

17 July 2008

The Secretary
 Standing Committee on Infrastructure, Transport, Regional Development and Local Government
 House of Representatives
 PO Box 6021
 Parliament House
 Canberra
 ACT 2600

JOINT SUBMISSION BY BHP BILLITON IRON ORE AND THE TOWN OF PORT HEDLAND TO THE INQUIRY INTO A NEW REGIONAL DEVELOPMENT FUNDING PROGRAM

TERMS OF REFERENCE

1. Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects;
2. Examine ways to minimise administrative costs and duplication for taxpayers;
3. Examine the former government's practices and grants outlined in the Australian National Audit Office report on Regional Partnerships with the aim of providing advice on future funding of regional programs; and
4. Examine the former government's practices and grants in the Regional Partnerships Program after the audit period of 2003-2006 with the aim of providing advice on future funding of regional programs.

BHP BILLITON IRON ORE OVERVIEW

BHP Billiton is the world's largest diversified natural resources company with major commodity businesses across nine Customer Sector Groups including Iron Ore. The Company operates globally and has more than 100 operations employing around 39,000 people in 25 countries.

Over 20 per cent of BHP Billiton's Global Asset Base is located in Western Australia where there are approximately 14,000 employees and contractors. Over 2,500 of the Company's employees are located in Perth and in total there are around 600 indigenous employees or contractors.

BHP Billiton recorded revenues of US\$39,498 million in the fiscal year ended June 2007, an increase of 22.8 per cent over 2006. The Company's operating profit was US\$18,401 million in fiscal year 2007, an increase of 25.4 per cent over 2006. The net profit was US\$13,416 million in fiscal year 2007, an increase of 28.4 per cent over 2006¹.

BHP Billiton Iron Ore's operations in the Pilbara region of Western Australia include seven mining operations. A heavy haulage railway is used to carry the iron ore from the inland mining operations located around Newman to the port at Port Hedland for shipping overseas. Iron ore is exported to steel makers in China, Taiwan, Japan, Korea, Europe and Australia through Port Hedland, one of the busiest commodity ports in the world.

Of BHP Billiton Iron Ore's more than 7,000 employees and contractors, approximately 75 per cent are located in the Pilbara.

TOWN OF PORT HEDLAND OVERVIEW

The Town of Port Hedland is a Western Australian local government authority originally established in 1898. The onset of iron ore mining in the Pilbara during the 1960s led to rapid expansion of the Port and Town facilities. The current resources 'boom' is driving exponential growth within Town with both the permanent and transient workforce populations increasing

¹ BHP Billiton Annual Report 2007

rapidly. The Town estimates that the population within Port Hedland on any given evening is between 17,000 and 18,000 persons.

While growth of the Town is strongly supported, the Town is experiencing serious 'growing pains' as the services and infrastructure needed to develop a sustainable community are simply not all in place. Improvement is being made but facilities and services do not meet the expectations of the general population. This is highlighted by the fact that only 43 per cent of the Town's residents indicate that they expect to be living in Port Hedland in three years time. When asked why they intend on leaving the key reasons identified are cost of living, education facilities, access to health services and the lack of quality social services and infrastructure.

RAPID GROWTH

The rapid urbanisation of China is currently driving an unprecedented global demand for iron ore, and providing BHP Billiton Iron Ore and other Australian mining companies with a significant opportunity to increase its rate of growth for the benefit of the Australian and Western Australian economies.

BHP Billiton Iron Ore's rapid growth program aims to achieve a target of installed capacity of 300 million tonnes per annum by 2015. The growth program represents the single biggest global investment undertaken by BHP Billiton. Other resource companies including Rio Tinto, Woodside, Chevron, Fortescue Metals Group and a number of new entrants are also planning major expansions requiring significant capital programs within the Pilbara in the foreseeable future.

