

**IRON ORE AGREEMENTS LEGISLATION AMENDMENT BILL (NO. 2) 2010**

*Second Reading*

Resumed from 18 November.

**MR M. MCGOWAN (Rockingham)** [4.32 pm]: I rise on behalf of the opposition to indicate that the opposition is supportive of this Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010 to change a range of state agreement acts relating to the iron ore industry in Western Australia. We will therefore be voting in support of this legislation when it goes through the second reading stage in this house of Parliament, I expect probably today.

We are therefore supportive of these laws. They put in place some changes to 11 state agreement acts that have been in existence in Western Australia for a long time now. One bill will change 11 state agreements dating back, as far as I can tell, to 1963. The bill will amend legislation that has been in place for almost 50 years in relation to a range of iron ore mines in the Pilbara owned by either BHP Billiton or Rio Tinto, or their predecessor organisations. These 11 state agreements were put in place over that period, stretching from 1963 through to 1991. They include some of the more famous agreements to do with, for instance, iron ore mines at Mt Newman and Mt Whaleback; Hope Downs in 1992; Robe River in 1964; and more recently Marillana Creek in 1991.

As we know, stretching back to the early 1960s this state's economy really started to go ahead when the iron ore industry was developed in Western Australia. Until that time, Western Australia had been largely agricultural. We did have, of course, some discoveries of gold. There might have been some other more minor mineral discoveries in Western Australia that provided some additional wealth for the state, but it was really the iron ore industry that became the backbone of the state's economy going back to the early 1960s.

When we look at the revenue the state has from its royalty stream, which is of course very important in paying for a range of services and capital works and so forth that the state provides for the public of Western Australia, we find that a large part of that activity is funded from royalties, and a large part of the royalties are generated by iron ore. When it comes to the generation of royalties, iron ore is the elephant in the room. It is the big generator of royalties. It generates by far the bulk of the royalties. It generates far more than the royalties from every other mineral added together—gold, nickel, copper, mineral sands, alumina and so forth. If we add together all the royalty income from all the other minerals, we would not even get close to the royalty income that iron ore provides to the state of Western Australia. That gives a broader indication of the relative importance of various minerals or ores to the state's economy. The fact that iron ore is the big producer of royalties indicates that iron ore is really the one that provides the vast bulk of the jobs and, accordingly, the vast bulk of the income and wealth of the state of Western Australia produced by our mining sector.

Of course our state's economy is much broader than that these days. We rely upon a range of industries here in Western Australia. I would like to think that some industries will survive in the long term, particularly our manufacturing and engineering sectors, which have suffered recently and continue to suffer in matters that I will detail to the house tomorrow evening and which the opposition detailed to the house recently.

The loss of local jobs from our manufacturing industry and the loss of content from our mining projects produced by local manufacturing is one of the most significant issues in the state, and I think it is hugely under-recognised by the state government in terms of doing something proactive to support that important manufacturing industry in Western Australia. Therefore, the direct mining and processing of some parts of our iron ore has been an incredibly important component of the state's economy going back 50 years now. If I were to judge them all and put them all against one another, I would have to say that it is the most important. On a scale of the income, wealth and actual jobs generated from any component of the state's economy, iron ore would be number one; obviously, oil and gas would be number two; then the other various minerals, probably alumina, gold, nickel and so forth, would roughly tie in third position; and then it would go down from there to minerals sands and the others. But in terms of other industries, whether it be manufacturing, tourism, agriculture, racing and all those other industries that the state relies upon, iron ore is easily the biggest in Western Australia.

Iron ore is therefore an important part of the state's economy. It stretches back to the early 1960s. I heard a debate in this place once before on why the iron ore industry did not really develop before that. I do not think that the people of Australia and governments going back to the 1960s, 1950s and 1940s—post the Second World War—actually realised the strength, diversity and scale of the iron ore reserves in Australia. I think they wanted to preserve those that we had for our own use, considering that we once had a bigger steel industry than we do today, based out of Wollongong, Newcastle and a smaller one in Whyalla in South Australia. I think there is some iron ore processing in Kwinana and I think even in Wundowie. I think governments wanted back then to

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

preserve some of the resource for their own use, so that the idea of exporting iron ore to other countries was actually prohibited by law up until the late 1950s. When that prohibition was lifted, upon the realisation that we had very substantial reserves of iron ore in this country, it meant an industry could start to be developed. Until then, of course, Western Australia was kept fairly poor because of that export restriction. Once that export restriction was lifted in the late 1950s or early 1960s, we saw the creation of the iron ore industry that had hitherto been fairly dormant.

**Mr C.J. Barnett:** The then Department of Mines recognised the scale of the iron ore in the Pilbara in the 1890s, but for some reason, Canberra would not accept it until, as you said, the debate grew up in the late 1950s. They just ignored it; they just did not acknowledge the fact. It was known as a vast iron ore province.

**Mr M. McGOWAN:** That is a good point. I was not aware of that, but the Premier did a year of geology, so he is ahead of me on these things. I suspect that the Cold War and probably the continued nervousness about Japan and probably China, subsequent to 1945 —

**Mr C.J. Barnett:** “Pig Iron Bob” was part of that ethos.

**Mr M. McGOWAN:** Yes, it probably did affect Bob Menzies, to be honest, because all the Labor members could say that he had sold iron ore to Japan, which then came back to us in Darwin, Exmouth and Wyndham, and various other places, in another form. It naturally probably did affect his view of policy. Of course, those were the days when Australia rode on the sheep’s back. The idea that mining might surpass agriculture and the wool industry was probably beyond the thoughts of most people, particularly those in the southern triangle. Bob Menzies was a Melbourne boy who served in the Victorian Parliament and in the national Parliament in Canberra. It was probably outside his experience and knowledge. Of course, he had been severely politically damaged by the whole “Pig Iron Bob” issue that arose on 7 December 1941 and subsequently. In any event, the history of the matter therefore indicates that there was some reluctance. Western Australia was kept fairly poor. The iron ore industry became our economic saviour, as it were, in the early 1960s. It has grown enormously ever since then. It is the backbone of much of our state’s economy.

When agreement acts started, one of the first was in 1964 for the Mt Newman deposit, which would have been around the time of the establishment of the town and the commencement of operations at Mt Whaleback. I went to Mt Whaleback in early 1997. I have visited three or four times, I suppose, but I went there again a few months ago. What was once a mountain is no longer thus.

**Mr C.J. Barnett:** It is a crater.

**Mr M. McGOWAN:** Yes, it is quite interesting. In 1997 Mt Newman was a mountain. It could be seen from Newman as a mountain with trucks driving around it and so forth. Now it is just a hole, which shows the rundown of the resource. The point I was trying to make is that back in 1964 there was the commencement of the mining of Mt Newman, which I understand is one of the most high-grade Fe iron ore resources in the world. It is a haematite reserve, which is suitable for direct shipping and is the prince of iron ores. It provided a great deal of wealth. The iron ore industry has now diversified. Those easy to access, high-quality ore grades are no longer as prevalent as they were, even though they are still there. By world standards I think we have a fair bit of haematite reserve left —

**Mr C.J. Barnett:** I think that is only true in respect of haematite. I think the other reserves are just as easy to access; I do not think there is a real problem.

