

**Southern Ports Authority —**

Mr T.J. Healy, Chair.

Mr D.A. Templeman, Minister for Local Government representing the Minister for Ports.

Ms C. Wallace, Executive Director, Freight, Ports, Aviation and Reform, Department of Transport.

Mr S. Lewis, Chief Executive Officer.

Mr B. Granville, Chief Finance Officer.

Mr C. Thurley, Chief of Staff, Minister for Ports.

Mr G. Hamley, Chief of Staff, Minister for Local Government.

[Witnesses introduced.]

**The CHAIR:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. 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 principal clerk by Friday, 31 May 2019. 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 through the online questions system.

The member for Scarborough.

**Mrs L.M. HARVEY:** I refer to page 273 of budget paper No 3. The line item "Government Support Package—Koolyanobbing Iron Ore" has an amount of \$15.4 million for 2018–19 and then amounts of \$27.6 million, \$30.1 million, \$17.9 million and \$9.8 million. I want to get some clarification from the minister on whether those figures represent the total support package. Also, can I get a breakdown of the values in each year for the subsidisation of the user charges versus the debt reimbursement, I think?

**Mr D.A. TEMPLEMAN:** I thank the member for Scarborough and I am happy to ask the chief finance officer, Mr Granville, to respond.

**Mr B. Granville:** The member can see the amounts of \$15.4 million, \$27.6 million, \$30.1 million, \$17.9 million and \$9.8 million; that is what she was referring to. That is, in fact, the total amount of subsidies being paid over the five-year term. The grand total amount of termination payment, which is effectively tied to the original Cliffs Natural Resources contract arrangement, was \$50.2 million. The balance of the amounts relate to rebates related to trade throughput. I do not have the precise amounts with me for each year, but I can get them.

**Mrs L.M. HARVEY:** If it is possible to have that information by way of supplementary information, I would appreciate it.

**Mr D.A. TEMPLEMAN:** The member is requesting supplementary information specifically on the breakdown of figures; is that correct?

**Mrs L.M. HARVEY:** That is right.

**Mr D.A. TEMPLEMAN:** I am happy to provide as supplementary information the breakdown of that total allocation.

[*Supplementary Information No B18.*]

**Dr M.D. NAHAN:** Was the assistance provided to the project through the port contingent upon iron ore prices to some extent?

**The CHAIR:** Member, is that the same item that was referred to before?

**Dr M.D. NAHAN:** Yes, the same item—same flow. The policy was to make assistance given through ports—for instance, in the north—contingent upon iron ore prices being below a certain level. They are sky high now. I think today they are probably \$130 a tonne. Was some contingency put on the assistance given?

**Mr D.A. TEMPLEMAN:** I am happy for Mr Granville to respond to the question from the Leader of the Opposition.

**Mr B. Granville:** This particular arrangement is not dependent on the iron ore price.

**Dr M.D. NAHAN:** No matter what the price is, basically there is assistance through the port —

**The CHAIR:** Minister.

**Extract from Hansard**

[ASSEMBLY ESTIMATES COMMITTEE B — Tuesday, 21 May 2019]

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Chair; Mrs Liza Harvey; Mr David Templeman; Dr Mike Nahan; Mr Shane Love

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**Mr D.A. TEMPLEMAN:** I do not think the Leader of the Opposition had quite finished.

**Dr M.D. NAHAN:** No, I had not finished.

**Mr D.A. TEMPLEMAN:** If he finishes, I will ask Mr Granville to respond.

**Dr M.D. NAHAN:** This assistance to, in this case, Mineral Resources Ltd, which now owns the Koolyanobbing facility, has nothing to do with Cliffs; it backed out. No matter what the volume or price of iron ore, the assistance flows.

**Mr B. Granville:** The arrangement that is in place is not dependent on the iron ore price, but it is dependent on the volume exported through the port.

**Dr M.D. NAHAN:** Could the chief finance officer explain the restrictions on volume?

**Mr D.A. TEMPLEMAN:** I am happy for the CFO to respond.

**Mr B. Granville:** The estimated volume was 30 million tonnes over a five-year term and the subsidy structure is on the basis of 30 million tonnes being exported.

**Dr M.D. NAHAN:** What happens if the port goes beyond 30 million tonnes?

**Mr D.A. TEMPLEMAN:** I am happy for Mr Granville to continue.

**Mr B. Granville:** My understanding, based on the arrangement that is in place at the moment, is that the subsidy is finite, effectively. For example, if MRL exports 40 million tonnes over the five-year term, the subsidy is applicable only to the first 30 million tonnes.

