

Port Hedland Port Authority —

Mr J.M. Francis, Chairman.

Mr T.R. Buswell, Minister for Transport.

Mr I.J. Williams, Chairman.

Mr R.B. Holtshausen, General Manager, Strategic Planning and Development.

Mrs D.E. Gollogly, General Manager, Corporate Services.

Ms S.J. McCarrey, Deputy Director General, Policy, Planning and Investment, Department of Transport.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers.

It is the intention of the chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 10 June 2011, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers and, accordingly, I ask the minister to cooperate with those requirements. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the minister agrees to provide will be sought by Friday, 10 June 2011.

[Witnesses introduced.]

The CHAIRMAN: Member for Midland.

Mrs M.H. ROBERTS: In the previous estimates hearing the minister expressed some concern about the profitability of the Port Hedland Port Authority. Will the minister outline his concerns?

Mr T.R. BUSWELL: Well, my concerns were predominantly that the port traded at a loss, I think, last year.

Mrs D. E. Gollogly: Correct.

Mr T.R. BUSWELL: That was because of, as I understand it, some issues around some revenue streams not being realised—I will get some further advice for the member in a second—but it is on track to record an operating profit now. That means there has been a good turnaround in the last few months. I will ask for some more advice.

Mrs D. E. Gollogly: Primarily, the loss last year was as a result of some dredging. We had to undertake some high spot dredging that resulted in a loss of draft, so we had to bring forward our maintenance dredging campaign, which had an impact of \$5.1 million on our after-tax profit. We also had expense interest relative to the Utah project, which was not operating at that time. Those two items had a \$7.9 million impact on our profit and took it to a loss. Without those items, we would have had a \$6.5 million profit. Hopefully, we will not have to dredge this year.

Mrs M.H. ROBERTS: Minister, has the capacity for the tonnage that can go through the port increased as a result of the works that were undertaken?

Mr T.R. BUSWELL: Yes, it has.

Mrs M.H. ROBERTS: What has it increased from, and what is the current tonnage capacity? Also, there was a reference to last year's loss and the profit this year: what was last year's loss, and what is the anticipated profit?

Mr T.R. BUSWELL: I will get some more advice on the detail and specifics of last year's loss and this year's anticipated profit. In relation to the works, major works are being undertaken at the port by a number of private users of the port, such as Fortescue Metals Group, BHP and the like, and last year the port also invested significantly in the project for the Utah Point expansion. I will ask the chairman to give an overview of how that work by private port users and the port authority will translate into tonnage.

Chairman; Mrs Michelle Roberts; Mr Troy Buswell; Mr John Bowler; Mr Chris Tallentire; Dr Graham Jacobs

Mr I.J. Williams: I will take, first of all, the Utah Point berth, which was the berth that was commissioned and built for multiple users of the port by the Port Hedland Port Authority; it was commissioned early in September of last year and it will provide a substantial revenue stream going forward. When fully realised, the capacity of that berth will be somewhere in the vicinity of 21 million tonnes per annum, of which about half to two-thirds will be iron ore, and the rest will be other products. The capacity at the moment is restricted to our number 1 stockpile, with a maximum, we think, of about 14 million tonnes, but with the commissioning of the number 2 stockpile, which is more of an iron ore facility, that will take 15 million tonnes. It will take some of the capacity out of the number 1 berth, so we will end up with 21 million tonnes in total. That is now complete and is already operating at design capacity.

The other facilities that are increasing the capacity include the BHP berths. BHP has just recently completed two berths, and it is completing another two at this point in time. More recently, FMG has completed a third berth and is starting work dredging for a fourth berth. That will take FMG's capacity up to the allocated 120 million tonnes. In addition to that, Roy Hill Infrastructure, out of the Hancock stable, is starting work on its berths, and those two berths will collectively increase the capacity, in, I think, three or four years, by around 55 million tonnes. Then, finally—not yet started, but in the making—two further berths have been allocated to North West Iron Ore Alliance; it will have a total capacity of 50 million tonnes. That will take our total capacity up to 495 million tonnes in the inner harbour.

Mr T.R. BUSWELL: I think the member also asked a question about the profit and/or loss situation. I will get some advice, but it is my understanding that the actual operating loss for last year was about \$2.5 million.

Mrs D. E. Gollogly: We are estimating a pre-tax profit of about \$1.4 million this year for our operating profit. The post-tax loss was almost \$1.5 million last year. That was the total amount.

[9.40 am]

Mr J.J.M. BOWLER: On that matter, I am surprised. Given the massive tonnages the port deals with, how many tonnes went through the port last financial year? How does that compare with, say, five years ago?

Mr T.R. BUSWELL: I ask for some advice on those tonnage numbers.

Mrs D. E. Gollogly: Last year 178 million tonnes went through the port.