**Mr M. McGOWAN:** That is right, but they are more expensive to process.

**Mr C.J. Barnett:** Haematite is limited.

**Mr M. McGOWAN:** Yes; as I said, haematite is the prince of iron ores. That is the one that provides enormous profitability for the iron ore industry, because it requires far less processing and the cost of transport, shipping and so forth in comparison with the value of the ore is so much less. Therefore, if it has reserves of haematite, a company is very lucky. Some of the early state agreements related to those sorts of deposits. Mining operations these days generally have fewer state agreement acts, although we did pass one recently to do with Roy Hill, and I think we passed one last year, or maybe the year before, to do with CITIC Pacific. Those state agreement acts are to do with magnetite ore, which I understand is very prevalent. When people drive in the country they are sometimes driving on magnetite ore.

**Mr C.J. Barnett:** Roy Hill is not magnetite; CITIC Pacific is.

**Mr M. McGOWAN:** That is right. Sorry; my mistake. Roy Hill is a massive reserve, I cannot remember quite how many tonnes, and is a high quality reserve discovered by Lang Hancock, as I recall. In any event, we are

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

progressively exploiting the reserves around Western Australia. Of course, the more profitable ones are being exploited sooner, as one would expect, but a range of state agreement acts are still in place.

I turn to some of the ways in which state agreement acts were originally drafted and why they were drafted. They were originally drafted because people wanted to purchase ore, particularly in Japan, where the iron and steel industry was really getting going in the early 1960s, having overcome the depredations of the Second World War, in which basically all the industry in Japan was destroyed. Basically all industry in Japan had gone, as had large amounts of suburbia in Japanese cities. Once the Japanese got themselves back on their feet, with American aid and the natural resourcefulness and ingenuity of the Japanese, by the 1960s there was a big demand for iron ore, particularly from Western Australia. Accordingly, Sir Charles Court and David Brand, who were in office at that time, were the beneficiaries, as it were, of the fact that that demand eventuated. They were able to start, at a political level, the iron ore industry in Western Australia.

We started these arrangements with Japan, whereby exports took place. Some of the towns and communities, some of the water and electricity systems, and some of the ports were constructed by the companies, which took a long-term view and put infrastructure in place to varying degrees. I think, from memory, Wickham might have been a company town fully constructed by a company and I think Paraburdoo was one of them. I think Newman might have been originally, although I am not sure it is any more.

**Mr C.J. Barnett:** Yes, it was originally.

**Mr M. McGOWAN:** A few of those were company towns; hence the phrase “company towns” because a company built and owned the town, as well as some of the water and electricity assets, and some of the rail assets. It was not uniform. BHP did it on some occasions and Rio Tinto, or its predecessor organisations, did it on other occasions. It was not an exact science; various places did it in different ways.

I understand that these days state agreement acts are frowned upon in some ways by some Treasury people who examine these issues, and even some people in the relevant departments of state development and mining. People wanted state agreement acts because they felt they gave the purchasers of the ore certainty. If they went into an arrangement with one of the developing companies, they liked the way in which state agreement acts to some degree averted some of the sovereign risk issues they might have been concerned about. That has always been one of the reasons state agreement acts have been popular with some overseas investors. They think they provide them with a great deal of certainty, because in order to change one, it needs to be taken through both houses of this place and be subject to full and frank debate. All the issues surrounding it can be exposed. With the free and independent press that we have in this country, if there are any difficulties or things going on that perhaps should not be going on, those sorts of things will be exposed. As I understand it, that was the reasoning early on for the state agreement acts. But the Premier might be able to provide me with some greater clarity.

**Mr C.J. Barnett:** I think you are right. The other thing they did was allow for all the infrastructure such as ports or railways to be built when there was not a fabric of law in place to do it any other way; there was no legislative structure for private companies to do that. The only way was to have a special piece of legislation to allow it. That was the initial reason—I agree. They are still seen as prestigious by overseas investors and buyers.

**Mr M. McGOWAN:** They have ups and downs, as the Premier knows. I think most countries now see us as a mature economy where they do not necessarily need the protective mechanism of a state agreement act that they might have once needed. As we know, state agreement acts have their downsides from the point of view of an overseas investor or one of the companies here. At the time they were drafted, these state agreement acts were quite prescriptive. They said, “You will mine this deposit here, and the Robe River or the Hamersley Range agreement will set out what the deposit is, the route of the railway, the port from which it will be exported and how electricity and water might be provided, and if you want to go outside those things, you can’t because the legislation dictates what you can and can’t do. Therefore, if you want to do something different, you might need to change the legislation.” Therefore, 11 of these state agreement acts were drafted and were all quite restrictive in how companies might do things. If one of the major companies wanted to change its agreement, it needed Parliament to pass an act. The upside to state agreement acts was that they provided the mechanism by which the companies could establish a port or something like that. They provided certainty for overseas investors who were sensitive to sovereign risk issues. The downside is that if they want to do anything different, be flexible or go outside what was originally agreed, they need another act passed through Parliament. Hence we have this bill in here today. In this one bill we are changing 11 state agreement acts stretching back over 50 years.

The other part of the puzzle goes back to the different types of ore and iron ore fines, which is a different sort of material from lump ore. Lump ore, of course, was historically more valuable. Iron ore fines were less valuable; a different rate of royalty was applied to them. That meant that they had much lower royalties of 3.25 or 3.35 per

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

cent or thereabouts, as opposed to the other royalties, which we debated here some months ago, of between 7.5 and 5.5 per cent.

**Mr C.J. Barnett:** It's 7.5 per cent for lump ore and 5.625 per cent under the Mining Act. Under these agreements, fines ore was reduced to 3.75 per cent. There is still a differential in the Mining Act.

**Mr M. McGOWAN:** It depends on whether it has been beneficiated ore or lump ore. I am forgetting what it was some months ago.

**Mr C.J. Barnett:** There is still a difference in the royalty rate for lump versus fines. These companies had a further concession on fines. There are two concessions, if you like.

**Mr M. McGOWAN:** Sorry. Yes. The fines were given a lower concession than they might have otherwise enjoyed basically because when they first started mining, fines were of very little value. To get them processed, the government applied a lower rate of royalty. Of course, that has all changed with technology, development and the value of these things. Fines are not of less value than other forms of ore; therefore, why did BHP Billiton and Rio Tinto, as opposed to other companies that mine fines ore, have a concession on that form of iron ore? That was therefore removed a few months ago and the state will be the beneficiary of \$300 million or thereabouts of additional royalty revenue from that arrangement for which the Parliament passed legislation in this place some months ago. I am very pleased that that was secured; it will be of benefit to the state. Although, as we know, given the Commonwealth Grants Commission process, over time a lot of that benefit will be redistributed to other parts of Australia. That is the early part of the puzzle.

This Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010 is the second part of that puzzle. We passed the first bill; we asked the Premier what the state will give to the companies, Rio and BHP, in return for their giving up their concession on fines ore. At that point, the Premier was unable to provide us with great detail. He said, "Oh, well; there'll be some changes to railway arrangements and so forth." What we are dealing with here today is the second part of that puzzle. This is the conclusion of that part of the deal.

