—Have these companies indicated whether they would be prepared to put money into the infrastructure development?

Mr Patterson—Yes, they have. They have been negotiating with private operators to own and operate. I suppose what we are saying to them is: ‘We can see from where we are sitting that you cannot have four different developments operating, so you guys need to get together.’ Now they have; that is the economic alliance. Even though this community is not represented by the City of Geraldton, we do have close discussions. There is a group that meets on these things, and the priorities that we have listed are the priorities that the group has developed.

Ms HALL—Who is in the group?

Mr Patterson—The local authorities, which are the City of Geraldton and the Shire of Greenough—it is a doughnut shire here—who are looking to amalgamate; the Mid West Development Commission; the chamber of commerce; the Department of Indigenous Affairs in this area as well; and a group that represents the regional shires, who are also part of that alliance that meets. The port authority is also part of it as well.

Mr HAASE—Gentlemen, you should not be too hard on yourselves. The committee here, I get a sense, are levelling a degree of criticism—albeit constructive—that you are not further down the track. I put on the record the fact that the best minds internationally regarding iron ore demand did not pick this explosion of demand in China. None of us are sure what caused it but we are certainly all aware that it is here. I believe that the decision for Beijing to officially finally get the Olympic Games has been a considerable driver in that regard. The fact that you are not further down the track than you are is no-one’s fault.

What we have here is a number of relatively small players who have seen a niche market and, with their shareholders, are grabbing a commercial opportunity. Hopefully, they will at some stage decide to be substantially involved financially, as the international players are in their own patch. We are seeing a lot of action and a lot of headlines being grabbed in that regard so far. I

would like to know whether there is any movement in the areas of, say, Macquarie Bank or Babcock & Brown to fully fund the development of Oakajee port and rail infrastructure.

Mr Criddle—I think they are the discussions that the companies are having at the current time. That is all tied to the contracts that they hope to come to fruition with regard to their iron ore. I have seen some of the plans they have for the port and so forth. They have them there and obviously we are going through that process. You said that this has landed upon us very quickly. It has—and hence our obvious intention to try and push the projects, and hopefully they will come to fruition.

Mr HAASE—It might be instructive for this committee to understand your perception of today's exercise and whether you believe that it will possibly result in the opening of golden floodgates to see whether or not the federal government builds you Oakajee. I would like to know what your perception is.

Mr Patterson—One thing that is a little different here is that everything is freehold as far as just the other side of Kalbarri Road. Oakajee is owned by LandCorp. We understand in this area that the state government has limited reserves to do everything that it needs to do in this state at the same time—and there are major demands on infrastructure. We recognise that the south-west are extremely good at lobbying and we have a lot to learn. But we also need to point out just how important this mid-west region is and how there is a need to invest in infrastructure in this area, because it will pay for the Peel deviations, the Peel railway lines and hospitals and everything else. We think, like the investment in the port, it will have an extremely good payback period that will be extremely quick.

I believe, as a private company in this process, that the federal government needs to take an active interest in understanding the issues for this area. That is why we think it is excellent that you have arrived. It also needs to understand the critical need for planning and to help resource up so that we can have that planning. It needs to understand the timing that is required and to offer to work in cooperation with the state to ensure that it gets in place. We believe that—as mainly what we are looking for are commercial opportunities—there is an opportunity to provide seed capital and get paid back for it.

Mr HAASE—The best lobbyist, of course, in relation to the mid-west area and its potential being realised is the state government of the day. You can imagine how disappointed we are that we do not have present here the first tier of that as far as local government is concerned. The suggestion that there should be any sort of party political problem in that regard is very disappointing.

You make much of the tankers on the Brand Highway, and I agree with you that it represents potential for disaster. The coastal road will cost a few bob and be multipurpose as far as removing the potential for accidents as well as developing tourism. But do you have any long-term projections as to how long and what quantity of petroleum products will be carried on the road? What is the future for the petroleum industry in the area?

Mr Patterson—That is a very good question. The field is being further developed. We have seen this develop over the last two years. Two process plants have been put in place. The indication from Roc Oil is that their process plant is at least 10 years. The coastal ocean drive

will allow areas such as Jurien, Cervantes and all along the coast there to develop—the last figure they gave two years ago was that the noncompletion of the road is holding up \$100 million worth of development in that area.

Mr HAASE—It is worth noting that the largest developments in Western Australia ever were all funded by private companies with state agreements. If you look to how much money the federal government invested in the Pilbara for the development of the iron ore industry, it is not a lot.

Mr Criddle—Mr Chair, I want to take up the point that was asked as to what we want; what we are expecting out of this. I think we want the opportunity to be developed, as much as anything. We really do not want to be stymied at any stage.

CHAIR—If I asked you today what single thing this committee could do to progress your agenda, what would it be?

Mr Criddle—We want immediate coordination, from my point of view.

CHAIR—Do you want the funding of some sort of development board to do that for so many years? Do you want a specialist, headhunted guy to come in here to pull big projects together, as Gladstone did a few years back? Give us an idea. What is the first thing to trigger these ideas that you have?

Mr Criddle—The point that I am making is that yes, we want that, but we want somebody or some board that will be active enough to make things happen. We have been through a lot of processes. These have been ticked off environmentally and so forth, but they run out in a year or so, and we do not want to get to a stage where we have to go back through that process. If there were somebody or some board that could be very active and funded so that it could actually make these things happen, that would be a very good start immediately.

CHAIR—Perhaps you should give us a supplementary submission on that.

Mr Patterson—I agree with that. I think what we are being told now is that the state government has a certain purse, and obviously there are major drains on that purse from railways and road networks in the south—major commitments. We cannot wait in the queue at the moment. We believe that it needs a combined approach with exactly what you are talking about, where we sit down and say, ‘These are the project needs, this is the timing and this is funding.’ What needs to be clearly outlined is the funding—whether the state is prepared to contribute to it, whether the federal government are prepared to contribute to it, or whether they will say, ‘Yes, we will allow private ownership; come forward with some submissions.’ But that needs clearly to be outlined.

CHAIR—That is what that board would do; it would put the scenarios together.

Mr Criddle—I guess we are fearful of the time frames that are likely to elapse, with opportunities for these people being lost. That is clearly what we need to pull together.

CHAIR—Perhaps you could give us a supplementary submission on that. We have two supplementary submissions. I ask my colleagues to move that they be taken onto the record and authorised for publication: Mid West Chamber of Commerce and Industry and an updated submission prepared by Mr Murray Criddle MLC.

Mr SCHULTZ—So moved.

Dr JENSEN—Seconded.

CHAIR—There being no objection, they will be taken onto the record. Then we have submissions from the east coast, Nos 140 and 142, being the Hunter Valley Coal Chain and the Shire of Ravensthorpe respectively.

Ms HALL—I move that those submissions be taken onto the record.

Mr HAASE—Seconded.

CHAIR—There being no objection, it is so ordered. Gentlemen, thank you for your attendance today. We look forward to receiving your supplementary submission.

Proceedings suspended from 11.15 am to 11.36 am

GORDON, Mr Keith, Chief Executive Officer, Geraldton Port Authority

KING, Mr Ian, Chairman, Geraldton Port Authority

CHAIR—Welcome. Do you have any comments to make about the capacity in which you appear?

Mr King—I am here to represent the port in the strategic role that the board plays and to support the CEO in matters of detail.

Mr Gordon—I am here at request, to, hopefully, clarify the position of the Geraldton Port Authority in its current development and answer any questions.

CHAIR—We do not require you to give evidence on oath, but I have to remind you that these are proceedings of the federal parliament; consequently they warrant the same respect as proceedings of the House itself. I am also required to remind you that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, you are most welcome. Could we have a five- to seven-minute overview? Please keep it to that, because we want to talk with you.

Mr King—As the board of the port authority, we have had a very active three or four years. During that period we have had absolutely wonderful support from the state government in working through the strategies that the board has determined are necessary to promote the development of the mid-west. Even though in the earlier years there was a great deal of difficulty in getting any money at all due to budgetary restrictions, we have managed to convince the state government of the necessity of the business cases that we have put forward. We have had the support that has enabled us to enhance our support of the industry and, more recently, to find the money to build a second ship-loader on berth 5 to support the iron ore development. We recognise and acknowledge the state government's support.

I also want to highlight that in the last year and a bit an infrastructure development strategy group has been formed in the mid-west. That group is very active indeed. It consists of several government agencies as well as the Mid West Development Commission as such, which provides support in giving that reference group a lot of information about the needs of the mid-west. The group meets on a very regular basis and, as a strategy group, is working through all the issues that we think are emerging in the mid-west generally and, where necessary, directing those issues to the agencies concerned either to seek more information or to help that agency develop its case for the government to consider.

At the same time an Oakajee group has been very active for more than a year. That group is meeting on a regular basis to bring together all the players with an interest in Oakajee and what Oakajee will bring to the mid-west. A series of events is taking place that that group is working through, and I think it will then provide the government with a very sound outline in terms of where Oakajee could go.

Finally, the board has a five-year plan and a 10-year plan. The business case is renewed on an annual basis. So the port authority has a very clear vision of where it wants to go, what it needs for the Geraldton port to make sure that it can meet the export needs, and the import needs for that matter, for the mid-west and the regions it serves and also to play a role in the further development and strategising of the Oakajee development. We have our eye on that. I believe the government would see the Geraldton Port Authority and its management team as being the same group that manages Oakajee. For that reason, we are part of the Oakajee group. We are across most of the issues, we believe, and certainly we are aware of the private enterprise players who are coming in with the iron ore developers. I will leave it at that, if that is okay with you. That is a broad outline of where we sit strategically. We look forward to what we can input to the committee.

CHAIR—Mr King, you have virtually answered my first question, which was going to be that you anticipate that the Geraldton Port Authority would be the port authority for the new port as well.

Mr King—I would anticipate that. I might be wrong in doing that, but certainly, from the conversations I have had and my understanding of the economies of scale in having that one management team—

CHAIR—You would not duplicate the administration for something that is 23 kilometres away.