In Australia the major producers have responded to rising demand for iron ore and rising prices by investing in new production capacity. In addition there are new entrants to the Australian iron ore industry expected to begin production between now and 2013. Overall in the five years up to 2012 - 2013 Australia's iron ore production is forecast to grow on average 10 per cent a year to reach 520 million tonnes by 2013².

Australian iron ore export earnings are projected to rise from A\$15.9 billion in 2007-08 to A\$34 billion in 2009-10³. This growth will allow Australian exports to successfully compete with Brazilian and Indian exports for an increased share of the Asian growth market.

BHP Billiton Iron Ore's growth program is expected to:

- contribute between A\$10 billion and A\$19.5 billion in cumulative taxes and royalty payments to the national economy by 2020 based on current independent estimates⁴;
- create in excess of 4,000 full time jobs during the construction phase⁵;
- create approximately 2,500 - 3,000 full time operational jobs in Western Australia to run and maintain new capital infrastructure⁶;
- create indirect benefits for local business and communities; and
- deliver significant investment in local communities (A\$16m+ FY07/08; A\$15m in-principle committed for Port Hedland FY08/09).

To achieve the export growth targets in Port Hedland, the Town needs to be able to attract and retain people. The lack of quality community services and infrastructure is affecting the delivery of services across all sectors. If not adequately addressed, this lack of services/infrastructure has the potential to impact on the ability to achieve projected export growth targets. This is clearly an undesirable result for industry, the State of Western Australia and Australia as a whole.

² ABARE Australian Commodities: Volume 15 No. 1 March Quarter page 156

³ ABARE Australian Commodities: Volume 15 No. 1 March Quarter page 157

⁴ BHP Billiton and Broker Consensus Forecasts

⁵ Pit Crew Management Consulting Services Pty Ltd

⁶ Taktics4 Town and Infrastructure Model 2008

CHALLENGES FOR THE PILBARA

Export growth in the Pilbara will yield significant benefit to Australia and Western Australia, but it also coincides with challenging labour market constraints.

Research conducted by the Minerals Council of Australia and the Chamber of Minerals and Energy in their report, *Staffing the Supercycle: Labour Force Outlook in the Minerals Sector; 2005 to 2015*, found that:

- by 2015 the minerals sector will need to employ 70,000 more employees to achieve predicted outcomes in production;
- the largest shortages are projected to be in non-professional classifications with the greatest absolute increase in trades closely followed by semi-trades;
- of the 70,000 approximately 42,000 will be required in Western Australia; and
- fastest growth is between 2006 and 2010 bringing with it the potential for rapid onset of labour shortages worsening as demand remains above current labour supply.

The current labour shortage is now the biggest hurdle facing Australian producers in capitalising on the current demand growth in the face of increasingly stiff competition from nations such as Brazil.

The sustainability and liveability of Pilbara townships, relative to other economic engine rooms in Australia and around the world, will have a major impact on attraction and retention of skilled workers in these regions.

Without basic community infrastructure – including open space, sports facilities, childcare services and public facilities – the opportunity to maximise the benefits of the resources boom for the benefit of the nation is significantly hampered. While investment in economic infrastructure such as roads, rail, ports and energy generation are clearly required to ensure that Australia positions itself well to maximise the benefits of the current global resources demand, investment in community infrastructure in regional communities like Port Hedland is just as critical.

CURRENT SUSTAINABLE INVESTMENT

BHP Billiton Iron Ore has demonstrated a commitment to working with local communities in the Pilbara to support sustainable development and ensure their needs are incorporated into Company growth plans.

The Company supports a partnership model for the planning and development of community infrastructure in Western Australia and currently partners with key stakeholders to deliver community initiated projects within the communities in which it operates. These partnership investments aim to develop the communities and provide long-term results, with measurable community benefits within areas of focus such as Indigenous programs, township amenity, quality education, health and well being and involved communities.