In overall terms, this means that the state is receiving a benefit from an increase in royalties. The companies will receive a benefit through the removal of some of the restrictions that were put in place early on. When these bills were drafted in 1963, I do not think the scale or the style of commercial operations and so forth would have been expected that exists now. I do not think it was deliberate, although I cannot read the mind of the drafters back then. I suspect that many of them are not still alive. They were given legislation to draft, and they drafted it. I do not think they would have been particularly trying to hinder the operations of BHP and Rio, but hinder them they have done.

What will this legislation do? It will allow for the parties to the agreement—let us simplify that down to Rio and BHP—to use each other's facilities. Those particular miners will have the right, subject to a right of refusal from the Minister for State Development in certain circumstances, to use the infrastructure and facilities of another party. As I understand it, if Rio wants to use BHP's rail, it will have that right.

**Mr C.J. Barnett:** That is correct, but this also will allow, for example, BHP to integrate infrastructure within the BHP agreements. It is integration that is currently prevented within the company and potentially between the companies. There are two components there.

**Mr M. McGOWAN:** I think the term the companies used was "within the family". They see themselves as a family. Within the family they might have a range of operations under the state agreement acts that are restricted in using each other's water, power, rail and even roads. This will allow individual companies to use each other's infrastructure and facilities. Anyone who has had a vague look at the geography in the Pilbara will know that BHP's operations are generally more to the north and Rio's more to the south. BHP's mine sites and deposits are generally within close proximity of each other and likewise Rio's mine sites, as are their individual railways. Therefore, as the Premier outlined, probably the bigger benefit is that they can use their existing infrastructure more economically and more efficiently than they currently do. But, if they want to use each other's infrastructure, this legislation will allow them to do that, subject to some restrictions—that is, the right of refusal by the Minister for State Development in some circumstances. A ministerial right of refusal has been kept in the agreement in relation to some matters. I think it is restricted. Certain proposals need to go before the minister and he or she has the right of refusal. Apparently, there are all sorts of restrictions in the state agreement acts on electricity, transport, water and those sorts of things. Rail is the one we would think of first, but there are other —

**Mr C.J. Barnett:** If you think of it in terms of Rio, remembering they bought out Robe River iron ore, so they have very limited ability to integrate their Rio assets with their now acquired Robe River assets, it is pretty important to them.

**Extract from *Hansard***

[ASSEMBLY — Tuesday, 23 November 2010]

p9334c-9365a

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

**Mr M. McGOWAN:** It is silly that Rio cannot do that. It is historic and a bit silly. It is well overdue. Rio's joint venture proposal was originally more of a leverage for securing the higher royalty rate, which fell through. As the Premier once said in this place, something fell from the sky and landed on him and he managed to get the increased royalty, and it bounced back into the sky again, consequent to the increase in the royalty. The fact is that companies are now able to use their resource more efficiently, and they needed that, provided the government had the leverage to put in place the increased royalty, which was a worthwhile thing to do.

**Mr C.J. Barnett:** I think you just admitted that, in addition to the increased royalty, there is a one-off payment of \$350 million.

**Mr M. McGOWAN:** It is true that there is a one-off payment of \$350 million. That is the history of the whole matter.

I turn to some of the issues. When the original joint venture proposal between Rio and BHP came out, it was an issue of some public moment. They said that they would try to completely integrate their operations and it might save them \$10 billion. I am not sure whether that was \$10 billion a year or \$10 billion overall. They had to get regulatory approvals around the place. Obviously, the first regulatory approval would be that of the state. Some of the markets they sell into—for instance, the European Union—would need to provide some regulatory approvals for whether they would allow the removal of competition between the two players, in terms of their purchasing practices, as part of whether the whole thing proceeded. It became plain—I suppose we would have to predict this—that Rio and BHP were not going to get that regulatory approval from the Europeans. Therefore, it became more apparent as time went on that this plan might not happen at the end of the day.

The Premier got very agitated about the joint venture proposal at the time, as he will recall. I do not think he would deny that. He got very angry. I have never seen him that angry, except for today and yesterday and last week and the week before that, and probably next week. He was saying that Rio and BHP would have to come before the state and we would make a decision on these matters. They are statements of fact. If I was in the Premier's position, I probably would have said the same thing, perhaps with less aggravation. He was certainly very agitated about the matters in question. At that point he spoke about a list of issues that would need to be resolved were this joint venture proposal to proceed. One of the issues the Premier spoke about was the royalty revenue, which, to everyone's benefit and to the government's credit, was resolved. He said that he would want to resolve some of the longstanding issues in the Pilbara. Off the top of my head, the two most significant longstanding issues, apart from the fixing of the royalties, were third party access to the rail and port infrastructure of the existing players and the rates concessions contained within some of the state agreement acts that currently exist. I did not bother finding the newspaper articles at the time. They were there. The Premier indicated at that time that they would be the sorts of issues that he would be seeking to resolve.

**Mr C.J. Barnett:** There were four. Stamp duty was the other one.

**Mr M. McGOWAN:** That is right. That is a bit separate because the Premier indicated that, no matter what, those companies would be paying stamp duty. I took some objection to that on the grounds of sovereign risk. I think he moved a little on that, not necessarily at my behest, and said, if liable, they would pay stamp duty, but then he secured the payment in lieu in any event and the transaction did not proceed. The way the whole matter transpired was slightly comical. The other two issues were third party access and rates concessions.

If we go to one of the communities in the north west and meet one of the local shires within which these mining projects are located, one of the first issues they raise is rates. I think the way that the rates concession generally works is that plant and equipment are rate exempt under this agreement. It may not be the case any more with some agreements but, historically, mining companies made rate-equivalent payments to the state but the local shire missed out on some of the rate revenue. As we know, the cost of providing shire services in Townsville and the north west is very expensive. The councils up there have had a longstanding grievance about this. The rate concession does not exist in the north west; it exists in other parts of the state. I think there may be some industries in Kwinana that are rate exempt. Worsley Alumina might be rate exempt. In the Goldfields —

**Mr C.J. Barnett:** Nickel.

**Mr M. McGOWAN:** The member for Kalgoorlie is shaking his head and the Premier is saying yes about nickel. Some nickel projects might have state agreement acts.

**Mr C.J. Barnett:** Older ones.

**Mr M. McGOWAN:** Some of the older ones have a rate concession. Therefore, rate concessions are a statewide issue. The north west—the Pilbara in particular—seems to have acquired a very significant place in the minds of local government. Obviously, if the miners are paying the appropriate rates, the ratepayers may not have to pay

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

as much for rates, or, alternatively, a higher level of service would be provided by the local councils to people who live in that part of the world.