Mr King—Not at all. That would include towage and other issues like that—oil spill plans and safety matters. They would all come under the one authority.

CHAIR—By the way, did you get one of the salvage vessels as a result of our last inquiry; were you one of the 11 ports?

Mr King—No, we did not. We hope to rectify all that sort of stuff today, if that is okay with you.

CHAIR—I am just interested. You are in quite a strategic position on the west coast of the country. Would you give us a quick thumbnail sketch of the tonnages for the port.

Mr King—If you like, I will defer to my colleague. He has some notes.

CHAIR—I know that you have the hard copy of an overhead presentation here.

Mr Gordon—This is a very brief presentation.

CHAIR—That is the one on volumes, is it?

Mr Gordon—Yes. Ian has covered some of the background issues with respect to the port enhancement projects as we have worked through the presentation I have provided. Over the last 12 months the port sat at 5½ million tonnes, which was based on iron ore—

CHAIR—That is for last year?

Mr Gordon—Yes. In 2006 we expect greater than 7½ million tonnes. I think the next chart is the one you need to focus on. These are the current forecasts that we have for the Geraldton port—and I stress the Geraldton port only; this has nothing to do with Oakajee. One of the issues that I think people need to be cognisant of is that there are two very differing positions as far as volumes and throughputs, one being for the Geraldton port per se as it stands today and the second being for the more blue-sky projects which will result in Oakajee.

CHAIR—With the iron ore that you are showing here, that is what you anticipate putting through the port of Geraldton.

Mr Gordon—That is correct.

CHAIR—Were Oakajee to go ahead, would you transfer some of that iron ore out of here or would there be an additional loader here?

Mr Gordon—At this stage the tonnages indicated on this spreadsheet will more than likely remain here. These are the first stage projects for a number of these start-up companies. Again, I think there needs to be a clear differentiation between what is current volume and first stage volume for a lot of these start-up companies, versus the second stage projects which are dependent on a deepwater port such as Oakajee.

CHAIR—So your maximum tonnage here is Handimax, is it—about 60—

Mr Gordon—About 63. We can do some partially loaded Panamax. We do Panamax on a regular basis, but a lot of them you cannot fully load.

CHAIR—What is your draught?

Mr Gordon—It is 12.8.

CHAIR—To get up to the next level, you would be looking at 18 or 19, wouldn't you?

Mr Gordon—No. The next level is Panamax, which is 14½, and the level after that is cape size, which is 19 metres.

CHAIR—If you go up to Panamax, would that be the limit of this port here?

Mr King—We would not see any dredging activity to take us into the modern Panamax build. The modern Panamax build in reasonable weather conditions is probably going to take another metre of draught. Knowing the environmental constraints that we have, the difficulties in dredging and the cost of dredging in this area—it is the hardest limestone in the world, I am told—we just would not consider another metre of draught.

CHAIR—So Oakajee becomes the growth factor.

Mr King—Yes.

Mr Gordon—Just to further that argument: the fact is that the market sector that we are servicing at the moment is, particularly, the iron ore proponents—and the major iron ore proponent that we have running out of Geraldton is a company called Mount Gibson Iron. Mount Gibson Iron service a market that is river based in China, so they are not typically dependent on your large, cape-size vessels. It is typically a niche market that basically has the infrastructure requirements mirrored on the other side, being river based ports.

CHAIR—How many companies are in your existing profile?

Mr Gordon—In our existing profile, if we limit it to iron ore, we have Mount Gibson Iron; Midwest Corporation, who have just started exporting—as late as last week; and the third company is Murchison Metals, which will start in July.

CHAIR—Do you own the loading facilities?

Mr Gordon—We own the loading facilities. They own everything else behind the loading facilities. All the storage facilities and the interfacing facilities are owned by the individual proponents. We have indications that another company, called Gindalbie, will come on board in 2007. They are a little further behind.

CHAIR—But these are all niche marketers with loads up to 60,000 tonnes.

Mr Gordon—They are typically running loads of around 50,000 tonnes—somewhere between 45,000 and 60,000 tonnes. They are usually in the Handy-class vessels or smaller Panamax vessels.

CHAIR—That gives us a bit of an idea of the port. I will defer now to my colleagues.

Dr JENSEN—Mr Gordon, if nothing were changed, what is the current capacity that Geraldton Port could expect to handle?

Mr Gordon—I cannot give you a definitive answer that we can do 20 million, 21 million or 22 million. A number of things are interdependent on each other. One is the interfacing rail. One is the road structure. With the port in itself, as we stand today, we can do about 4½ million tonnes of iron ore in conjunction with our minerals berth. We have recently had an announcement from the state government of a further \$35 million expansion on our berth 5. That will give us an additional 10 million tonnes of iron ore capacity on berth 5 in its entirety.

Dr JENSEN—When are you expecting that?

Mr Gordon—We are expecting that to be completed in the third quarter of 2007. We are currently in the process and we have gone out to a worldwide tender on the ship loader. The delivery time on the development is dependent on the ship loader delivery. The rest of it basically interacts with the ship loader delivery.

Dr JENSEN—Given the additional capacity that you will be getting towards the end of next year, is the road and rail infrastructure as it is going to be able to cope? If not, where are the bottlenecks and what order would you be attacking them in?

Mr Gordon—As Ian indicated earlier, we are actively working with a group called the Midwest Strategic Infrastructure Group. Each of the key proponents of all the suppliers are within that group. We work extremely closely with the rail providers as well as main roads with respect to managing those interfaces. A number of these projects are road based. Inherently, the larger volumes are going to be rail based. We are fairly confident that the first stage of expansion, which takes us up to approximately an additional seven million tonnes on rail coming into the port, can be managed within the existing rail infrastructure without the next tranche of serious investment that is required at the back end and predominantly from the entry into the port back to Mullewa or Morawa.

At this stage we are taking the view that it is a staged investment. There is no point in saying, as with the old cliché, ‘Build it and they will come.’ We will put in place the infrastructure that is required to satisfy our contractual requirements to date. When we have consolidated a position where there is further contractual demand for additional volume, we will look at additional infrastructure being underpinned by the commercial transactions that will be required. That is basically the position that we have taken. I think it is a sensible position.

Mr HAASE—At this point in time, where is the bottleneck that might restrict tonnages; is it road or rail? You are suggesting that your port is not up to a specific level. Which of you is best capable of answering that question?

Mr King—Perhaps I can start the answer. Where I come from, I saw the original AusLink funding as being too narrow and I was aghast when I saw that Geraldton as a port was cut out of any AusLink recognition in terms of the significance of this regional centre. So I was delighted when I heard that this committee was coming back particularly to Geraldton to give us a chance to talk about phase 2 of AusLink and just what funding might come out of that. To cut out Geraldton in any way from AusLink funding does not recognise the fact that there is a second major highway running up the west coast, as you would well know, Mr Haase, and that is the Brand Highway and the North West Coast Highway. Without that recognition and the regional routes that feed into that—and I heard someone talking earlier about the oil on the road, the Brand Highway; incidentally, that is going from about five million barrels up to 15 million barrels a year over the next 12 months, so that is the question I think I would ask.

Mr HAASE—Are you getting any part of that through the port?

Mr King—We tried very hard but we are not. We just cannot get coastal vessels to match it, because there is a backloading of diesel or crude; whichever way you like to look at it, there is a matching load, which makes it very economical for the trucks.

Mr HAASE—Understood.

Mr King—So I think the Brand Highway and the North West Coast Highway, as arteries, are absolutely vital to AusLink in terms of its recognition, along with the regional roads that feed into them and the networks of rail. If that recognition is implanted in some way, if I can get that point across and it is thought about, these other bottlenecks that we are trying to uncork, if you like, are going to happen. I believe that, with the standard-gauge or the narrow-gauge rail that we have—the ability of the ties underneath that rail, the age of it, the rolling stock—there is lots to happen there, and I guess the rail companies will attend to the rolling stock. But the rail system

is really a bottleneck. You are not going to get enough trains, you do not have the passing loops, you do not have the speed on the rail and you do not have the load weights on rail to enable the port to really take advantage of the volumes of trade that could come into us if there were an upgrading through some support in funding.

Mr HAASE—Has anyone at the local level, to your knowledge, carried out a cost analysis of the benefits of upgrading rail versus the facilitation of better road access to your port?

Mr King—I have not heard of anyone doing that other than the general chatter that you hear.

Mr HAASE—Perhaps Mr Gordon knows.

Mr Gordon—Some detailed analysis has been done on the road network versus the rail network and there are some comparative costs as to the balance between road and rail. The issue of road is exacerbated by the fact that we have a reasonably well upgraded road from that first stage of the southern transport corridor coming on line. That gives us a fairly strong freight input into the port, but it stops. The interlinking points to that first stage and the resultant second stage of that development really are one of those key issues that need investment almost immediately. It is something that all the local authorities—and I think Steve will cover this off in his presentation to you—find is one of the key areas of importance, certainly with respect to freight network bringing product into the port.

The problem we have is the freight interface with the community. It is not whilst the freight is on the southern transport corridor; it is when it is getting to the southern transport corridor that is problematic. As Ian alluded to, the Brand Highway, the North West Coast Highway, is an area where the freight trucks in fact interface with the community—or go through the community areas. That is where the problematic issues are.

There is clearly an issue with the age of the rail. That is certainly something that is being worked on diligently at the moment. But, again, you have rail infrastructure which is long-term captive infrastructure. Most of this freight and the volumes that have come to bear have been in a very short period of time. These companies that have come to us have not been in a position to provide sufficient guarantees to underpin the types of investments that we are talking about. Most of the time, start-up companies have very low balance sheets and no trade track record. Is someone going to invest \$30 million, \$40 million or \$50 million on the back of that? No, they are not. That is what we are facing. We are not facing a BHP or a Rio Tinto that has an enormous balance sheet that is coming to us and saying, 'We want this done.' We are facing a number of small start-up companies that have no track record. They see this as a very large and significant opportunity to take this region on. We are seeing a one-off here.