Mr J.J.M. BOWLER: Was it about 90 million tonnes five years ago?

Mrs D. E. Gollogly: In 2006, 110 million tonnes went through the port.

Mr T.R. BUSWELL: One of the issues I discussed with the board is that the board took a fairly conservative view on the fees that are charged for access to the port. The board is now reviewing that matter. I think it is fair to say that the fee structure at Port Hedland is competitive, which is probably a polite way to put it.

Mr C.J. TALLENTIRE: It is doing it for nothing.

Mr T.R. BUSWELL: No, it does not do it for nothing, but it is competitive.

Mr C.J. TALLENTIRE: It is subsidising.

Mr T.R. BUSWELL: No, it is not a —

Mr C.J. TALLENTIRE: But it is making a loss.

Mr T.R. BUSWELL: The port made a loss in one year because of some unusual activity to do with dredging. The independent audit team spoke to me about that matter last week. In fact, if the member looks at the anticipated profit and loss position for the port moving forward, it does operate at a profit. Notwithstanding that, the facts are that the gross registered tonnage charge levied to use the channel—effectively, to come in and out of the port—is pretty competitive compared with, for example, Dampier. The review of the charges will assess that matter. Ultimately, the setting of charges is a matter for the board.

Mr J.J.M. BOWLER: Therefore, going forward, the port anticipates profits.

Mr T.R. BUSWELL: Yes.

Mr J.J.M. BOWLER: That is given there is no downturn in world iron ore demand.

Mr T.R. BUSWELL: Given the level of investment in the port, the beauty of the way the port operates is that the vast majority of the risk of that investment is with the private companies. Therefore, yes, a downturn in the anticipated growth would affect port revenues potentially, but the port does not have the massive carrying costs of the capital infrastructure that go with it. It is not how the impact would be if the port as a trade entity owned and operated all the infrastructure as well.

Chairman; Mrs Michelle Roberts; Mr Troy Buswell; Mr John Bowler; Mr Chris Tallentire; Dr Graham Jacobs

Mr J.J.M. BOWLER: Therefore, the port's biggest asset really is the channel. That is the biggest cost. The port must be getting to the stage that it needs to build a second channel.

Mr T.R. BUSWELL: I will get some more advice from the Chairman of the Port Hedland Port Authority, but it is anticipated that the existing channel will service the ongoing growth of the port through to the 495 million tonne mark, which is in the current master plan for the port. I think that the anticipated tonnage for this year is about 200 million tonnes, give or take. Therefore, the existing channel with the appropriate turning pockets, which I think are two in the main area and another in South West Creek—it is a sight to behold the big ships turn around in there; they spin on a 20c piece—theoretically will provide the capacity for the port. Beyond that, the member will have seen public announcements by BHP Billiton committing to the development of the outer port. The port authority is working very closely with BHP on that. The development of the outer port, as I understand it, will be a 200 million tonne expansion in the first instance. Expansions of these ports are generally done in 50 million tonne increments; 50 million tonnes is about a tippler, a double-sided loader effectively working both sides of a finger wharf, one railway line and a pretty big hole in the ground. That is sort of the unit of measure that a port expands by. That will in theory take the port's capacity to nearly 700 million tonnes, which is massive.

Mr J.J.M. BOWLER: Which is double what the whole world sea trade was, I think, three years ago.

Mr T.R. BUSWELL: In answer to the member's question, that will be a separate channel. I ask the chairman whether he has anything more to add to that, because it is a pretty exciting period of growth for the port.

Mr I.J. Williams: The first development will be by BHP Billiton, which is committed to building what will be up to eight berths on this new facility. We are trying to assist other players to build a parallel facility, perhaps a multi-user facility, with the likes of Fortescue Metals Group, Roy Hill Infrastructure and perhaps some of the smaller players utilising capacity on the second pier and utilising the common channel and turning bays that BHP anticipates it will develop in the first instance.

Mr C.J. TALLENTIRE: Accepting that the \$1.4 million loss was something of an aberration, what sort of cash reserves does the Port Hedland Port Authority have?

Mr T.R. BUSWELL: That is a good question. The document that I am looking at is the forecast balance sheet from the strategic development plan for the port, which I assume is a publicly available document. The port's cash reserves, listed as current assets, are forecast at \$29 million in 2011–12 and by the end of a four-year period, in 2015–16, will be about \$57 million. Therefore, the port's cash position is strong and over that time the balance sheet position of the port's total assets, less total liabilities, will increase significantly. That, in part, is a reflection on the improved profit performance of the port, if we measure that by net profit after tax, which is forecast to grow quite significantly across the out years. Therefore, the port's cash position is strong and the port's financial position moving forward is also strong. As I said, I was interested in the reported loss last year, but I think we all now understand why that happened. Clearly, the sheer growth in tonnage and the capacity of the port to manage that growth means that we have a very profitable business.