An opportunity could have been grabbed with these 11 state agreement acts that are being changed. It was an issue that could have been repaired in the Pilbara. I understand that discussions will continue. Discussions have gone on for a long time. As I recall, when the Gallop government was elected in 2001, the undertaking from that point forward was that the rate concession would not be in any future state agreement acts; and, if any state agreement acts were renegotiated, the rate concession would be removed as part of the renegotiation. That has not happened here. Local governments in the north west will now no longer have that matter fixed. I think the Premier will put the argument that we cannot fix it just for that part of the world; what about Worsley, Kwinana, the nickel projects and so forth—the older ones? We can argue that those projects are in a different playing field but, seriously, the whole of the industry across the state is in a different playing field. Some of the projects have state agreement acts in which there are rate exemptions. Some have state agreement acts in which there are no rate concessions. Some projects operate under the Mining Act, which allows for no rate concession. There is already a hotchpotch of arrangements in local government rates across the state. The government had the opportunity to fix this arrangement. When BHP and Rio made their announcement 18 months or so ago, the Premier said that he would fix this. However, he has not fixed it. This bill is the leverage and the opportunity that the Premier had to undertake that repair work and fix those local government rates.

The other point I want to make is about third party access. We all know about the problem of junior miners and their stranded resources, because it is commented on in the business pages of our newspapers every day by people such as Peter Klinger. For the information of members, a stranded resource is an opportunity lost. A stranded resource is a resource that cannot be exploited, because it is too expensive to build the infrastructure required to get that resource to the port and onto a ship relative to the value of the resource. Many of the junior miners have stranded resources that they cannot exploit because the cost is too great. However, often near to their mine site is a rail line which has been funded and built by one of the majors, such as BHP or Rio, and which the company owns, so we can understand their point of view about the use of that rail line. The argument that has been put, and I think it makes some sense, is that for these junior miners to exploit these smaller resources, they need to be given some access to these rail lines. Of course, some of these rail lanes are already heavily used by rolling stock and so forth, so they are not always available for access by third parties companies. However, some of these rail lines are not so heavily used and would be available. When the Leader of the Opposition was Minister for State Development, he tried to put in place a haulage regime that would have enabled the owners of stranded resources to gain some access, but not ownership, of course, to the rail assets of some of the major companies.

Last week, on Thursday, 18 November, the Premier made some comments to the Parliament about Atlas Iron Ltd and Rio Tinto —

**Mr C.J. Barnett:** Atlas and BHP, on the Goldsworthy line.

**Mr M. McGOWAN:** Sorry; Atlas Iron and BHP on the Goldsworthy line. He said —

I was pleased today that a memorandum of understanding—a broad understanding of principle—has been reached between BHP Billiton and Atlas Iron.

He went on to say —

... a study will be funded by BHP into the haulage of Atlas Iron's iron ore along the Goldsworthy line, where there is still clearly spare capacity.

I think the Goldsworthy line has spare capacity up to about 12 kilometres from the port, and at that point other lines join that line, so access would become very difficult. The Premier went on to say that the study will look at unloading facilities from that junction point, and also at the provision of a covered conveyor from the hub point to the Utah Point shipping facility. Therefore, Atlas Iron might, by this technique, gain access to BHP's rail. I hope it does. No doubt for Atlas Iron and David Flanagan that would be a good thing.

The Premier went on to say —

If that is proved to be feasible—I am very optimistic about it— that will open the door for rail access for junior miners and a shared infrastructure.

Well, it will open the door for Atlas Iron if that is proved to be feasible. That is true. The Premier concluded his comments by saying —

But for the first time in 50 years, the infrastructure of the Pilbara has been opened up to the juniors. We are trying to achieve, I guess ... in the Pilbara what will be in place from day one in the Mid West.

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

The Mid West will have this arrangement in place from day one when Oakajee is constructed and operating.

I note the Premier's huge optimism and happiness about this. But this is just a feasibility study. This does not mean that it is going to happen. I have spoken to companies about these sorts of things as well. They are happy when feasibility studies are done. However, as anyone who has been in government will know, feasibility studies are one thing, but actually doing something is another. I remain to be convinced. I will wait to see whether a haulage regime will be put in place that will give the junior miners access to the main rail lines of BHP and Rio.

**Mr C.J. Barnett:** The issue is not the access. The issue is whether there will be enough volume from the juniors to justify the building of the conveyor belt.

**Mr M. McGOWAN:** Yes. That is a good point. But it has also been the case that they have not been able to secure access, as I understand it, over a long period.

**Mr C.J. Barnett:** This is an early step, and a modest step. But the haulage agreement, in principle, between BHP and Atlas is a result of the negotiations with BHP on this bill that we now dealing with. It came out of that.

**Mr M. McGOWAN:** Yes, and the Premier said that his staff were involved. But it is a small step, Premier.

**Mr C.J. Barnett:** It is a company maker for Atlas, though.

**Mr M. McGOWAN:** But it is a small step. It is a feasibility study. We will wait and see. I do not know when it is supposed to be resolved, whether it is six months or one year.

**Mr C.J. Barnett:** It is about five to six months.

**Mr M. McGOWAN:** It is a feasibility study. So we will wait and see.

When we consider what the Premier said 18 months ago about how the issue of third party access would be resolved, I think the Premier needs to explain to us, when he responds, why this issue has not been not resolved as part of these negotiations. The Premier indicated that local government rates would be non-negotiable. He indicated that access for the small miners would be non-negotiable. A feasibility study is not the resolution of the issue. It is not. Also, it is a feasibility study for only one junior minor. There are a lot of junior miners in the Pilbara who have rights over some resources. Atlas is actually one of the more prominent and, I think, larger ones. There are a lot of smaller miners in the Pilbara who do not have a feasibility study underway for them and do not have the opportunity that David Flanagan and his company, Atlas, will be getting.

This bill will enable BHP and Rio to buy the resources of junior miners at the mine gate and stockpile them and get them to the market. As I understand it, it will not enable the junior miners to use BHP and Rio's electricity and water, or some of the other resources and facilities of the large miners. I do not know who will be paying the royalty on that ore. I suspect it will be either BHP or Rio at the time that the resource gets to the port. I will be interested in the Premier's response to that question. I will also be interested in the Premier's response to the issue of the access arrangements. I say that because, despite the Premier's optimism and what he had to say about Atlas, I do not think this is the solution that the junior miners have been looking for. I know that the Premier is very proud of his royalty arrangements and so forth. However, we will see whether that matter is resolved, or whether a historic opportunity has been missed here that could have been grabbed for these junior miners. It is not every day that these types of opportunities come along. The joint venture and the requirement to rewrite these 11 bills is a historic, perhaps once in a lifetime, opportunity for all these issues to be resolved. If these issues are not resolved in this legislation, perhaps they will not be resolved for another lifetime and it will be somebody else's responsibility to resolve them. In the alternative, maybe the Premier can elucidate and outline to us his plan to resolve those particular issues so that we will know what it is.

**Mr C.J. Barnett:** It's complicated. I think this government has done a pretty good job in getting juniors, particularly in Port Hedland, access to berth space and to share berths.

**Mr M. McGOWAN:** But what about getting their ore to the berth?

**Mr C.J. Barnett:** The rails into the port are at capacity.

**Mr M. McGOWAN:** So if there is a berth space and the rail is at capacity —

**Mr C.J. Barnett:** Some of them may truck ore in. But the show stopper, until a year ago, was berth space. That is not resolved to everyone's 100 per cent satisfaction, but those juniors now have reasonable berth space to get out significant combined tonnages.