Mr HAASE—Perhaps you heard the chair say earlier that this area possibly needs some high-power coordination to bring together those long-term markets, the resource developers and the infrastructure developers, because your long-term future in this mid-west region, I am sure, will depend on you harnessing all of the positives of the mineralisation of the mid-west. It has been touted as the second largest iron ore deposit in Australia. I have asked which is the third largest. Do you know enough about that to answer the question? I was surprised to hear that it was the second largest in Australia.

Mr Gordon—I would rather not contemplate who is second or third, but I will comment about bringing together these players. As a result of substantive advice, it is not just the government that needs to get its act together on this; it is equally as important for industry to get its act together. I think that has been demonstrated now by the formation of the iron ore alliance. Most of these players that have joined the alliance group are starting to speak with a single voice that actually can be heard. You cannot have five different start-up companies going in five different directions asking for five different things. That is what we have been facing. It is only in recent times that we have had a consolidation of their position and a consolidation of the industry position that actually put some bona fides into the discussion. We have been touting that position to them. It is equally a requirement of industry to match what government has to deliver. Equally, we have to put the same emphasis on government that we do not have this cross-fertilisation of various departments, both state and federal, all talking with a different voice. Industry does not want to hear that. They want to talk to government with one voice. Equally, when we talk to industry, we would like to see a cohesive response.

Mr HAASE—You mention your disappointment about AusLink not providing any funding here at the port.

Mr Gordon—Or ignoring the port, yes.

Mr HAASE—You would understand that AusLink funding was for land based transport systems.

Mr Gordon—Yes.

Mr HAASE—There is no doubt that, as you have mentioned, the solution to a bottleneck, as you recognise it, is land based.

Mr Gordon—Yes.

Mr HAASE—I am surprised that there has not been greater effort to put a further application to AusLink in that regard.

CHAIR—I think our witnesses have said that, as they were not in the original cut for AusLink, there is no facility for having a declared AusLink corridor. That is possibly something that we need to talk about in our report.

Mr HAASE—The latest advice from the Commonwealth government as regards funding is that it will be in the form of Roads to Recovery funding—with combined, across-local-government-area applications, joint applications. Applications close at the end of May. You may want to sharpen a pencil and put your antenna up in that regard. There might be something there for you.

Ms HALL—The main question I wanted to ask has been asked, but I will just throw one other question at you. If you were to give this committee a message about what you thought the single, most important infrastructure need in this area was, what would you say to us?

Mr King—I think it would be an improved rail network system. We have talked a lot about iron ore, but let us not forget grain. We are the second biggest grain port in Australia. We would think that with technology—and Mr Criddle will most probably support me on this—the crops are showing greater gains in productivity. Whereas we are now looking to budget for something over two million tonnes, we see that growing to 2.5, 2.6 or 2.7 million tonnes of grain, going forward over the next two or three years. Grain is significant. The more improvements you can make to the network in getting grain into our port and the efficiencies of that—the benefits are self-evident, I am sure, to the whole committee. Farmers need every opportunity they can get to save costs. At the moment we do not have the best rail system, and we can improve on that.

Iron ore is the same. We do not really want trucks on the road carting iron ore, particularly when we are talking about a couple of million tonnes of iron ore a year. When you are in the air, you will see the Brand Highway and how that cuts right through the community in terms of where everyone is living and their recreation areas. It is not a very good idea, but at the moment it has to be done. Rail would solve that. If I had a priority, it would be rail.

Ms HALL—Mr Gordon?

Mr Gordon—I would have to add to that. I would certainly agree with rail being probably the highest priority, but it is clearly apparent that we have a significant requirement for the road network. I would like to see the freight routes that are currently coming into the port being extended out beyond the local community outreach, so that we actually have designated freight routes that enable freight to come efficiently into the port and that manage the community interface clearly. Be it with rail or be it with road, we need to have defined freight routes into the port.

Ms HALL—Is there a problem with that at the moment?

Mr Gordon—Whilst they are on the southern transport corridor there is not a problem, but it is the arterials that feed into the southern transport corridor that are hugely problematic. That issue—of where that freight interfaces with the community—is one that is becoming fairly emotive with the community.

Ms HALL—Would you like to expand on that a little bit more? How is it becoming emotive? What are the issues?

Mr Gordon—The issues are purely the fact that people do not want to see road trains coming down what were potentially residential areas. As Geraldton is growing, the expansion of the community has typically been going southward along the Brand Highway. Any product coming up the Brand Highway is directly interfacing or interacting with the community, the residential requirements and the residential amenity. Very clearly, they do not coexist too well.

Ms HALL—Has any thought been given to a designated freight route?

Mr Gordon—Certainly a number of projects are on the table. One is stage 2 of the southern transport corridor. In the main, that will alleviate most of the necessity for that interaction and basically create a second stage of road development that will stop that interaction. It is something that the Geraldton community has been pushing quite strongly. Albeit with hindsight,

we can say that maybe that should have happened concurrently with the first stage. But again I think the development and the increase of the freight task in general has come to the community—and I am not suggesting that Geraldton is unique in this—with a gusto that no-one had anticipated.

Ms HALL—What about local government—Geraldton council, and there is another one too? Have they been involved in trying to organise a designated freight group?

Mr Gordon—The councils are part of the infrastructure network group that is chaired by the Mid West Development Commission. We certainly do not view this as being an issue that a particular body has to manage; we have to manage this as a community—someone's problem cannot be pushed on to somebody else. We have to have a coordinated response, and that has certainly been happening through our infrastructure groups.

Ms HALL—This is something that the committee has picked up in a few places. Thank you for bringing that to our attention.

Mr King—I will give you an example. Yesterday I drove up the Brand Highway and had five crude oil tankers coming towards me every 40 minutes. Between Dongara and Geraldton I had five iron ore road trains in 35 minutes. We have not yet started with Murchison Metals, and they will come in the other way through Rangeway. With crude at its lowest production levels now for the next five years, it already is impacting, particularly as there was a stock vessel in at Fremantle and there were 19 stock road trains on the road. A separation or a designated freight route for the heavy task is paramount, as Keith has pointed out. Just how all of that is managed is another matter, but certainly a designated route would be ideal.

Mr SCHULTZ—I would like to ask about a number of projects you have undertaken. You have undertaken the upgrading of one berth to provide a second iron ore loading point. How close is that project to completion?

Mr Gordon—The project was only given approval in January this year. We went out to tender at the end of January. We anticipate the whole project, as I previously mentioned, to be driven on the completion of the ship loader. We anticipate that happening in the third quarter of 2007.

Mr SCHULTZ—There is also a project to provide facilities for magnetite exports. In conjunction with that, I ask my final question: will the temporary ship loader at berth 6 become a permanent facility as these projects expand?

Mr Gordon—The temporary ship loader at berth 6 is predominantly being used for two products, talc and now zircon. The fact is that, even if it became a permanent loading facility, it will have little to no impact on any of the existing or future export requirements of the port. Quite frankly, it was put there as a stopgap measure to try to separate the talc out from the loading operations on berth 4. It has done that very successfully. For it to continue is not going to be problematic for the port going forward.

I would like to clarify a point that arose while I was sitting in the audience listening to the prior presentations. I was pleased to find out that the port enhancement project would be paid for in six years! Unfortunately, that is not the case. It was a 30-year project. It is anticipated that the

impact of the iron ore will shorten that time to somewhere around 17 years. I was pleased to hear that we would have that \$103 million paid for in six years!

CHAIR—Thank you very much for your evidence today. We will send you a draft of the *Hansard* transcript for editorial correction. Thank you once again. We trust that we can come back to you if we require any further information.

Mr Gordon—Yes. Thank you very much.

CHAIR—Would somebody like to move that we take the document ‘Geraldton Port Authority overheads’ into the record as a supplementary submission and authorise it for publication?

Mr SCHULTZ—I so move.

CHAIR—As there is no objection, it is so ordered.

[12.11 pm]

DOUGLAS, Mr Steve, Chief Executive Officer, Mid West Development Commission

McAULIFFE, Mr Philip, Project Manager, Business and Infrastructure, Mid West Development Commission

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr McAuliffe—I am also Executive Officer of the Mid West Strategic Infrastructure Group.

CHAIR—We will not be asking you to give evidence on oath, but I remind you that these are proceedings of the federal parliament; consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of parliament. Having said that, you are most welcome. Mr Douglas, would you give us a five- to seven-minute overview of your submission? We would like to keep it fairly short.

Mr Douglas—Having heard the first few presentations, I can see where you are coming from and how it all works, so I am hopefully in a better position. Firstly, I welcome the standing committee, as others have done, to Geraldton. I think it is fantastic that you have come to this part of the world and are taking an interest in our issues. Hopefully, we can provide some value to your inquiry. Before I refer to our presentation—I will not go through the whole lot of it, just the pertinent things, because some things have already been discussed—

CHAIR—Are you going to work off this presentation?

Mr Douglas—I will in just a second, if I can.

CHAIR—Before you do, I ask my colleagues to accept this into the record as a supplementary submission and authorise it for publication. There being no objection, it is so ordered.

Mr Douglas—Before I get to that presentation, I would like to pick up on a couple of points to give you the background of how we are dealing with some of these issues. Clearly, planning and coordination of policy development are quite important when we are talking about infrastructure projects, certainly those of the magnitude that we are talking about in the mid-west.

We have been aware at the Mid West Development Commission for probably 18 months, with these projects coming on board, that they were going to present a problem to us, not only the small starter junior projects but the bigger projects, and I will come back to that later. In recognition of that, in April 2005 we held a mid-west infrastructure forum and invited along not only the industry sector but all the infrastructure providers, the project proponents and major stakeholders. It was attended by 100 people. Everyone we invited attended. From that, there

were a number of outcomes and recommendations and we identified bottlenecks—the whole lot. I believe you have a copy of the outcomes of that forum. I think it was part of our submission, so I will not go back through that.