The other thing to note from a government point of view is the port's asset base. A lot of that increase in tonnage is generated by private sector investment in stockpiling and loading capacity, so the return on assets for the state will grow significantly. That is another matter we need to look at as we reflect on the operating performance of our ports. The state sets a target of around a five to eight per cent return on assets. We are working with data from the port authorities to understand what that means. Some port authorities see that target as a cap and others see it as a minimum, so people have different views on it. It is slightly complicated at Port Hedland by the fact that the channel, under advice from the Auditor General, as I have been told, is not on the balance sheet. We need to look at that because I cannot imagine that the channel is not the most important asset of the port. For some reason that we need to get to the bottom of, the port authority was effectively directed to remove the channel from its balance sheet, which means that the taxpayer, in my view, is not getting a true reflection of the rate of return on the port. Interestingly, the channel is probably what the port spends most money on, through dredging and maintenance of the navigational aids that enable ships to pass safely up and down the channel.

Mr C.J. TALLENTIRE: I have a further question. Am I right in saying that the Port Hedland port by tonnage would be the largest port in the state?

Mr T.R. BUSWELL: It is the largest port in Australia.

Mr C.J. TALLENTIRE: In Australia, so it is ahead of the Queensland coal —

Mr T.R. BUSWELL: It is the largest export port in the world.

Mr C.J. TALLENTIRE: I thank the minister for the clarification.

Mr T.R. BUSWELL: Possibly the universe!

Chairman; Mrs Michelle Roberts; Mr Troy Buswell; Mr John Bowler; Mr Chris Tallentire; Dr Graham Jacobs

Mr C.J. TALLENTIRE: The port had 178 million tonnes go through last year, but it has cash reserves of only \$29 million. Something is going wrong, surely; this should be a massive profit maker for the state, given the amazing tonnages and the unprecedented wealth of activity that goes through the port. Why is it that we are barely managing to make it a profitable enterprise? In fact, we could not do so last year. I compare it with the very humble and small Bunbury port which has cash reserves of \$80 million. It is clear that this operation is not functioning; it is not making the profit for Western Australian taxpayers that it should be making.

[9.50 am]

Mr T.R. BUSWELL: One of the issues is that often the port's pricing structure is related to this overarching requirement to deliver a return on asset because it needs to generate a certain profit to do that. There has been no pressure on the port's pricing structure. As I said, the port is competitively priced.

Mr C.J. TALLENTIRE: Competitive to what; to Dampier? BHP will not put stuff through Dampier.

Mr T.R. BUSWELL: I am not understanding the point.

Mr C.J. TALLENTIRE: The minister was talking about competition. Where is the competition?

Mr T.R. BUSWELL: The point I am trying to make is that relative to like ports—the light port is Dampier port—the port of Port Hedland's charge rate is based on a gross-registered tonnage for the tonnage of every ship that goes up and down the channel. The port also makes revenue, I should add, from the operation of its own wharves and from rents and charges for the use of its land. There are three main areas —

Mrs M.H. ROBERTS: There is tonnage and berthage, is there not?

Mr T.R. BUSWELL: Yes. There is a channel or tonnage fee, a berthage fee for the port's own operations and the port receives some revenues for the use of its land by some of its users. The tonnage fee at Port Hedland did not shift for a significant period. One of the reasons it did not shift was, I assume, that the port was generating what was deemed to be, by the six per cent figure, a reasonable rate of return to the state. As I said before, this has been going on for a long, long time. We are now having a look at the balance sheet positions of a number of our ports. I have indicated that I am interested in the fact that the most significant asset of the port is not on the balance sheet. That is a matter we have to explore further. I understand that was done on directions from the Auditor General.

Mr J.J.M. BOWLER: That being the channel?

Mr T.R. BUSWELL: Yes. If the channel was on the balance sheet, I have no idea what value would be put on it.

Mrs D. E. Gollogly: Two billion dollars.

Mr T.R. BUSWELL: A couple of billion.

Mr C.J. TALLENTIRE: The rate of return, therefore, would go down.

Mr T.R. BUSWELL: Of course, but that was not the port's decision. That is why we are getting some external advice around the balance sheet position for not only Port Hedland port, but also the other ports.

Mr I.J. Williams: Historically, of course, BHP dredged the channel, provided it and gifted it back to the state. Some of the issues we are facing now are as a result of that gifting, which I think led to the Auditor General saying that the thing should be held at nil value. It also had an impact on the charges, because, historically, BHP has said, "Well, we've built the channel; we shouldn't have to pay double." That is how it had an influence coming forward, which I think the minister said, quite rightly, we need to address.