Experience from these partnerships has highlighted a number of key issues in the government delivery of physical and non-physical community infrastructure. These include:

- Improving community safety in areas of rapid development – for example, passing lanes on major roads;
- Planning and delivery of serviced industrial, commercial and residential land to meet demand in a timely way;
- Education facility improvements;
- Delivery of community services such as Police, child care, sport and recreation facilities, fire and emergency services, sea rescue and public housing;
- Coordination of health, RFDS and medical services during the construction phase of major projects; and
- Collaborative support for local government to play a community leadership and service-amenity provider role.

The Company's total contribution to WA communities for FY07 was over A\$12.5m with a major focus on community development in the townships of Port Hedland and Newman, access to health services in remote areas and increased education facilities and programs.

Planned and budgeted investments over the next few years include:

- Pilbara Health and Education Partnerships with the WA State government (A\$6m);
- Sustainability Partnerships with the Town of Port Hedland and Shire of East Pilbara to improve township amenity (A\$2m each);
- Funding for new and existing childcare services in the Pilbara (including two new childcare centres) (A\$25m with full strategy implementation); and
- Community Safety Partnerships with the WA Police Service in Port Hedland and Newman (A\$250,000).

To date, State and Federal government involvement with regional partnership projects has mostly been through traditional grant application processes.

Port Hedland had some level of success in obtaining funds from the previous Regional Partnership Program with community projects such as playgrounds, sports facility upgrades and cultural facilities being supported by program funding.

While the Partnership Program investment in community services and infrastructure has been appreciated, the investment was on a smaller scale than desirable and was not strongly linked to a comprehensive regional or town development framework. A collaborative, more strategic approach by industry, community and all three levels of government is required if meaningful, tangible, long-term differences are to be made.

For effective delivery of community infrastructure, it is important that all levels of government commit to strengthening communities (with services) to reduce the risk of potential social drift and secure an optimum return on its investment.

A NEW SUSTAINABLE INVESTMENT MODEL

The Town of Port Hedland and BHP Billiton Iron Ore have embarked on a new sustainable investment model which takes a collective, strategic partnership approach to physical and social infrastructure investment.

The 'Hedland's Future Today – Action Blueprint' (Hedland Blueprint) plans sets out a fast-tracked approach to investment in community infrastructure with all key stakeholders contributing towards infrastructure development costs. The Blueprint is a vision that, when delivered, will transform the Town of Port Hedland from a booming port Town to a significant, sustainable regional centre.

The partnership is already being delivered with over A\$7m of partnership projects being delivered over the past two years, but more work is required to develop facilities that the community wants, needs and deserves. To progress the Hedland Blueprint, it is proposed to '*ramp up*' the partnership through a step-change in the approach. This ramp up will be demonstrably different from the current approach as it will:

- a. Take on larger scale, 'marquee' construction projects;
- b. Seek greater partnership funding from all levels of government, a variety of industry sources and private equity; and
- c. Focus on 'future building' projects rather than delivery of infrastructure and services that could be considered core services/facilities.

The objective of the Hedland Blueprint is to ensure Port Hedland achieves a long-term benefit from investments in genuine regional economic development and community infrastructure with the aim of enhancing the sustainability and liveability of this vital economic engine room.

The funding priorities under the Hedland Blueprint are linked to clear evidence-based community needs analysis undertaken by industry and government, with quantifiable baseline data which has determined where the community is at and where it sees its priorities.

For example, in the last few years the following consultation has occurred in Port Hedland:

- Pilbara Social Impact Study, commissioned by BHP Billiton Iron Ore;
- Department of Housing and Works, South Hedland New Living consultations;
- Land Use Master Plan (LUMP) community consultation; and
- Town of Port Hedland annual resident surveys.

BHP Billiton Iron Ore is also supporting the Shire of East Pilbara with the development of the 'Newman Tomorrow' project. Newman Tomorrow will help to plan the future for Newman and direct investment in the town and is being developed along similar lines to the Hedland Blueprint.

The State Government - along with other key industry players in the Pilbara - has voiced its support for the Hedland Blueprint and is now joining BHP Billiton Iron Ore and the Town of Port Hedland to play an integral role in the development of partnerships through the provision of funding from various grant schemes and funding programs.