**Mr M. McGOWAN:** In any event, I will be interested in the answers to those questions. I suspect that the member for Pilbara will have a few things to say about those matters as well. Broadly speaking, the opposition

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

will be voting for this legislation, bearing in mind that we will potentially go into consideration in detail depending on the Premier's answers to some of our questions.

**Mr C.J. Barnett:** The bill is 1 000 pages long.

**Mr M. McGOWAN:** That is right. It could be a fun Christmas! I am sure that the Premier is across those thousand pages.

**Mr C.J. Barnett:** In detail.

**Mr M. McGOWAN:** So am I. We will be able to go over those clauses.

**Mr T.G. Stephens:** We'll all have time.

**Mr M. McGOWAN:** We will all have time. That is the thing about being in opposition; we have plenty of time to do these things. Depending on the Premier's answers, we may use that time and that research capacity to go over the bill in some depth.

**Mr C.J. Barnett:** Before you sit down, are you going to indicate whether the opposition supports the bill?

**Mr M. McGOWAN:** I have said it four times.

**Mr T.G. Stephens:** In broad terms!

**Mr M. McGOWAN:** I did not say it in broad terms. The first thing I said when I stood up was that we support the bill. Just a moment before the Premier asked me that question, I said that we support it. I think I said a couple of times in the middle of my speech that we support it. I am pleased that the Premier was listening to what I had to say! In any event, we are supportive of the bill, but, depending on what the Premier has to say, we might have a few questions as we go along.

**MR J.J.M. BOWLER (Kalgoorlie)** [5.21 pm]: I was initially going to rise and speak just about the fact that local government rates have not been addressed in the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010, which I will support. Upon reflection, and after listening to the comments of the member for Rockingham when he alluded to the windfall profits that Western Australia is making, I asked the staff to provide for me the latest royalty figures. I say that because I doubted the member's claim that iron ore royalties outweighed all other royalties. The staff got the wrong information for me, but, in hindsight, I think it is probably very good information. The staff got me the summary of general government revenue and expense variations since the 2009–10 budget. It shows that the variation in the budget for that year was \$253 million less than had been budgeted for. In those few short months following the budget, the reality was that Western Australia was \$253 million short—and this is less than 18 months ago. That just goes to show the volatile nature of world industry, particularly iron ore, and what can happen. We are all thinking now that it is like the goose that lays the golden egg; it can never be stopped. I hope it cannot be stopped, but it will be.

The member for Pilbara saw the Pilbara struggle in the 1980s and 1990s. That struggle is reflected in the communities, in the level of funding that the shires had, and in the level of money spent on those towns and their infrastructure. Although I am very bullish about the short to medium-term future for the Pilbara, I worry about it. That is why I think this bill is essential. It will give the companies in that area greater flexibility to become even more efficient. They are very efficient. There are two of the lowest cost producers in the world when their transport costs are taken into consideration.

The member for Rockingham talked about stranded resources. He explained it very well when he said that it was an opportunity lost. I, like a lot of Western Australians, and, I suspect, even the Premier, was disappointed when the announcement was made on 18 October that the joint production venture was not going ahead. I know that those two companies have a number of stranded resources that are near each other's infrastructure. It would have been commonsense for Western Australia for them to have had that sharing, but, for reasons beyond that, they are not going to do it. It does not matter. This legislation will give them greater flexibility, and they may do that down the track.

I say that I am worried because this variation shows that the state had \$253 million less revenue in the 2009–10 budget than it had anticipated just months earlier. If people think that this undersupply of iron ore will continue indefinitely, they probably need to do basic economics.

**Mr M. McGowan:** Undersupply?

**Mr J.J.M. BOWLER:** We have an undersupply of iron ore. That is why everyone is trying to go into production, and why the Chinese, Japanese and Koreans are paying record amounts for it. When the Brazilians, Africans and Western Australians reach an equilibrium, that will change. That is why the government and this Parliament need to ensure that the legislation is in place to allow our industry to be the most efficient and best in

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

the world. I do not want to be a doomsayer. I think that the immediate short term and even the next two or three years look very bright, but the balance will come. The member for Pilbara has seen what happens when the balance comes. One of the annoying things that I faced was the clamour coming out of Europe in particular, and, to a lesser degree, Asia, that this joint production venture by Rio Tinto Ltd and BHP Billiton would have created a cartel that would dominate world supply. However, when we look back at what happened in the 1970s, 1980s and 1990s, we see that the Japanese did exactly that. The five main Japanese steel mills did not have five independent buyers; they had one buyer. Every time Rio, BHP and the other smaller companies in the Pilbara at that time contemplated having a central seller, there was all hell to pay. When we looked like having a joint production venture, not a joint selling venture, the rest of the world complained and protested to the point at which, I believe, Rio was forced to change its mind. I think that is disappointing. I believe that whoever is on rail and whoever has the cheapest production methods will continue to prosper. Those companies in the world that have to truck long distances to railheads and that have inefficient ports and production methods will not survive in the long term. History has shown that to be the case. It is not just the case for iron ore. Generally, any study of all the world's metals in the past 30 or 40 years will show that as production capability and technology improve, the price of minerals in real terms gradually comes down. There is almost a feeling in Western Australia that this is going to go on forever. It will not. That is why we as a Parliament need to make sure that we give not just these two companies but all companies every possibility of being the best they can be.

To return to the issue that I was originally going to talk about, which is local government rates, the Shires of East Pilbara, Roebourne and Ashburton and the Town of Port Hedland deserve better. This legislation should include the provision for local government rates. I have spoken to the Premier about it. I am very confident that within the next year or so that will be on the table. I would like it to have been on the table today. The fact that it is not is damning on BHP and Rio. The silly thing is, guess where those rates would be spent if they are paid? They would be spent on the towns where their workers are based. It is not as though they would be spent on Perth, Mt Barker or Margaret River; whatever they pay to those four municipalities will go into their towns to improve their quality of life and to make them better. I was the Minister for Resources—originally the Minister for Lands and Local Government—who initiated the study by the Valuer-General to disprove some theories floating around at the time, about six years ago, that the seven state agreement companies could be up for exorbitant sums. That study was eventually completed, and I understand the results showed that they would not be up for exorbitant sums, that they should pay the rates and that they should even willingly knock on the Premier's door and say, "Here it is; we want to do it. This will benefit our towns." It is unconscionable that they are not doing that, and when they say that they have put extra money in, it only goes to benefit their towns, their workers and, therefore, their production.

I commend the Premier for this bill. As I say, I think we should be doing everything as a state and as a government to make sure that our iron ore industry is the best and in the lowest quartile of production costs in the world, because these golden days will not last forever, and when they end, we will be at our least effective.