**Dr M.D. NAHAN:** Has it started exporting iron ore through the port under this arrangement? Has it started flowing?

**Mr B. Granville:** Yes.

**Dr M.D. NAHAN:** How much to date?

**Mr B. Granville:** Yes, correct; it has started exporting.

**Dr M.D. NAHAN:** How much iron ore has been exported to date?

[8.10 pm]

**Mr B. Granville:** Approximately 2.1 million tonnes to date.

**Dr M.D. NAHAN:** So it is ramping up in terms of export volumes?

**Mr B. Granville:** Yes.

**Mrs L.M. HARVEY:** When did Mineral Resources Ltd first commence with exports through the port, because I understand there was a gap between Cliffs Asia Pacific Iron Ore leaving and MRL taking over. What was the date of the first export?

**Mr D.A. TEMPLEMAN:** I will ask whether the chief financial officer can provide an answer.

**Mr B. Granville:** I am not sure about the exact date, but from memory the last Cliffs export was around 24 or 25 June and the first MRL export was mid-December—I think it was 11 or 12 December—so there was a period of around five months.

**Mrs L.M. HARVEY:** It is my understanding that part of the termination payment was a reimbursement for workers to maintain continuity of employment between Cliffs ceasing its operations and MRL commencing its operations. What is the value of the employment reimbursement that occurred during that gap?

**Mr D.A. TEMPLEMAN:** I am happy for Mr Granville to answer.

**Mr B. Granville:** Between the end of June and December, there was a period—we call that the zero trade compensation period—in which effectively staff and maintenance requirements were maintained, with zero income coming to the port. That is one component of the amount. There was also a termination component; I think it is called the government termination subsidy, or GTS. It is based on the arrangements as per the original Cliffs contract; in other words, the same timing and the same amounts are paid. There is also a rebate component based on tonnage throughput.

**Dr M.D. NAHAN:** I understand that Cliffs had a lien with the port. I have always assumed—perhaps the minister can confirm this—that that was due to the port having to invest in infrastructure to facilitate the export of iron ore through the port. To recoup that investment, it had a lien on Cliffs, in that if it walked away from exporting, it would have to reimburse the port. I have always assumed that that was tied to some investment the port made to facilitate iron ore export. Is that true?

**Mr B. Granville:** The termination payments in the Cliffs contract are effectively the lien that I think the member is referring to. That is what was agreed to as part of the arrangement—that the Southern Ports Authority would receive the same amounts and the same timing.

**Extract from Hansard**

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**Dr M.D. NAHAN:** So there was an agreement between Cliffs and the Southern Ports Authority that if Cliffs stopped exporting, there would be a termination payment?

**Mr B. Granville:** If Cliffs stopped exporting, there was a different provision in the contract for the maintenance of basic or underlying payments to Southern Ports, and only on the cessation of the contract would the termination payments be made.

**Dr M.D. NAHAN:** With Cliffs alone, how much was the termination agreement?

**Mr B. Granville:** That amount was around \$50 million; I think it was \$50.2 million.

**Dr M.D. NAHAN:** Under this arrangement to assist Mineral Resources, that was basically forgiven?

**Mr D.A. TEMPLEMAN:** Mr Granville can answer the question.

**Mr B. Granville:** Sorry, can I ask your question back? Are you saying that Min Res was —

**Dr M.D. NAHAN:** The termination payment to Cliffs after it left was not collected from Cliffs?

**Mr B. Granville:** It is my understanding that the termination payment from Cliffs was not collected from Cliffs.

**Dr M.D. NAHAN:** I know the policies were implemented elsewhere in government so I will not explore that. How many people were employed at the port during the no-export period? During the movement from Cliffs to Mineral Resources, there was about six months, as Mr Granville indicated, of non export. The port maintained maintenance and other workers associated with, I assume, iron ore. How many people were involved in that?

**Mr B. Granville:** I think approximately 70 staff, but that is at full employment.

**Dr M.D. NAHAN:** Are they all working for you now?

**Mr B. Granville:** No, they are not all working for us now.

**Dr M.D. NAHAN:** How many of those workers are working there now?

**Mr B. Granville:** I do not have an exact number. It would be approximately 35 or 40. I do not have the number with me.

**Dr M.D. NAHAN:** This is a very important issue. Southern Ports had an arrangement with Mineral Resources, including the maintenance, and part of that was payments, from the government I suppose, to maintain approximately 70 workers, maintenance and others, on the facility during the non-export period with the aim to keep them there so that when Koolyanobbing started exporting—when the mine was regenerated by Mineral Resources—they were there ready to work. There were about 70 staff, but it appears that people have been laid off. Has Southern Ports gone through redundancies?