Mr T.R. BUSWELL: I indicated to the board that I would be very supportive of its reviewing the rates it charges.

Mr C.J. TALLENTIRE: I have a further question.

The CHAIRMAN: I will come back to you, member for Gosnells. I missed the member for Eyre some 15 minutes ago.

Dr G.G. JACOBS: I refer to the line item "Utah Point Berth—Multi User Panamax Berth" which shows an estimated total of around \$300 million. Is the principal of that \$300 million on the port authority books a loan, which the authority will amortise over time? Presumably the minister can see the income of the port authorities we talked about, which are, principally, tonnage fees, berthage fees, levies, rent or whatever. If we could see those incomes, we would be able to assess the ability of the port to redeem that expenditure over a period and assess what period that would be. I know there is some commercial-in-confidence stuff about product levies and whatever, but this is essentially a \$300 million loan on the books that has to be redeemed. What is the ability to do that and what tools can be used to assess that?

Chairman; Mrs Michelle Roberts; Mr Troy Buswell; Mr John Bowler; Mr Chris Tallentire; Dr Graham Jacobs

Mr T.R. BUSWELL: I will get more advice from the authority. The funding arrangements around the Utah Point expansion are interesting. The state made a significant equity contribution to Utah Point. No doubt we could argue that money was borrowed by the state, but was effectively an equity contribution from the state to the port. Some other funding arrangements were put in place in relation to what was, effectively, the gifting of some money by BHP and others. I will get the chairman to run us through the detail of that.

Mr I.J. Williams: There was a gifting by BHP towards Utah Point, and there was other support. Other proponents using the port, such as Atlas Iron, have contributed capital as an advance payment on charges.

Mrs D. E. Gollogly: BHP contributed \$70 million on which we had to pay tax of roughly \$21 million. We were given dividend relief by the state and the tax was given back to us as an equity injection, which is the \$21 million. The other funding was via borrowings from WA Treasury Corporation and prepaid charges by the proponents, which funding we will retire as they ship.

Mr I.J. Williams: How much were they?

Mrs D. E. Gollogly: Originally it was \$35 million and it will probably end up as \$45 million in prepaid charges.

Dr G.G. JACOBS: Over what time does the authority believe it can redeem that, if we like?

Mrs D. E. Gollogly: We expect to retire the prepaid charges within three years or less. Some of them are possibly going to retire this year just because of the volume of traffic going through the port. We have scheduled the loan to be repaid within 10 years. That was always our intention and we are on track to do that.

Mr T.R. BUSWELL: The balance sheet forecasts for the port show the loan size reduces by around \$20 million a year from a high of about \$200 million. That explains the port's component. There is state equity injection; port borrowings; gifting of money by BHP, effectively, which was related to some other arrangements around opening up some additional berths; and, on top of that, some prepayments.

Mr C.J. TALLENTIRE: How much does Hancock Prospecting and FMG pay per tonne of iron ore in port handling fees, or all fees?

Mr T.R. BUSWELL: The fee the member is looking for is the tonnage fee. I had that figure but I do not have it off the top of my head. My understanding is there is a standard tonnage fee to move ships in and out of the channel. It is the gross registered tonnage multiplied by —

Mrs D. E. Gollogly: On the basis of the GRT, it is around 20c a tonne. Hancock is not paying anything at the moment because it is not shipping.

Mr C.J. TALLENTIRE: Is that the rate it would expect to pay?

Mrs D. E. Gollogly: It applies to Hancock, BHP and others that have, historically, constructed their own berths and are charged only tonnage; on top of that a cape-size surcharge, which is around 7c a tonne, which is primarily to address the cost of dredging the channel, because only the larger ships require a deeper draught, and pilotage.

Mr T.R. BUSWELL: The channel fee or the tonnage fee and the cape-size surcharge bring it up to about 20c a tonne. That is a long-term thing. By way of comparison, in Dampier—this is not an exact figure—from my recollection, it is about 24c or 25c a tonne. Given companies ship hundreds of millions of tonnes, that helps to explain some of the points of difference. The other interesting point is that Dampier is paid more, effectively, for the channel. This is a legacy, it is not a criticism; it is just the way it is. In Dampier the maintenance of the channels is done, effectively, by Rio and Woodside. The maintenance of the Port Hedland channel is done by the Port Hedland Port Authority. There is a business scenario in which, for a range of legacy reasons, Port Hedland charges less than Dampier, the port up the road, but one of the biggest costs is to maintain the channel, which the port of Dampier does not incur. There are some anomalies in the way the ports operate. As I said, they are historic legacies that have occurred over years of operating in that way. That is one of the things we are attempting to look at.

The CHAIRMAN: I am sorry, Member for Gosnells; that concludes consideration of the Port Hedland Port Authority.

[10.00 am]