As a result of that forum, we formed the Mid West Strategic Infrastructure Group. You heard the port authority talk about that group a little while ago. That comprises the major players at the state level, and it also includes representatives of all the local governments in the mid-west. We have 19 shires. I need to stress that point because you made reference earlier to why the city and perhaps the Shire of Greenough are not here. The city and the Shire of Greenough are specific members of that infrastructure group. We have meetings monthly, and they attend and are very active participants in that group. The submission that we provided through the commission to your inquiry last year very much picked up the views of not only those two local governments but a lot of the other local governments in the region as well. I would like to put that on the record.

CHAIR—That was not quite my point. My point was that, everywhere else we have gone, the local city council—the core city council—has briefed the committee on the core civic infrastructure needs, both social and urban, and the arterial road systems within the community. That was a surprise.

Mr Douglas—I apologise. I took a different slant.

CHAIR—We were not talking generically.

Mr Douglas—I do apologise for that. I do emphasise, though, that all of those groups have been part of the planning that we have been trying to put into place in the local region. They are active players. I just needed to emphasise that point.

The alliance was also referred to. There are five players in the alliance. I think there was a reference earlier today to four; there are now five. Through that infrastructure group and the alliance, we have met a number of times collectively through Clive Brown, chair of the Geraldton Iron Ore Alliance. We are also meeting individually, and we are continuing to do that, with individuals to better understand their requirements and time frames so that we can better support and facilitate what they are trying to do. I just wanted to put that on the table as well.

In terms of the mid-west, just before I go through a couple of things in the presentation, I would just reiterate one of the points made by Keith from the port authority. We have two lots of investment. I need to make this point probably fairly clearly. Two lots of investment are required in our region. One is to do with the starter junior projects, if you like, that essentially are seeking to take their product through the existing Port of Geraldton. You have already heard the port authority and others talk about road and rail and that connection through the existing port.

There is an amount of investment that you can put a circle around and say, ‘That is for those projects.’ Once we get a lot of those starter projects up off the ground they will have the capacity, we hope, to get into the bigger stage 2 projects. Those stage 2 projects cannot be accommodated through the existing port. They require another lot of investment. So we need to keep that in mind.

What we are trying to do with the first-stage projects is to make sure we get rid of bottlenecks to facilitate and enable those projects to get off the ground. At the same time we are trying to work through the policy and planning issues to try to facilitate the stage 2 projects. That is where we are up to just at the moment. I just needed to get that out of the way in case I forgot. I think they are important points and I will probably come back to those later.

A PowerPoint presentation was then given—

Mr Douglas—Getting back to my presentation—and I will skip through very quickly—there are a couple of graphs in particular I want to refer to. I think probably you are aware of the Mid West Development Commission, so I will not go through that detail. I think you are probably aware of the mid-west region. This is on the second page. You can see that it is 500,000 square kilometres. It is a relatively large region but there are only 50,000 people in it. It is the distances, the isolation and the location of the mineral resources in the hinterland that cause significant problems for the provision of infrastructure.

The next slide concerns the mid-west economy. I think you may notice that the key drivers in our region are already mineral based, although we do have important agriculture, fishing and tourism sectors. But already the key driver is the mining sector, and that is without the iron ore. Iron ore does not appear on that graph; I think I need to make that point. On the next page we can see exports per capita. I think this is very much what the committee would have an interest in. I know that these figures can be taken in all sorts of different ways, but I would like to highlight where the mid-west lies in terms of exports per capita. I know that in the Pilbara that figure probably would be doubled, and in the Goldfields-Esperance area it is probably half of that again. But, if we get these iron ore projects happening, that figure of \$46,400 exports per capita for the mid-west would double to over \$100,000 for every person in our region. We are a significant exporter.

The next slide talks about infrastructure enhancements. As Keith did in his presentation, I would just outline that there has been already significant state investment in our infrastructure. There has been \$70 million to seal the Mount Magnet-Leinster Road, which was completed in 2001. There was \$100 million-odd for the port enhancement project, which was completed in 2003. There was \$88 million for the southern transport corridor stage 1, which was completed only at the end of last year. There was \$35 million announced in January this year to upgrade berth 5 to a dedicated iron ore berth, and \$25 million has been committed to stage 2 of the southern transport corridor in 2007-08. So already there has been a significant investment in infrastructure.

The fourth page lists iron ore projects, just to give you an idea of what is being proposed. I will skip that page and take you to page 5, which shows iron ore provinces. I think we are all aware of the Pilbara. But the Yilgarn region is emerging as a major iron ore province. Whether it is second, third or fourth at this point is not really important. However, we are emerging and we are emerging fairly quickly. I should bring to the inquiry's attention the fact that the first iron ore exported out of the mid-west was in fact out of this port in 1966. In terms of the mid-west prospects, you can see in the south and south-east of Geraldton mainly magnetite projects and to the north mainly hematite projects—and I will come back to those later on.

I referred earlier on to the fact that we have two distinct lots of projects which require their own specific infrastructure needs. We are talking about, in our case, stage 1 or early stage development projects—the hematite projects. They are relatively small projects, as you can see, and there is a list of them at the bottom of that slide. What we need and are trying to do at the moment is develop our policy and planning to ensure that the large-scale hematite projects, those that have a life of 20-plus years—

Ms HALL—Do they all have a life of 20-plus years?

Mr Douglas—A number of them have a life of that sort of time frame. They need to have that sort of life to underpin the infrastructure that they will require. We are talking about a deepwater port. I do not know how much that will cost to be able to put a figure on that one. Collectively, as you can see on that slide, the capital required infrastructure-wise for those projects could be anywhere between \$1 billion and \$1½ billion.

The next slide relates to proposed iron ore exports—I am sorry, that slide is a little small—and it starts with 2005. In 2004 the iron ore, the area in red, was zero. We had the first new shipment in January 2004. You can see how, by 2013, we are talking about what is on the table—we do not know whether they are all going to happen—being something upward of 80 million tonnes. There are questions about the port and its capacity, and I think Keith gave you an answer in terms of what the capacity is. It depends, but let us assume that it is around 25 million tonnes. If you can get rid of all the other transport bottlenecks, you can see the existing port will not have the capacity to deal with the projects that we are talking about.

On page 8 there is the same sort of graph but with the individual projects broken up. You can see that a reasonable amount of detail and information has been put into these graphs. Apart from the iron ore, there are a number of other transport tasks. These have been touched on by others, so I will not go into these in detail, but we are talking about the oil and gas from Dongara, which Ian alluded to previously. There is increased road freight transport to the Pilbara through both the Great Northern Highway running through Meekatharra, the inland route—if you like, the Perth-to-Darwin freight route—but also the North West Coast Highway and Brand Highway. They are coming under increasing pressure. I understand that AusLink currently only recognises the Great Northern Highway as part of the national network. We feel that there is a strong case that AusLink should also recognise the North West Coast Highway and Brand Highway, given their strategic importance, the linkages they have along the coast with communities and also the amount of freight on them. I will come back to that later on too. I have talked about the pull of resources. Others have talked about the grain transport task, tourism and community, so I will not go through those at the moment.

The next slide really comes down to what we, the Mid West Development Commission, see as the major strategic transport infrastructure needs of this region. The numbers referred to are on the map below. Perhaps I can very quickly run through those. We are talking about a new deepwater port at Oakajee, adjacent to a new Oakajee industrial estate. We are talking about upgrades to the existing Port of Geraldton in relation to ports. In terms of rail, we need a new heavy duty standard-gauge rail spine with capacity for extension and expansion and, as you have already heard many times, upgrade to the existing rail network.

In terms of roads, No. 5 is the east-west transport and services corridor from Geraldton right through to Leinster. I certainly would reinforce Keith's comment about the need for a dedicated freight route into and out of the Port of Geraldton. We have half a route at the moment. We need that to be finalised with the feeders into it. I have already talked about the Great Northern Highway. I have referred to the Brand Highway and the North West Coast Highway. What we refer to as a missing link in the AusLink program is No. 8, the Meekatharra-Wiluna Road. There is a magnificent road heading up from Kalgoorlie. It stops at Wiluna and does not go anywhere. We have a national network road that runs from Perth through Meekatharra headlands through to Darwin, yet those two roads do not link and there is clearly a gap. That gap between Meekatharra and Wiluna needs to be filled.

On the last page is a summary of my remarks. The mid-west is experiencing tremendous growth and is poised for further substantial exports, particularly in iron ore. The existing transport infrastructure is struggling to cope. Apart from enhancements to the existing infrastructure, we need new investment in a deepwater port, rail and road links. In terms of AusLink, from our point of view and our understanding of it, we think it is too narrowly defined. We think AusLink needs to be far more responsive to areas of major economic activity and change. In our view, it is a little slow in responding to the changing circumstances. It needs to consider regional ports and the transport links to them. At the moment, Fremantle is the only port in Western Australia recognised in the AusLink program. It also should consider social and regional outcomes and benefits.

Secondly, it should consider the unique circumstances of Western Australia and the mid-west in respect of distances, isolation and the small population base that we have. I think that is a little unique from some other states. Lastly, it needs to consider the contribution of the state in the mid-west region to Australia's exports. What we are asking for is support for us in providing the infrastructure capacity to let us get on with the job.

In terms of future infrastructure, I will go back to my first point. There are two lots of projects. There are the starter projects that require some infrastructure enhancement—they are the projects that are dealing through the existing port of Geraldton. We also need to look at the infrastructure required for the stage 2 bigger projects that will drive the need for a deepwater port and a rail link to it. We are asking for: some support for the existing transport links and networks into the existing port and also some support—perhaps some resources in terms of planning and I might get a question on that later. But we are not at the point at this stage of coming to the inquiry and saying, 'This is what we need for the Oakajee port or rail at this point.' The planning and the policy are still works in progress.