**MR T.G. STEPHENS (Pilbara)** [5.30 pm]: The variations to these state agreements provide the opportunity for me to raise some issues under various headings. I want to talk about the general government monitoring of state agreements and an issue that has recently come to resolution—that is, the failure of one of the companies covered by state agreements to pay the agreed royalty rate as approved by Parliament, leaving the necessity for a \$55 million back payment for part of the period in which it is obligated to pay. I also want to talk about local government rate exemptions, the water issues of the Pilbara, the power issues of the Pilbara, the downstream processing issues the state still faces, issues of independent access to rail and port infrastructure, stranded ore bodies, the needs of the junior miners, the needs of the towns, the need for housing in communities, the need for enhanced living opportunities, and the need for training and employment. All of that can be spoken to within the framework of this debate on these variations to the state agreements.

This in the context of saying, as the member for Pilbara, that there is clearly an opportunity to congratulate the government for what is included in these state agreement variations. They create an opportunity for an increase in the royalty payments that are being paid and the standardisation of the royalty arrangements. As has been spelt out in the second reading speech and the explanatory memorandum that accompanies the bill, it creates opportunities for the giant companies—Rio Tinto and BHP Billiton, which are the inheritors of the agreements and statutes that were made over the years between this Parliament and their predecessor organisations—to have greater flexibility within their own operations, and, as they describe it, the “family interests” they have. In the case of Rio Tinto, they include various entities such as Robe River and other joint venture operations. In the case of BHP Billiton, it includes entities such as the Goldsworthy operation and its own internal operations of varying complexity. As I understand these variations to the agreements, they will be given the opportunity to strike arrangements with each other that will, presumably, make sense in situations in which two ends of the same ore body are being operated by two different major companies, without sensible arrangements in place for the

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

governance of access to water to meet the needs of those operations. We learned about an operator on one part of the ore body having excess water and being unable to make it available to the other operator at the other end of the operation because of the constraints of their current agreements. These variations create the opportunity for more sensible arrangements in that regard. I am given to understand from the briefing that was provided by the companies that they welcome these variations because one of their underpinnings is that they will create the opportunity for them to enter into agreements with external companies for access to infrastructure, as long as the state agrees and it is considered to be in the state's interests. We can see that there may well be opportunities for that.

I have never actually picked up a book that spells out the iron ore history of Western Australia, but I am regularly reminded that there is a need for such a book when I listen to debates in this place, because a lot of misinformation ends up on the record about the history of iron ore mining activities in Western Australia. I am conscious that iron ore was well and truly on the map in Western Australia at Yampi Sound in the 1880s; it was known to be there, but it was not until 1907 that leases were taken up on Cockatoo Island and Koolan Island. Small-scale mining began there way back then. No doubt there are members who would be able to pinpoint other iron ore operations in other parts of the state. I am conscious of operations at Koolyanobbing in 1966 and the efforts to supply the steel rolling mills in Kwinana. I am also conscious that the Japanese expressed interest in gaining access to Yampi Sound in 1938 and that the then Prime Minister, Joseph Lyons, put a ban in place to effectively stymie Japanese access to that operation. At the time, Prime Minister Lyons talked about needing the iron ore for Australian interests. Clearly, as the records have become accessible to the public, we have discovered that there were more complex fears about the Axis powers that were developing at the time. The ban was not lifted until December 1960 by the commonwealth government, which gave us the opportunity in Western Australia to call for expressions of interest in developing the various iron ore resources in the Pilbara and elsewhere for export. I am also very conscious that the *Harvey S. Mudd* left Port Hedland in June 1966 with the first shipment of iron ore from the Pilbara, which came from the Goldsworthy operation; it was the first of the Pilbara iron ore exports and was closely followed by other iron ore exports. That was from a deposit that had first become known back in the 1890s, when the geologist H.P. Woodward first found iron ore around Mt Goldsworthy, which was a feature that had been identified by the explorer Alexander Forrest only some 11 years earlier. It was a small mountain with a peak of only 135 metres; it is now a pit, and I went swimming in it last weekend. It is now a pit that is 85 metres deep—a beautiful big swimming pool inland from Port Hedland. I swam across its width rather than its breadth; it is a beautiful water body that has been left behind at Goldsworthy. The friends I travelled there with were looking for the mountain, and I was able to show them that it is now in fact a pit. For me the trip back to Goldsworthy was for a range of reasons, not the least of which is the opportunity, I hope, to commemorate the town of Goldsworthy that once existed. I also hope to have the opportunity to explore the concept of land art in that area in the way that has been done at Lake Ballard. I want to see whether we can commemorate a town like that which existed, so that it does not just disappear off the face of the earth. It was a town where people lived, worked and had families. I looked at the footprint from the ground. I could not find the place at first. I had seen it from the air and had seen the footprint there. When I finally got on the ground, it had virtually disappeared, but I could see from the shape of the trees around there that there was something unusual about those trees. I went there and probed them and eventually found the grid where the streets were that I used to doorknock when I first started my parliamentary career. I found the residual pottery and —

**Mr W.J. Johnston:** In 1938!

**Mr T.G. STEPHENS:** No, it was a long while ago and it was not long before Goldsworthy finished its operations.

**Mr M. McGowan:** You used to doorknock archaeological sites?

**Mr T.G. STEPHENS:** I go back to the archaeological sites. But yes, that is correct, I doorknocked places like Wittenoom, Shay Gap, Goldsworthy, Cockatoo, Koolan and Telfer. These were vibrant towns in my electorate when I was first standing for election to Parliament in the by-election of North Province in 1982. I therefore doorknocked those places and knew those towns well. I have watched those towns disappear not only from the livelihood of the Pilbara, but also from the consciousness of many people. I would like to see them commemorated in ways that I think can be exciting, and I think there are ways of doing that.

I congratulate the government on advancing these agreement bills and the variations within them, but we are faced with some questions that I think are worth asking of government in reference to perhaps what is not contained in these bills. We have highlighted in the first instance the need to tackle the issue of the capacity of local governments in the Pilbara to have access to a more secure revenue stream. I refer to industrial assets that are exempt from local government rates. Rates on those assets could be made available to local government so that they, on behalf of their communities, could secure an income stream from those giants in the Pilbara that

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

have been exempted by these state agreements. Companies that are there without state agreements or that are there with new state agreements are obliged to pay rates. It is inappropriate for those companies—BHP Billiton and Rio Tinto as well as Woodside and others—that operate with these exemptions to be exempted from this income stream that should be available to improve and enhance the communities of the Pilbara and to make the region an attractive place to live as well as to work.

There is also the issue of monitoring these agreements. I note that just a few moments ago in the upper house a question was answered by the government on the number of full-time equivalent staff that are monitoring state agreements. The number came back in answer to a question asked on my behalf by Hon Helen Bullock that up to 32 officers at any one time are monitoring state agreements and, unfortunately, the other activities of government as well in the operations of non-state agreement companies.

Robe River's Mesa J is an example. Mesa J, not just simply under this government's watch but also under our watch, missed out on paying its legal obligations to the state of Western Australia. We were told in the Premier's Statement that it finally got a letter about it. Between the date when the letter was sent and some other chosen date, a \$55 million back payment was made. However, the company in the meantime was let off all the obligations it had for previous iron ore royalty payments. What I am seeing both in our time in government and now is that there does not appear to be adequate monitoring and policing of these agreements and the obligations that these companies have to the community of Western Australia. I ask the Premier to make sure that these agreements are trawled through by the agency for which he has portfolio responsibility to pick up not only payments of royalty streams that the state is obliged by these agreements to extract, but also other obligations in state agreement acts that these companies have entered into.