BHP Billiton Iron Ore and the Town of Port Hedland hope to build on this partnership and more closely involve the State and Federal Governments in the delivery of projects under the Hedland Blueprint in the future.

Typically, joined up programs and whole of government approaches are led by one department or agency that can be seen to give precedence to their own priorities, often leading to friction among project partners. This can often lead to projects flagging or failing.

The Hedland Blueprint aims for a different governance model, whereby partners enter into collaboration through a joined-up approach that is externally project managed rather than led by one government department or agency and supported by detailed and regular reporting on project development and outcomes.

RECOMMENDATION

The following recommendation is focused on large scale regional funding programs. Regional funding programs based on applications from community groups or individuals are not intended for inclusion within the scope of this recommendation.

Previously, State and Federal government involvement with regional partnership projects has mostly been through traditional grant application processes. Funding for key regional centres of strategic economic interest to the nation should not be done in isolation, i.e. one-off grants for individual projects.

The sustainable success of regional investment would be much greater if it were embedded in a holistic framework, rather than operating in isolation, ensuring that regional centres become attractive, sustainable locations for their communities and skilled workers, thereby maximising economic returns for the nation.

A collective, strategic partnership approach to physical and social infrastructure investment will ensure key regional centres of strategic importance to the Australian economy achieve long-term benefits from investments in genuine regional economic development and community infrastructure.

In essence, the Hedland Blueprint encapsulates this strategic partnership approach; it is concerned with defining future realities and shaping future perceptions. This too, is the business of government and of the cross-sector partnerships which make government work best.

For key regional centres of strategic economic interest to the nation a strong, sustainable investment return can be generated through sensible, strategic funding of community infrastructure projects from State and Federal governments, with investment priorities linked to clear evidence-based community needs analysis.

A strong governance structure with clear accountability at all levels of involvement is vital to a successful funding model and will help minimise administrative costs and duplication for taxpayers. Structures of governance and stakeholder collaborations can, through detailed and regular reporting, become a template suitable for adaptation and application to other regional centres of economic importance.

CONCLUSION

The current labour shortage is now the biggest hurdle facing Australian producers in capitalising on the current demand growth in the face of increasingly stiff competition from nations such as Brazil.

The relative levels of sustainability and liveability of economic engine rooms in Australia (such as the Pilbara) will have a major impact on the ability of these regional centres to compete for skilled workers in today's global market.

Without basic community infrastructure, including open space, sports facilities, childcare services and public facilities, the opportunity to maximise the advantages created by the resources boom for the benefit of the nation is significantly hampered. These 'soft' forms of infrastructure are critical for attracting and retaining people in the Pilbara without whom the schools, health centres, police stations and sporting facilities offer little value or return on investment.

Long term planning for infrastructure development will be critical to the continued growth of the resources sector in Western Australia. It will be important to act now to maintain the State's position as a global leader in resource production as international competition increases in the future. The funding strategy for community growth should involve a focus on both production and community infrastructure and the participation of all three tiers of government.

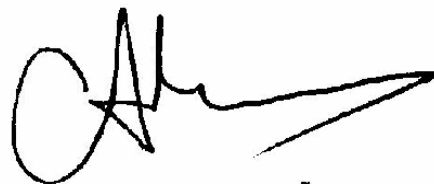
BHP Billiton Iron Ore and the Town of Port Hedland believe that a collective, strategic partnership approach to future physical and social infrastructure regional funding programs is needed to ensure these key economic engine rooms achieve long-term, sustainable benefits.

The Hedland Blueprint, as described in this submission, can be seen as a prototype, establishing precedents and patterns for the integrated and cost-effective delivery of infrastructure and services in regional centres.

Such an approach will achieve the aim of enhancing the sustainability and liveability of Australia's key regional centres and is ultimately in the interest of their local communities, industry partners and the state and national economies.



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