CHAIR—Let me ask the question that many of my colleagues have asked: in going back to government, what is the single most important subproject that we should be pushing for you?

Mr Douglas—We will not get to the stage 2 projects without getting the stage 1 projects off the ground, and I will come back to that point. We need to ensure that the start-up companies, if you like, the junior companies, can be facilitated and developed. That means getting the transport links from those projects through to the existing port. That has to happen in the first place. Unless that happens, it will be difficult for stage 2 to happen. At the same time, we are trying to get the policy framework set in Western Australia so that there is a clear state policy on

how public-private investment in Oakajee and a rail link to it will work. Once that is worked out—and I am sure there will be feedback to the—

Mr SCHULTZ—What are the impediments to the first stage going ahead? Is it a Commonwealth impediment, a state impediment or a local government impediment? What is it?

Mr Douglas—If you are asking about responsibility, the impediments are quite clear: they are in terms of literally getting the iron ore from the mine into the port and then out of the port and into the market. The impediments are a matter of identifying those bottlenecks in terms of infrastructure and the funding to fix them. Who has that responsibility? It may vary. At the moment, Geraldton port is not recognised in the AusLink program, so it makes it pretty difficult for us to tap into AusLink funding.

CHAIR—We have picked up on that one. Having said all that, we seem to get the flavour here that, while you have a generic role as the Mid West Development Commission, there does not seem to be anyone pulling together the commercial aspects of this with the physical infrastructure aspects.

Mr Douglas—What is happening at the moment—and it has taken a bit of time to get to this point, I would agree—is that some of these players are junior players. Some have just got off the ground and have only started to get off the ground over the last number of months or the last year.

CHAIR—Who is the catalyst to make these things happen? Who got the alliance going, for example?

Mr Douglas—The Geraldton Iron Ore Alliance is an alliance of the five individual companies.

Ms HALL—Why have they come together?

Mr Douglas—They came together because, in the infrastructure forum that I was talking about that we held in April last year, one of the things that the companies were saying was, ‘The state government and governments generally need to get their act together to help us get the infrastructure in place to drive it.’ As governments we were saying, ‘That’s fine from a government perspective, but you guys also need to get your act together collectively so that we can better understand each other’s needs and work at that strategic level rather than governments trying to deal with four or five individual projects.’ Those sorts of discussions are still ongoing. The Department of Industry and Resources and the Department for Planning and Infrastructure are very much the ones that are guiding and coordinating the policy and the planning.

CHAIR—Who would you see funding Oakajee?

Mr Douglas—Before I answer that specific question, I should say that there has been a lot of interest from the private sector. But one of the things that governments may look to—

CHAIR—In actually building it outright or in just being a—

Mr Douglas—To actually construct it. There is a fair bit of interest and it has come to us directly and to—

CHAIR—In other words, it would be a private port.

Mr Douglas—Certainly to build it. On whether it is a private port, I think the view very much of the state—

CHAIR—A privately run port.

Ms HALL—Are you looking at a public-private partnership?

Mr Douglas—Some sort of private-public partnership, but, as to whether it is in the true sense of a private-public partnership, we have not gone down that track just yet. The policy development is still being put together—literally, as we are talking. In fact, there was a meeting last week on taking things back through to the state government on that issue. But one of the things that we are certainly aware of is that, if it is just left purely to the private sector, the private sector will drive that infrastructure as it best suits it. One of the other issues is that you have different projects with different time frames, different scales. One of the arguments that is coming back is that if I am the first project—for instance, Murchison Metals—I might want that rail spine to go directly to my project rather than perhaps to another project further south. So how do we make that sort of decision?

There are also communities in our region that may or may not benefit from such infrastructure. We also have issues within the port of shared infrastructure and absolutely ensuring that there is third-party access. Notwithstanding the fact that there are already plenty of regulations in place, we have seen the example of what has happened in the Pilbara. So there may be a role—and we think there probably will be a role but we do not know what it is just yet in terms of quantifying it—for government to take some sort of stake in that project to ensure that those sorts of issues are handled.

Ms HALL—Who is showing leadership, though? Who is leading the project?

Mr Douglas—At the state level?

Ms HALL—Who is leading what is happening in the region? The alliance came together. I do not know whether the chair understands it, but I still do not understand how they came together. There was a meeting where it was identified that there was a need for that and that there was a role for government. But I still do not understand why it went from identification to actually happening. What drove that and what will drive future development of the port and the infrastructure? I am not getting that feeling. I do not know about the others.

CHAIR—I think we are a bit nonplussed at who will take leadership in pulling this together. You obviously are a well-resourced organisation that reports to the state minister and that pulls local information together. The port has a good track record. There are local infrastructure problems with road and rail and a new standard-gauge rail required. Who is scheduling all this and time framing it?

Ms HALL—I think Mr McAuliffe was going to answer.

Mr SCHULTZ—I suppose we are saying that there must be a state department that is responsible for development, infrastructure and planning. I presume they would be the people who would put it all together and drive it, because the statutory requirements of government have to override any plans, don't they?

Mr Douglas—Sure.

Mr McAuliffe—Perhaps I could answer some of those things—and I will backtrack a little. A number of things have happened. I can see your concerns regarding the planning. Yes, it does look like all this stuff has jumped up, but what has actually happened—

Mr SCHULTZ—Quite frankly, it looks like there are a lot of chooks running around with their heads chopped off and with nowhere to go.

Mr McAuliffe—I would disagree with you on that one very strongly, to be perfectly honest. Perhaps we could just park the Oakajee issue for a second and come to that. In recent times the development commission held the forum and formed the infrastructure group. The first meeting was in June. Initially the focus of that infrastructure group was on the road-rail issue—so it has been raised by a number of people here today. The infrastructure group has put a paper to government which summarised, in one document, I think, all the issues from the loading of the trains through to the unloading at the port.

That paper was put together around October-November last year, and it has been to government for consideration. It not only summarised things but also put forward some recommendations. One of the people involved in that was Paul Larsen from WestNet Rail. Paul is sitting over here, and he was part of our group. We have focused on the shorter term issues. What has transpired from that?

When we talk about Oakajee, Murchison Metals have, in the last four, five or six weeks, secured funding to undertake a bankable feasibility study for their stage 2 development at Jack Hills. They have only just secured the funding to go and drill the resource out, which is something that has not been raised here so far today. In the last few weeks, on top of that, the Midwest Corporation—we have talked about Weld Range; they are the other people who are getting a mention to do with Oakajee and the larger projects—are, I believe, about to sign native title agreements so that they can go and drill and prove the resource that they have.

While it might look like there are a lot of chooks running around in the chook yard, that is not the case. It has been only in the last few weeks that there has been a significant focus on Oakajee. The companies do need to drill out and prove up the resource they have. They do need to undertake those feasibility studies.

CHAIR—How far off is that, for example?

Mr McAuliffe—Murchison Metals are commencing theirs this month. They believe it is going to take them 18 months. Some people believe that is optimistic. By the same token, in the last couple of weeks there has been, other than the infrastructure group we have, some high-level

activity both for the Department of Industry and Resources and the Department for Planning and Infrastructure. You asked earlier about a project manager.

CHAIR—The evidence you are giving now is running contrary to the first round of evidence we had this morning, and that was this: if you want these mining companies to be ready to move by 2010, then the port development and the road development around there has to be under way by 2007. You are saying to us that the deposits have not even been proved up to the point, nor are they likely to be proved up, this side of 18 months, which probably takes us to the end of 2007 at the very earliest.

Mr Douglas—2007 is when they would like to begin the construction of the port so that it can be ready—

Mr McAuliffe—At the end of 2007, and that was construction for a summer dredging job.

Mr Douglas—So that can be ready in time for 2010.

CHAIR—But is the government or the port authority likely to do that or to seek funding?

Mr Douglas—We have that local group, the Mid West Strategic Infrastructure Group, coordinating people locally. On that group we also have some fairly significant state players, the key players: the Department of Industry and Resources and the Department for Planning and Infrastructure. Their role is very much coordination of the sorts of things we are talking about. Working with us—not parallel and not independently, but working with us—they have set up a high-level policy group that includes those two departments, the port authority and the Mid West Development Commission. We are meeting on a regular basis to deal with the policy and the planning coordination issues. It is happening—maybe not as fast as others would like it to happen, but it is happening.

Mr SCHULTZ—In fairness to you guys, our visit is probably six or eight months too early.

Mr Douglas—I think we need to be putting the views across of where we are up to at the moment. This thing is moving for us fairly quickly. One of the things we need to identify, especially in that policy group, is: once the policy position has been sorted by the state, in terms of public-private investment in both the port and the rail, how do we then tap into the federal side and AusLink? That is really part of what I am trying to grapple with at times as well.

Ms HALL—The success of all these projects rises and falls on the viability of these start-up companies though, doesn't it? There are no majors are involved. What sort of assurance have you received about that long-term viability?

Mr Douglas—I will start off and Phil can come in on what I am saying. Mount Gibson started off as very much the same sort of thing. They were a junior two years ago. Their first iron ore export was in January 2004, if I remember rightly. They have cash balances at the moment of \$26-odd million. They are ready to go to the next project, at Extension Hill. They are talking about slurry pipelines and so forth. As for other projects, Midwest Corporation exported its first lot of iron ore just last Tuesday. Hopefully, it will get its cash flow and can then get into stage 2. I think Murchison Metals will start to transport iron ore mid this year; that is the expectation. It

is a similar sort of thing. As I understand it, there is a window and, while they are pushing their stage 1 projects, especially some of those that started more recently, they cannot afford to wait until their stage 1 projects have produced a cash flow before they start planning for stage 2, otherwise they have lost another two or three years. They are trying to do some of those things concurrently. I suppose that is putting the urgency on it from a planning and policy development perspective, perhaps going back to the first lot of people who talked to you this morning.