**Mr B. Granville:** We went through two tranches of voluntary redundancies.

**Dr M.D. NAHAN:** Within a year, there was an arrangement to pay the port to maintain about 70 workers. When the new mine took over, there were two tranches of redundancies that reduced the workforce to approximately half. Why did Southern Ports not go through the redundancies before the transition from Cliffs to Mineral Resources?

**Mr B. Granville:** To answer the question that was asked before, on page 273, there are amounts of \$15.4 million, \$27.6 million and so on. Within the \$15.4 million, there are two amounts adding to \$9 million, and that was for the zero trade compensation period, the period in which staff are maintained and facilities are maintained and so. There was one voluntary redundancy—what would you call it?—mechanism within that period. My understanding at the time is that because it was a voluntary redundancy, it looked at how many staff would be required based on the future tonnage throughput of MRL; in other words, the second tranche was put through and some staff took it up.

**Dr M.D. NAHAN:** Just to clarify that, the Southern Ports Authority had a non-export period in which the government paid the port to maintain approximately 70 workers. When the mine started up again, Southern Ports went through a redundancy system that cut that number in half. I am puzzled about why it did not proceed with the redundancies, voluntary or otherwise, after the exit of Cliffs, rather than having the government pay to maintain those people for approximately six months when they were doing very little.

**Mr B. Granville:** I am unsure about the exact decision-making behind that. I was purely involved in the financial calculations at the time. There was a different CEO at the time.

**Mrs L.M. HARVEY:** Further to this issue, my understanding is that the arrangement at the time of the package that was put together was that Mineral Resources would be required to pay for any repairs, maintenance of the facility and those sorts of matters. Has there been much of a requirement for expenditure from MRL during the transition period to the Southern Ports Authority for maintenance of the asset?

[8.20 pm]

**Mr D.A. TEMPLEMAN:** I understand that Mr Granville will be able to respond.

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**Mr B. Granville:** The arrangement that is in place, as in a set rate per tonne, includes an estimated amount of maintenance required on a per tonne basis. Effectively, Mineral Resources Ltd is paying what we term minor maintenance; so ongoing minor maintenance.

**Mr R.S. LOVE:** Paragraph 1.3 on page 565 of the *Budget Statements* refers to an investment to upgrade a shed to provide a multi-user storage and export facility. Is this being updated because the authority actually has customers waiting, or is this an investment ahead of some perceived activity at the port?

**Mr D.A. TEMPLEMAN:** I am happy for the chief executive officer to respond.

**Mr S. Lewis:** Both are for us, yes. The shed is actually being utilised and the additional upgrade is to divide it into four so that we can bring other customers in. We currently have some spodumene in there, plus some gypsum. This is to divide it, to bring the walls up higher and to get some of the road system around it to work. It will be a great asset for us, because we are already talking to other customers about using it. Having that multi-user facility in Esperance is a good step forward. It is probably one of the upsides of some of the changes in the last year.

**Mrs L.M. HARVEY:** I wish to go back to the termination payment with Cleveland–Cliffs. I understand there was a ministerial direction given with respect to the termination payment and the subsidy et cetera. Was that ministerial direction requested by the Southern Ports Authority or was it the other way around? Obviously the \$50 million termination payment that the authority was going to lose out on may well have stimulated correspondence one way or the other. I am interested to know why the ministerial direction was given.

**The CHAIR:** Minister, do you want a page reference from the previous question or are you happy to proceed?

**Mr D.A. TEMPLEMAN:** I am happy to respond and then I will ask Ms Wallace if she wishes to add anything.

On 13 August 2018, cabinet endorsed the government support package, which included the port pricing relief and endorsed the Minister for Transport issuing a direction to the SPA due to the non-commercial nature of the transactions. The minister issued a direction to the Southern Ports Authority on 20 August 2018. On 21 August 2018, pursuant to section 17 of the Statutory Corporations (Liability of Directors) Act 1996, the Southern Ports Authority gave notice that it did not consider the direction to be in the interests of the port authority, so the minister confirmed the direction on 22 August 2018. I do not know whether Ms Wallace has anything more to add.

**Ms C. Wallace:** I think that appropriately covers it.

**Dr M.D. NAHAN:** When did Cliffs actually tell the port that it was going to cease exporting through the port and when did it actually stop exporting through the port?

**Mr D.A. TEMPLEMAN:** On 24 January 2018, Cleveland–Cliffs, owners of Cliffs Asia Pacific Iron Ore Pty Ltd, announced that it would close its Koolyanobbing mine operation in late 2018. On 19 March 2018, Cliffs verbally advised the Southern Ports Authority of its final export shipment in June 2018. Cliffs' final vessel sailed from Esperance port on 23 June 2018.