**Mr C.J. Barnett:** Can I just say something on Mesa J?

**Mr T.G. STEPHENS:** Yes.

**Mr C.J. Barnett:** It is an issue that goes back in time.

**Mr T.G. STEPHENS:** Yes.

**Mr C.J. Barnett:** It is true, yes, that the government negotiated a deal to conclude it, but I think there was probably fault on both sides in terms of assessing that resource. So, if you looked at the correspondence, there was a fair bit of confusion on the company's side and on the government's side, going back historically.

**Mr T.G. STEPHENS:** Whatever the rights and wrongs of that, my point is still the same; that is, we cannot in my view not resource the offices of government with sufficient personnel to be vigilant on behalf of the community of Western Australia in extracting not only the return of the legal entitlement the state has to the royalty stream, but also the other aspects of the agreements. I am conscious, for instance, of the Fortescue Metals agreements that were entered into in reference to undertaking training, local recruitment and housing local employees living and working in the Pilbara. As Fortescue struck its agreements with us when we were in government, it got additional benefits that included access to a land bank at Pretty Pool, which was to position housing for company employees living and working in the Pilbara. The agreements gave Fortescue favourable access to 32 or 22 houses—I have forgotten the number—and they were not to be sold off to profit any individual. That additional benefit was part of the way it got its state agreements. Hanging off these state agreements were additional arrangements with government; that is, Fortescue was given favourable access to land to secure residential arrangements.

I hope that the Premier will indicate in his reply what the officers have been able to ascertain about monitoring these agreements. What progress has been made by that company, for instance, in reference to recruitment and training from its own resources, housing trainees and employing trainees? I ask that so that we do not experience just a constant churn of people through this industry, which I fear is what we are experiencing. I am delighted to see an increase in the number of locals engaged in the iron ore industry. But, regrettably, I am seeing a churn of people just going in for a short period, often into very menial jobs, and lasting for a very short period before they are churned out rapidly and replaced by someone else from that demographic. That, to me, is a great worry. I am watching a region where the blight of fly in, fly out is very self-evident. It is horrible to see the arrival of direct flights from Brisbane into Telfer and direct flights into Newman from the east coast dropping off fly in, fly out workers. People fly in to Port Hedland to work from Bali, where they live, and they fly back to Bali rather than become participants in the life of Western Australia, let alone the life of the Pilbara.

**Mr C.J. Barnett:** Four thousand interstate.

**Mr T.G. STEPHENS:** Can I have an extension? A couple of hours will do!

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

[Member's time extended.]

**Mr C.J. Barnett:** It's a problem, yes.

**Mr T.G. STEPHENS:** It is a big problem. For me, the state agreement needs to be utilised for the opportunity to enhance the amenity of the Pilbara to make it an attractive place for people to be, to live and to work. That is why the variation should deal with more than just a simple return to the state coffers of Western Australia.

I sat and listened to the Premier during question time and the debate earlier on grievances with the national government, but the people of the Pilbara have that grievance with state governments. My predecessors have endeavoured to argue this case on behalf of the people of the Pilbara. Pilbara people sense that the grievance Western Australia has with Canberra is the same grievance they have with the government here in Perth, which is basically that the amenity of towns in the Pilbara leaves a lot to be desired. Under our period in office and now under this government's period in office, these variations to the state agreements could have been about facilitating the development of a power grid that is needed to support an interconnected grid.

I have given the Premier a compliment, but I think that I should, as an opposition should do, give him some friendly criticism or even unfriendly criticism. It is a pity for him to brush aside such an important issue as the interconnected power grid, simply because it was one of those issues that we were working on, and then just dump it, as it is a vitally important issue. I see that progress is being made with the announcement of a desalination plant in the Burrup for Karratha, but it has been done without revealing to the people of Western Australia how that fits in with the options that were being considered by officers of government. Then there are the issues of the cost of that desalination plant, and how on earth the government is going to supply power to that desalination plant and to the other communities in the Pilbara, and secure water for Port Hedland and the other communities. I think the Premier in particular has to wear the critique of the failure of his agreement with BHP Billiton for downstream processing and the way in which BHP Billiton was allowed to deal with the hot briquette plant in Port Hedland. It was a welcome development, but the agreement should never have been put in place that allowed BHP Billiton to simply discharge all its obligations in return for starting it and then take the first opportunity to walk away from it.

**Mr C.J. Barnett:** Don't forget that the Labor government prior to that was going to allow BHP to discharge all its obligations for the Pilbara gas pipeline.

**Mr T.G. STEPHENS:** I am not conscious of that, but if that is the case, then a pox on both strategies, because there is still the need for Western Australia to be doing better in processing resources here. I see the enthusiasm with which the Canadian government looks after its national interests when dealing with some of these major corporations. However, here in Western Australia we seem to be too easily positioning agreements that do not look after our long-term interests by advancing the range of technologies, including downstream processing, to explore the full range of opportunities we need for the Western Australian community.

I am very pleased that part of the announcements on these variations has been the Premier announcing the start of negotiations between Atlas Iron and BHP Billiton over access to the Goldsworthy railway line. I have always seen the Goldsworthy railway line, in recent years, as one of the safest places to throw down my swag in the Pilbara. It was a place where I could put my swag down and know that I would rarely get a train across it. The action of BHP Billiton was indefensible, because it was clearly a piece of infrastructure that could be put to additional use. I think that this is a creative response. I welcome the opportunity for a handling facility outside Port Hedland. Ore can be placed there from Atlas Iron and perhaps other companies. Then some use of conveyor belts can be made to get that ore through to the port in ways that will minimise the impact of road traffic going into the port, where there is a bottleneck, congestion on the roads and particulates in the air that come from these large numbers of trucks pouring into town.

On the trip back from Marble Bar on the weekend, every 10 minutes an ore road train came past me on the way to the port. This is big-time business pouring into that port. When I got back to town I could look at the horizon and see the BHP Billiton rig undertaking the exploration work for Quantum 1 and Quantum 2. BHP Billiton is clearly ready for investing in the outer harbour. The Premier's government will probably be lucky enough to announce eventually BHP Billiton's full investment in the outer harbour project. I think it nearly announced it itself from the statements that it was making last week. With the fall over of the arrangements with Rio Tinto, BHP Billiton is clearly going to need to get itself out of that inner harbour and into the outer harbour, to access those massive ships in order to remain competitive with Brazil. One can see on the horizon the massive rig that is drilling on the outer harbour and one can see what BHP Billiton is going to do.

These are huge prospects for us. I see the opportunity for a conveyor belt from where the Goldsworthy and Mt Newman railway lines meet. We also need to encourage Rio to get its salt onto a conveyor belt, so that the salt is

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

shifted direct to port and no longer by trucks that are competing on this limited road access to town. Salt may be a more difficult commodity because it is not as consistently lucrative as iron ore has appeared to be in recent times. Nonetheless, it is at least the one long-term sustainable commodity that we will still be handling when iron ore has finished, whenever that is. We will be handling that salt because it is a truly sustainable resource of the Pilbara into the future.