Mr HAASE—You blokes are between a rock and a hard place. I have identified it and you identified it this morning when you first walked in and heard the first comments. You are now trying to defend, I think, the indefensible. On the one hand, you are saying, ‘There is an urgency and we need the dough and we need some commitment’; on the other hand you are saying, ‘Don’t blame us for not having planned, because they have not even done their resource testing.’

Mr Douglas—No, I am not saying that.

Mr HAASE—You have graphs here that show that you are talking about \$65 million tonnes per annum of iron ore and you are putting your hand up for some resources from the federal government to put in place the infrastructure for that. But, when it is suggested that you are not far enough down the track, you are saying, ‘We do not really know whether they have a viable proposition.’ You are going to have to come out from behind the bush and say, ‘We are going to cop it for not being further down the track in our planning,’ or ‘No, we do not want money from the federal government yet because we are not sure whether we have a resource that is viable.’

Mr Douglas—I thought the second bit was what I have put—

Mr HAASE—You are in a difficult place to argue. You should have given evidence in a ‘good cop, bad cop’ way one at a time, or something. Your last slide sums it up for me. You have put there that AusLink is not flexible enough, that it is too narrowly defined and that you need to get the money now so that you can get on with the job. But I do not think you have clarified just what the job is at this stage or how you would prioritise. We got a very fine list of prioritisation in the very early stages of submissions that listed the immediate, the long term and then the longer term. I think there has been consensus as to what the important things were like the port upgrade, the Indian Ocean Drive, the rail for Perenjori and then the deepwater port being high on the list of investment required within seven years.

I do not believe that you can put such a straightforward case that AusLink should be making decisions to fund. You have made the point that AusLink will not give you money for the port. Well, that is not what AusLink is for. You have made the point that we recognise that the Great Northern Highway is the highway that AusLink will take responsibility for. We are taking one major route in Western Australia to the north that AusLink is looking at collectively being responsible for funding.

Mr McAuliffe—The list of points you have just read out, particularly the last one about the port within seven years, were not in our submission.

Mr HAASE—I am not suggesting that they were. They were in a submission put to us and discussed earlier this morning and we had subsequent witnesses who did not disagree with that list of priorities. Yours is the first evidence suggesting that those priorities are not something you

would agree with. I am just a little concerned that you are putting so much emphasis on cooperation from the federal government through AusLink. I do not think you are in a position to say at this stage, 'This is project No. 1 that we would like AusLink cooperation with.' Remember that AusLink and the outcomes of AusLink were determined after a substantial submission from the state government and cooperation had to be agreed. After all, AusLink is the first attempt of any federal government to work cooperatively with state governments and private enterprise to create funding. If you think it is not up to scratch to service your needs here, you need to clearly put that at state-federal collaboration level. I think it is a very new innovation. It is relatively young still. It needs to be given a chance to get past the embryonic stage and do some work.

Mr Douglas—I accept that.

Mr HAASE—There was not much of a question in there.

Mr Douglas—No. There is something I would like to challenge you on, though. You talked about wanting money now. I do not think I was saying that in the last slide. I have raised a few issues with AusLink that we have concerns about, particularly with regard to the links to the regional ports, and I think that has been recognised. At some stage, we certainly would be looking for AusLink support in getting some of that bigger infrastructure in place in particular. That is what I am saying: help us to do our job. We are not at that point just yet; I certainly accept that.

Mr HAASE—Do either of you know what the mineral attapulgitite is?

Mr McAuliffe—That is kitty litter: the stuff used on the floor of cat trays as an absorbent. The largest commercial deposit in Australia is approximately 165 kilometres inland. It is just one of the many things in the mid-west.

Mr HAASE—Somebody on the plane this morning suggested that was the case and we agreed that it could not be kitty litter and it must be something else.

Dr JENSEN—I have three general areas of questions. In terms of the infrastructure development, particularly for the current port but also obviously looking to the future at Oakajee, do you have any idea of time lines and costs in terms of the infrastructure being developed—priorities and so on?

Mr Douglas—Not specific figures, though we are talking about the Oakajee investment at something around \$1 billion to \$1½ billion collectively; that is a deepwater port, rail and some other infrastructure probably for the industrial estate and so forth. In fact, it may end up being more than that. Anyway, it is a considerable amount of money. In terms of the local infrastructure, I do not know if we have gone down to the extent of roads and rail other than the rail network. We do know that, if we need to increase the capacity on the existing rail network from two million tonnes of iron ore—that is notwithstanding the grain that is on it, because it currently delivers about two million tonnes of iron ore—the work that Phil has done indicates that, if we look to increase that to six million tonnes to support some of these juniors, we are talking about around \$30 million to \$35 million to upgrade that.

Mr McAuliffe—Yes. It is something like that. With regard to the roads—I have some of those numbers back in the office—there was a comment to the port authority previously about the cost comparisons between roads and rail. Those numbers are also sitting back in the office, but I honestly could not tell you off the top of my head—not reliably.

Ms HALL—Maybe you could forward them to us.

Mr McAuliffe—Yes.

Dr JENSEN—In terms of the current infrastructure, if it were just left the way it is, how long would it be before we hit a crisis?

Mr McAuliffe—You just about have one now. With regard to getting the next round of projects on rail, you are almost there at the moment. There are two aspects: getting into the port and getting out of the port. Getting out of the port has been addressed with the berth 5 upgrade. How it gets into the port is that next one. ‘Crisis’ is perhaps the wrong word. It is just a case of who actually funds it. The numbers have been done. The tonnages have been projected. The amount of work required and whether it is part A or part B has all been identified. To get the next project on rail is just a case of who actually funds it more than anything, so ‘crisis’ is perhaps the wrong word to use.

Dr JENSEN—There has also been a whole lot of discussion about Geraldton and Oakajee. They are obviously separate issues. At what stage do we need to really start working hard on the Oakajee issue as opposed to upgrading the infrastructure of the current port?

Mr Douglas—Again there are two aspects to that equation. It is the infrastructure that requires looking at in terms of the stage 1 projects—the road and the rail that link into the port and any port issues, such as unloading, discharging and all the rest of it. The second part of it—and it needs to happen concurrently—is that, with Oakajee, the imperative is to get the planning and the policy work done. We are trying to deal with both those issues concurrently. One is very much an infrastructure investment issue; the other one is very much a policy planning type issue.

Dr JENSEN—That is understandable. Let us say that Oakajee does not go ahead—it is off the table. When will we hit a problem with absolute capacity, as far as Geraldton is concerned?

Mr Douglas—Keith was throwing around a figure of about 20 million. It depends on a whole lot of issues and all the interchanges and linkages. I am not in a position to provide a clear answer to that one. The port authority people are here for that. Our broad view, without going into the detail, is that it would be somewhere between 20 million and 25 million tonnes. In terms of timing, to go back to the graph—

Mr McAuliffe—Just to add to that, in terms of tonnages the stage 1 projects that are on the board at the moment will take berth 5 to capacity, and there is one stage 2 project, Mount Gibson Iron’s Extension Hill project, which is slated for berth 7. That is in the order of 10 million tonnes by itself. Those stage 1 projects plus that Mount Gibson Extension Hill project of the Geraldton Port Authority will be it, basically.

Ms HALL—Would it be more about the fact that it would lead to a missed opportunity than about what Dr Jensen just asked? If it does not happen, those opportunities will be lost, you will stay at your current level and things will not develop—we will not export ore.

Mr Douglas—Yes, absolutely. That missed opportunity is not just for us in the mid-west and Geraldton; it is for Australia. If all those projects happen—and I know it is an ‘if’—we are talking about an annual export value of something over \$6 billion. That is not an inconsiderable amount of money by any stretch.

Mr McAuliffe—If those people, as in overseas companies, that have expressed interest in purchasing iron ore out of the mid-west cannot purchase it in an appropriate time frame with secure life-of-mine contracts, they have the option of going to somewhere like Brazil. To give you an idea about that, one of those companies is Sinosteel, which I think is the fourth largest government trading enterprise in China. They have invested at prefeasibility stage in projects here in the mid-west, which I think is a first. They scour the world for feedstock for their mills in China. If they cannot satisfy them from the mid-west, it will be a lost opportunity for everyone.

CHAIR—On that note, we thank you for your evidence. We trust we can come back to you if we require more information. Thank you again.

[12.53 pm]

LARSEN, Mr Paul David, Commercial Manager, WestNet Rail

CHAIR—Thank you for your attendance. Do you have any comments to make on the capacity in which you appear?

Mr Larsen—I am currently the Acting General Manager for WestNet Rail. I am here today to discuss with the committee any issues relating to rail and the supply chain in the region.

CHAIR—We will not be asking you to give evidence on oath, but I have to remind you that these are formal proceedings of the federal parliament; consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and could be regarded as a contempt of the parliament. Having said that, you are most welcome. Do you want to give us an overview?

Mr Larsen—Yes, I do. I am aware acutely aware of the time budget that we have and I will try to manage that.

CHAIR—I would rather you explain things. Rather than go through your submission again, just give us an overview and let us get into the detail of it.

Mr Larsen—The first comment I would like to make is that WestNet Rail is a privately owned business. We are participating with the Mid West Development Commission, the Geraldton Port Authority and others in the group that has been talked about. I want to reiterate that I think that group is making excellent progress. We enjoy excellent relationships with the port authority and the government planning agencies. I want to make that very strong point.

The other thing that I want to make mention of is that the committee has sought information from different parties today across a broad range of issues, and there have been some contradictions in that information. I think it is important for the committee to listen carefully to each business that is representing a certain part of the supply chain, rather than, for example, ask Mr Douglas for his opinions on the capacity of the rail network or the capacity of the port. It is important that the port responds to those issues and, likewise, that we respond to those issues. The other important point that has been made today is that there are two very different categories of activity here. There are the starter projects, and my presentation that I will take you through in a minute focuses very strongly on those starter projects. Then there are the big-ticket second stage projects.

A PowerPoint presentation was then given—

Mr Larsen—On that note, I would like to take you through this presentation. I will move through it where the information has already been covered today. I would also point out that a lot of the information in this presentation was created out of that Mid West infrastructure steering group that was formed by the Mid West Development Commission. Firstly, moving to the second slide, I want to give the committee an overview of who WestNet Rail is.