**Dr M.D. NAHAN:** What was the last shipping date?

**Mr D.A. TEMPLEMAN:** The final shipping date out of Esperance port was 23 June 2018.

**Mrs L.M. HARVEY:** Obviously the port is a statutory authority but it is ultimately responsible to government. I am curious to know why the \$50 million payment needed to be made from Treasury to the ports around the termination of this contract, given it was a contractual matter between Cliffs and the port.

**Mr D.A. TEMPLEMAN:** What is the member curious about?

**Mrs L.M. HARVEY:** I am interested to know why it was deemed appropriate for Treasury to pay a termination payment to the port authority when the arrangement with the port authority was with Cliffs. Cliffs had the contract with the termination clause. Was the port authority reliant on this income to remain solvent? Why was the \$50 million payment required?

**Mr D.A. TEMPLEMAN:** I am advised that effectively it was part of the government's overall support package that was endorsed by cabinet and subsequently a direction was issued, as I highlighted in an answer to an earlier question.

**Mrs L.M. HARVEY:** To be clear: cabinet made a decision to pay the termination payment that was owed by Cliffs to the Southern Ports Authority, and it was just a decision of government to do that?

**Mr D.A. TEMPLEMAN:** Cabinet endorsed the government's support package, which included the port pricing relief.

**Dr M.D. NAHAN:** For clarity: Cliffs owed a termination payment, and there was a subsidy. Did Treasury pay the Southern Ports Authority \$50 million in lieu of collecting it from Cliffs? Was the \$50 million paid by Treasury to the port authority to compensate it for the loss of the termination payment owed by Cliffs?

**Mr D.A. TEMPLEMAN:** So that I do not mislead Parliament, I am happy to provide an answer to that specific question as supplementary information.

**Dr M.D. NAHAN:** Can the minister provide, by way of supplementary information, whether the Southern Ports Authority was paid? What was the exact sum?

**The CHAIR:** I will just allocate a supplementary information number.

**Mr D.A. TEMPLEMAN:** I am happy to do that, yes. I was just clarifying what the Leader of the Opposition is after.

**Dr M.D. NAHAN:** Was the Southern Ports Authority compensated by Treasury for the loss of its termination payment from Cliffs Robe River, or Cliffs International; and, if so, how much was the compensation from Treasury to the Southern Ports Authority?

**The CHAIR:** Is the minister clear about the question?

**Mr D.A. TEMPLEMAN:** Yes.

*[Supplementary Information No B19.]*

**Dr M.D. NAHAN:** To clarify: the situation was that Cliffs actually had indicated a long time ago that it was struggling financially; iron ore prices were low and it was leaving Australia. It informed the public that it was exiting in January and informed the Southern Ports Authority in March. Its last shipment was in June, but the decision to compensate the Southern Ports Authority only took place two months later, in August. Given that Cliffs has left, why would the government give the port compensation for that termination clause?

[8.30 pm]

**Mr D.A. TEMPLEMAN:** As was highlighted, consideration was given to a range of issues as a part of the government support package. All those matters culminated in the package that was endorsed by cabinet on 3 August 2018.

**Dr M.D. NAHAN:** How was the termination payment of \$50 million to be paid? The firm that owed it had left. It had stopped exporting and walked away from the project. Mineral Resources had already agreed to buy Koolyanobbing. Why would the government need to give them a dispensation? I understand that there was a need for throughput and to maintain staff, but I am puzzled why the government would grant dispensation for the termination payment, if indeed that is the case, and why Treasury would then make up the difference.

**Mr D.A. TEMPLEMAN:** I am not in a position to give a detailed answer to that question so I suggest that the member put it on notice.

**Mrs L.M. HARVEY:** A while ago a report on the amalgamation of Bunbury, Albany and Esperance into one authority was done for the Southern Ports Authority. As far as I recall, the report said that it was still a working arrangement. Will the amalgamation of the ports continue or is it likely that those ports will de-amalgamate, if you like, and be managed separately?

**The CHAIR:** Was there a page or line item for that?

**Mrs L.M. HARVEY:** We were advised that we could ask anything about ports.

**The CHAIR:** I was just asking whether there was.

**Mr D.A. TEMPLEMAN:** I am happy for the executive director to respond.

**Ms C. Wallace:** The post-amalgamation review was completed in February last year. There was no recommendation for de-amalgamation and there are no plans to de-amalgamate at this time.

**The CHAIR:** If there are no further questions, that completes the examination on the Southern Ports Authority.