CHAIR—You might explain to us the implications to you of the recent merger with—

Mr Larsen—I will be happy to, once we get to that. I want to explain to the committee some basics of the physical infrastructure—what is actually out there—and talk about the current challenges, primarily in relation to those starter projects, and future challenges in relation to those starter projects. I will be happy to leave with you the two things that I think are the two takeaways for both the starter projects and the second stage projects.

Moving on to slide 3: WestNet Rail is an entity owned by a company called Australian Railroad Group. The two principal shareholders in that are Wesfarmers, with 50 per cent, and an American railroad operator, Genesee Wyoming. There are a couple of bullet points that are very important. WestNet Rail has a 49-year lease of the rail network. The asset is still owned by the government and that is a very important point. We are the operator and manager of the government's asset. We charge rail operators to run their trains on the network; that is how we earn revenue. It is our job to maintain the network and to upgrade it where necessary. We are responsible for the management of all train movements on the network and, very importantly, that network is subject to open access. Anyone who wants to run a train on there is able to, having gone through a proper process. I also want to make the very strong point that our business is the business of keeping freight on rail and getting more freight on rail and, hence, we will invest where it makes commercial sense to do so. That is our business. As Keith said, the model for the Geraldton Port Authority is not to build it and hope that customers will come. We work on a commercial basis. We need customers if we are going to invest.

Slide 4 gives an overview of what infrastructure is out there today. I have a diagram of the rail lines that have been talked about, in case the committee is not familiar with what tracks lie where. I have highlighted some of the tasks that are occurring today on the rail lines. There are three major tasks. Today, there are two million tonnes of iron ore coming in from Mount Gibson, one million tonnes of grain coming in on those two lines and also one million tonnes of mineral sands coming up from Eneabba to the south. That infrastructure is maintained to the same standards that existed at the time the business was privatised from state ownership into ARG's hands five years ago. A recent audit of our performance against those standards, which is a five-yearly requirement, has shown that we are still maintaining those standards.

Moving on to slides 5 and 6: in terms of the current challenges, quite clearly the starter projects are the focus for our business at this point in time. Slides 6 and 7 show—and you have already seen those graphs in some of the other presentations—that the growth is coming from iron ore. Moving on to slide 9, we in the Midwest infrastructure steering group have decided which starter projects we will focus on. The three projects we have decided to focus on that are defined as starter projects are Gindalbie Metals, Midwest Corporation and Mount Gibson's Extension Hill project. There is somewhere between three to maybe 4½ million tonnes of iron ore out of those projects collectively, which gets us up to the seven-million-tonne threshold that Keith Gordon mentioned earlier in terms of maybe being the maximum capacity that could be handled through the port without any change.

Moving on to slide 10: the challenge is that current export volumes sit around 5½ million tonnes. We think there is an opportunity for those starter projects to take tonnages above nine million tonnes. The growth is coming from iron ore, from the companies that I just talked about. I want to make the important point that, last week, at the announcement of the Geraldton Iron

Ore Alliance, it was also announced that a study will be undertaken with WestNet Rail, those four companies and the Department for Planning and Infrastructure to look at the particular infrastructure issues related to these starter projects—and of course the Geraldton Port Authority will be involved in that study also.

Moving on to slide 11, and trying to get to the crux of the matter: what are the major challenges for infrastructure to meet the needs of those starter projects? Clearly, there is a combination of port, rail and road issues. From working in this group, our understanding of the issues for the port is that it needs to be able to store the products and load the ships, and it is making excellent progress towards addressing some of those issues. There is the need for the port to be able to unload the trains, and what is there today meets that need well and truly. In terms of rail, what do we need to do? We need to spend money on crossing loops so that we can pass trains, because these starter projects will add significantly more train movements to the network. We need to look at replacing rail incrementally; as the rail ages and expires, it has to be replaced. The above rail operators who are the users of our infrastructure have to come to the table with locomotives and wagons to move the products. Quite clearly, if the projects are going to go on road, there will be upgrades, maintenance and road congestion—things that are undesirable for the community.

Our view on these start-up projects—and this slide was formed by the group—is that the initial starter projects are being used to generate cash for those second developments. However, we have talked today about those start-up companies. They do not have huge amounts of surplus cash. Mount Gibson does not fall into the start-up company definition. They are seeking the path with the least cost and capital to them, which can be road. To start a rail project, you need to buy potentially \$10 million worth of wagons. Some money needs to be spent on the track and some guarantees need to be provided. Trucking contractors with assets that are more mobile have lesser requirements in terms of capital guarantees. We are seeing that there is a potential for these projects to leak to road if some of these issues are not thought through.

In terms of the current status of these starter projects—and I think it is very important that we talk about this—Mount Gibson mining are committed to rail for their current volumes. They are committed to rail for their entire expansion. Gindalbie Metals, which are one of the other targeted projects, are committed to rail. I believe we will see them make even more positive announcements about their use of rail in the coming weeks. Midwest Corporation have committed to road until October 2006, and we are working very hard with them to try to get them back on rail. I made the point earlier about our investment in the track. We are very willing to invest in crossing loops, rail and sleepers. The access rates that we quote to the customers to use the track include the money that needs to be spent on the track to maintain it to the required level. I did want to make the point there that, ultimately, to get to the seven million tonnes, I think the port will need to spend a bit of money on the rail unloader.

From my perspective, where we are heading with these starter projects is that commercially we should be able to get them on rail. I think the big issue is when we go beyond those targeted projects that we looked at there. If we are to go beyond the tonnages of those projects, there will need to be some significant investment in the rail, as Mr King identified. There will probably need to be significant investment in the port as well. The port has a thin strip of land available for tracks. Only three tracks sit on it. To be able to get the number of trains in and out, a second rail unloader would be required. It is not needed for these three projects we have identified here,

but certainly a second unloader would be required. In terms of the track, we would need to look at increasing the speeds on the track, the axle loads to get more tonnes in and out and maybe even move to signal track, whereby traffic signals control the movement of trains rather than a manual process of waiting for a train controller to issue an authority to proceed.

On slide 13, I want to also make a point about some other traffic, in particular grain. Grain is subject to fierce road competition. We have seen real freight rates for grain reduce by \$10 per tonne over the last 10 years. It is not an issue for this region, because there will be other traffic that will support re-investment in the track. But, as we move through this week and we get to the other regions, you will see that the other regions do not have the benefit of what this region has.

In terms of future challenges, I have just mentioned what I think the starter projects need, but if I were to leave you with one key message, it would be that I think we are seeing start-up companies that are cash constrained and there is money that needs to be spent. I think a role that could be played by government is to consider providing some sort of capital guarantee or underwriting investment of private businesses until those companies are able to provide those guarantees themselves. In terms of the second stage projects with regard to Oakajee and the new rail line et cetera, whilst I have not focused on that today, I want to leave one key message about that. I think what needs to happen there is that the government should send a key message about what it can do for the port, what it will make available and what it could do with the rail corridor in terms of making land available.

Ms HALL—By government, do you mean state government, federal government or state and federal government?

Mr Larsen—I think it is probably within the state government's control. I think the government needs to put a policy position on the table as to what it is prepared to do with regard to the port and the rail corridor and then it needs to stand back and let the commercial parties come forward with proposals. I think the earlier that it can send that signal about what it is prepared to do, the earlier you will receive proposals from interested parties who want to use that base infrastructure.

CHAIR—Are you now a wholly owned subsidiary of this new group?

Mr Larsen—There was an announcement on 14 February that the business of ARG had been sold in two parts: the above-rail business, which is the locomotives and rolling stock, to Queensland Rail; our business, which owns the track, to Babcock and Brown, which is a Sydney based investment bank.

CHAIR—So you have become a subsidiary of Babcock and Brown?

Mr Larsen—That is correct, yes.

CHAIR—At present you do most of this on narrow gauge.

Mr Larsen—Certainly all of the track that feeds into the Port of Geraldton is narrow gauge.

CHAIR—What proportion of the iron ore comes in by rail?

Mr Larsen—Currently, before the Midwest task started on road, 100 per cent of the iron ore was coming in on rail.

CHAIR—What is it now?

Mr Larsen—Midwest will be operating at approximately one million tonnes per annum and Mount Gibson will be at three million tonnes per annum, so the road based proportion would be 25 per cent on those two projects.

CHAIR—Both these projects, Mount Gibson and Gindalbie, at the moment are using rail.

Mr Larsen—Mount Gibson is using rail and plans for their expansion from two million tonnes to three million tonnes to use rail; and Gindalbie for their starter project have indicated that they will be using rail.

CHAIR—What about Midwest Corporation?

Mr Larsen—It is currently on road. We are working very hard with them to get them back on rail.

CHAIR—Do you use narrow-gauge wagons?

Mr Larsen—Yes.

CHAIR—Are they drop centres or are they tipplers?

Mr Larsen—They are bottom dumpers because it feeds into a bottom discharge pit in here in the port.

CHAIR—You will need another loader, will you?

Mr Larsen—The additional rail unloader will not be required for quite some time. It is important in that that is the port's business, but the key part that that plays in our business is understanding how quickly trains can be turned around and how it affects the train scheduling task. From our view—Keith and I have had a very close look at this—we certainly do not think that it will be required for the projects that we have identified here as the starter projects. It is when we go beyond that that we may need to look at additional investment.

Mr SCHULTZ—So the long-term objective is to upgrade the rail infrastructure, including the rolling stock, so that you can carry more iron ore and turn it over more quickly? The existing infrastructure, as I understand it, is incapable of doing that.

Mr Larsen—Firstly, the existing infrastructure will support these projects and take us to seven million tonnes of iron ore. If we are to go beyond that, it will require investment, which would have to be recovered from the customers in commercial contracts.

Mr SCHULTZ—Will that necessary upgrade be contributed to solely and wholly from your subsidiary company and the rail people involved, or would you see a contribution by the iron ore companies working in partnership with you to improve the infrastructure that is currently there?

Mr Larsen—There are three models that can be considered. One is that we are very happy to invest and recover that through commercial rates with our customers. We are also exploring models where we can share that investment with our customers and hence deliver reduced rates to them. Thirdly, we can also look at government investing as well, once again delivering reduced rates to those customers.

CHAIR—How do you envisage that government would invest?

Mr Larsen—It would invest in the same manner that it has for other projects that we have looked at within the state. Simply by being the owner of the asset, it has the right under its lease arrangements with WestNet to undertake works to upgrade the track if it so desires. It is an existing mechanism.

Mr SCHULTZ—Regardless of which model you go into, what is the projected cost to get to the stage where the profit level—when you are in a commercial business, you need to make a profit—is sustainable? What sort of capital input is needed, regardless of whether it is a mix of private and government?

Mr Larsen—For these starter projects to come on to rail, we think that over the next eight to 10 years we will spend about \$75 million. That is at the moment being built into our commercial rates to be recovered.

CHAIR—Just on existing lines?

Mr Larsen—Correct. On the existing infrastructure to support the tasks we have identified it will require \$75 million in capital and maintenance over the next eight to 10 years.

Mr SCHULTZ—Does that take into account the need for bigger and better rolling stock and locos?

Mr Larsen—No. It assumes maintaining the infrastructure at the current 16-tonne axle load and the speeds that operate today.

CHAIR—The current track load operation?

Mr Larsen—That is right, yes. It is infrastructure investment to maintain current standards.

Ms HALL—I asked you when were you giving your presentation to identify which government you believed had the responsibility. You identified the state government. Do you think the needs of this region would be best met by cooperation between the levels of government working together with the private sector? Do you see there being a role for the federal government to be involved in what is happening in this region, or do you believe it is just the role of the business community—the private sector—and state government?

Mr Larsen—My understanding is that the AusLink scheme is the mechanism by which federal funding can be injected into the railway.

Ms HALL—What about planning?

Mr Larsen—Certainly if we are talking about other than financial issues. We have examples of state, federal, customer and our own company's contribution for other projects in the rail network for parts of the AusLink corridor. There is no reason why that same model could not work in this region, if it were considered to be part of the AusLink corridor at a financial level.

Ms HALL—So that comes back to the issue that this is not considered to be part of the AusLink corridor, does it?

Mr Larsen—That is right. It cannot be put forward by the state to the federal government as an AusLink project.

Ms HALL—That is an important message for us. Thank you.

Dr JENSEN—Mr Larsen, you made some comment very early on about us only asking questions specific to each individual area. I point out that the reason that we have become more broad ranging than that is that the interface between those different companies and different areas is important and perceived shortcomings can be every bit as important as actual shortcomings. Having said that—and I just wanted to point that out—as far as your specific area of rail is concerned, in what order do you see your upgrades needing to be undertaken in order to meet the perceived demand? Do you see a necessity for intelligent rail as in, say, GPS navigation allowing more trains between signals than would otherwise be allowed?

Mr Larsen—The territory that we are talking about at the moment is not signalled, so it is operated on what is called a train order system. The need to spend that sort of money, which would be significant, is still a way away in terms of train movements. The number of train movements we have and that we are talking about can be managed manually. So you are looking at a substantial level of investment to move to that layer of technology, which ultimately would have to be paid for by the customers.

CHAIR—Would you put a figure on that for Dr Jensen?

Mr Larsen—We have not actually estimated.

CHAIR—Round figures?

Mr Larsen—It is probably somewhere between \$30 million to \$50 million to signal the track. In terms of the priority investment, what we are focusing on and spending money on right now is rail replacement. Mr Criddle identified that the track has been there since the 1920s. Yes, there is rail that needs to be replaced and we are replacing that in a priority incremental approach. We are installing new crossing loops—we actually commissioned a couple last Friday—to allow more trains to cross each other, increasing the capacity of the line. There are other things that ultimately need to be replaced as part of the maintenance of any normal railway, including

sleepers and ballast, and mechanised maintenance needs to be undertaken. These are all things we do in the normal course of business. Rail and crossing loops are the focus.

Dr JENSEN—You also mentioned that Midwest is committed to road until around about October 2006 and then they will go to rail. Is that because of the decree that the state government has made that everything has to move to rail?

Mr Larsen—Correct.

Dr JENSEN—In their moving their capacity from road to rail, how much will that constrain you in terms of your movements? Obviously, this is stuff that is not on rail at the moment. How close are you to running at capacity right now?

Mr Larsen—We still have plenty of capacity. All of our planning has been based around getting these projects onto rail and understanding what we need to do to be ready to take them. We have indicated to them that we will be in a position to support them moving back to rail if they could get locomotives and rolling stock by the deadline they have been given.

Dr JENSEN—What would your capacity be at the moment approximately in tonnage terms?

Mr Larsen—It is a difficult question to answer without actually getting specific about individual tasks. Origin, destination and how long it takes to load and unload trains play an important part. But quite clearly we will be able to support the targeted projects that we have talked about. So my answer to your question would be that right now we believe that we can move seven million tonnes of iron ore on those lines. Could we move more above that? Yes, we could, with more investment.

CHAIR—Do these upgrades include any upgrades to the wheat lines?

Mr Larsen—There is grain that moves on the same lines that we were talking about.

CHAIR—So they will benefit incrementally, but are there any specific spurs and offshoots of these lines that will be upgraded for grain as well?

Mr Larsen—The grain trains will get the benefit of the crossing loops, because all of our integrated planning has included keeping the grain task on rail. It is a very important task for us because it is consistent and it is growing. All of our planning to cope with the iron ore tonnages includes keeping the entire grain task on rail, so those trains will get the benefit of this investment.

CHAIR—Will there be any investment in grain outside that?

Mr Larsen—There will not need to be, because the money that we will be spending will be on the main line track.

CHAIR—We heard evidence this morning that the grain lines have been slipping by way of deterioration. Axle loads, maximum speeds et cetera have been deteriorating.

Mr Larsen—I would say that is not the case, and that was my point earlier about each entity talking about its own business. The tracks are still operating at the same standards as when the business was privatised. We have just been through an audit with the state government on that process and these lines received an excellent scorecard.

CHAIR—Let us look at these new lines that are proposed to the Oakajee port. Have you been in discussions with the alliances, being the operator of that?

Mr Larsen—No.

CHAIR—Would you envisage that you would be?

Mr Larsen—I think the answer to that is most likely yes, depending on what the government's policy position is on ownership and operation of the railway and port.

CHAIR—To what extent would the state or federal government have to seed fund those new rail projects? You are an operator of below-track assets, so you know what is required. What is your take on the costs and the method of funding that?

Mr Larsen—They are certainly very big numbers. I think the total investment between the port and the railway has been contemplated at somewhere between \$1.5 billion to \$2 billion. So I think it will be critical for the state or federal government to send signals about what it is able to do with regard to making just the land available or any seed investment to then allow private interests to stand back and understand whether or not they can make a go of it commercially. Without that first signal, there is no opportunity to actually assess what mixture of investment could come and from where. I think the important starting point is what will be made available. The next test is whether it can then be made to work commercially.

CHAIR—Assuming that you were the operator or the provider, would you recommend standard gauge or, in the light of how many narrow-gauge lines you have in Western Australia, would you go for high-grade narrow gauge?

Mr Larsen—I think we would recommend standard gauge and ultimately, if need be, have a narrow-gauge connection from this network into the Oakajee port if there were a need for grain or other products to move through the Oakajee port.

CHAIR—You would have a 23-kilometre dual gauge, in other words?

Mr Larsen—No. You would have a narrow-gauge connection from the existing narrow-gauge network—

CHAIR—Into the port.

Mr Larsen—And it would become dual gauge from the point where they connect.

CHAIR—Part of our brief, as you know, is the arterial road and rail systems. What is the future of rail between Geraldton and Perth?

Mr Larsen—I think the future of rail is very good. As a requirement of our lease with the state government, that line can never be closed and we will continue to maintain that to the standards required by the lease. It is not heavily trafficked. Some grain comes from Mingenew north and some coal comes from the coalmines down south at Collie. We will continue to maintain that line and to make sure that it is available for traffic that wants to use it.

CHAIR—Is there any future for passenger rail?

Mr Larsen—If there is an entity that thinks it can make a commercial recovery out of operating a passenger service, there could be. I think the answer to that would probably be no at this point, but the tracks are certainly available for passenger services if they want to use them.

CHAIR—Have QR been involved with you and the proponents of the potential Oakajee network?

Mr Larsen—Babcock and Brown have been in discussions with potential users of the Oakajee port and railway, yes, but not Queensland Rail, to my knowledge.

CHAIR—You are appearing before us again, aren't you?

Mr Larsen—In Esperance, yes, and I will be attending the remainder of the sessions this week.

CHAIR—We may need to call you back on a few items—not that your evidence has not been comprehensive; in fact, it has been very much to the point, and we appreciate that a lot.

Mr Larsen—I look forward to seeing you for the rest of the week.

CHAIR—The committee will authorise your submission for publication. We will be sending you a draft of the *Hansard* transcript for editorial corrections. We look forward to seeing you later in the inquiry.

In closing these public hearings in Geraldton, I thank the various agencies who have appeared before us today for the evidence they have given. I reiterate that we were not being critical of the first witnesses but were being critical of the process thus far; nor were we picking on the Geraldton council. It is just inconsistent with the situation that we have met elsewhere in terms of the core local authority not appearing before us to tell us what the internal infrastructure and social infrastructure needs of these expansions might be. I also thank the media for doing us the honour of covering these proceedings today. I hope that our deliberations go some way to fulfilling some of the dreams and expectations of the people of this area.

Resolved (on motion by **Mr Haase**, seconded **Mr Schultz**):

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

Committee adjourned at 1.27 pm