The stranded ore bodies need to be the focus of all the officers of government. They need to really get into discussions with BHP Billiton and Rio Tinto about those ore bodies that they are holding, either under their state agreements or under the Mining Act. They are doing nothing with some of those stranded ore bodies. I am conscious that there is one right next to Atlas that is owned by BHP Billiton. Presumably, it should be forced to either use it or lose it. Others should have the opportunity of positioning themselves to access that ore for export, particularly when it is so close to an operation like the Atlas Iron operation.

It is very important for the port authorities, their boards and their officers in the Pilbara to give to the companies and the community a fair suck of the old sauce bottle, where there is not unfair advantage for the original players in the Pilbara, newcomers just simply getting a free ride, or advantage for anyone who is in favour with government, for whatever reasons. I look at the Port Hedland Port Authority and can see all the arguments that it has to run on behalf of government, the chair, CEO and board. I hope that when the government is attracted to playing favourites with any iron ore company for any reason it does not then punish the officers of government who are trying to balance the community interest, balance all the players and act as advocates for community interests to make sure that the process of access to a port like Port Hedland is transparent. It would horrify me if the skill of the CEOs at the port authorities, such as that of Andre Bush, was lost to the community of Western Australia if, because of his efforts to stand up for the community interest, he found himself out of favour with a government that may be pursuing the interests of any particular player. I know that Hancock Prospecting has got a lot of sway around the state, which is good, but its sway has to be balanced with the community interests and the sway of the other players. I hope that the port authority has the opportunity to remain as an independent player in the piece and that it balances the political interest, the community interests and the interests of BHP Billiton, Hancock Prospecting, Fortescue and all the others. In my experience it does it with honesty, integrity and transparency. I hope that the government is not playing politics with these ports and their staff in ways that will disadvantage the community interests in any way at all. I hope I get an assurance from the Premier in this debate that nothing will be done to dislodge the staff of those ports by any secret committee that is running around at the moment in reference to these ports.

The opportunity to improve the towns should come from the flow of additional royalties from these agreements that have been varied. There is, for instance, the \$55 million that has just been pocketed by the government. I hope that the Premier will detail how much of that \$55 million will go back into the Pilbara to improve the communities and the roads, and to make safe the road from Newman to Nullagine and Marble Bar

**Mr C.J. Barnett:** It is going into the children's hospital.

**Mr T.G. STEPHENS:** The \$55 million?

**Mr C.J. Barnett:** Yes.

**Mr T.G. STEPHENS:** Strewth!

**Mr C.J. Barnett:** The children's hospital is very important to the Pilbara. There are a lot of evacuations from the Pilbara to the children's hospital.

**Mr T.G. STEPHENS:** The government takes it out of a region where we cannot even get a dialysis machine in a hospital like that in Tom Price.

I will finish by simply saying that so much could be said about the opportunities that should be in this bill but are not. I welcome those opportunities that are there but I do hope that government will rapidly resolve these additional issues that need to be resolved in double-quick time for the Pilbara to be a better place.

*Sitting suspended from 6.00 to 7.00 pm*

**MR W.J. JOHNSTON (Cannington)** [7.00 pm]: I rise to make some comments on the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010. It is interesting to look at the way that iron ore is affecting Western Australia. I was interested to look at the Australian commodities statistics from the Australian Bureau of Agricultural and Resource Economics website. I was most interested in the statistics from 2004 that show the progression of our iron ore production from the 1960s through to 2004, rising from 4 455 kilotons in 1960 up to 234 008 kilotons in 2004. Of course, it continues to expand. It is interesting that production reached 100 000 tonnes only in 1989. Although production had quite a rapid increase from the late 1960s, the surge in production

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

was really a function of this decade. That leads me to something very interesting; namely the effect on Western Australia and Australia.

I see from budget paper No 3 that royalty income for the year 2010–11 is estimated at \$3 271 million. Royalty income in 2005–06 was only \$1 184 million; so we are already talking about a nearly three times increase in royalty payments, almost all of which is from iron ore because that is the commodity with the surging volumes and increasing prices. In his reflections, the member for Kalgoorlie said that this is not an automatic situation—that it is not just the way things are but is a result of the current economic circumstances. I note that although BHP Billiton and Rio Tinto are second and third in iron ore production, Vale, with over 250 million tonnes produced out of Brazil, is actually the behemoth. I understand that Australia has only the fifth-largest iron ore resource in the world. There is plenty of iron ore and if other countries can produce iron ore efficiently on the scale that Australia and Brazil do, there is nothing to say that our iron ore income will be the same in the future as it is now. That therefore leads to some consequences. Firstly, it is hard to plan 10 years in advance on the basis that our royalty income stream will be as high as it is now. Secondly, it distorts the trade-off between current activity and future activity. Yes, we have huge reserves of iron ore in Western Australia and, as members know, 30 or 40 years of production for the ABARE estimate of 18.6 billion tonnes of economic reserves and 38.5 billion tonnes of total reserves. If we continue to have increased production, there will be 50 or 60 years of easy reserves production even at that escalating rate. That is not forever. It is a lifetime; a human lifetime. Consequently, some thought has to be given to what happens in the future. We cannot spend all the money today.

Superannuation is the great reform of the 1980s that is not properly acknowledged. Superannuation forced individual working people to put aside something for their future. We have superannuation arrangements of up to 9 per cent; arguably that contribution needs to be 15 per cent or higher to effectively provide for the future of workers. However, superannuation also developed an enormous investment stream for Australia as a nation. We chose not to use a Singapore-style central provident fund, but we are putting aside a very significant amount of money for our future and I think that the state government needs to think about doing the same. The former Labor government used its income stream to pay down debt and to invest in assets like the Mandurah rail line. Strangely, at the moment, whilst the state government is expecting these extraordinary levels of royalty income, there is less investment in public infrastructure than there was during the period of the former Labor government, and there are higher debt levels. That is a challenge for this state and we need to think about how we handle that challenge. I know that a cheque, which is effectively a refund of unused royalty income, is sent every year to residents in Alaska. That is one way of dealing with the rivers of gold that arrived in Alaska from its oil royalties. We do not have quite the same level of excess income, but we are not doing anything innovative with our income stream. We should consider what we can do to save for our future, for the future of our grandkids and our great grandkids, because it should not be about just the present day. We need as a state, as a nation and as individuals to plan for the future. During the period of the Howard government, \$314 billion of what is called parameter variations were spent by the federal Liberal government. That money could have been used to change Australia's future, but it was instead used in what were basically giveaways to individual demographics that were important to the political situation of the time. That was not very smart and as a nation Australia should do better. The federal Labor government is investing in the national broadband network, which is transformational infrastructure. Maybe both the federal and state governments could do other things too in this state.

It is interesting to look at the different plays. I noted very carefully the comments of the member for Pilbara in his discussion of the opportunities for the stranded projects in the Pilbara. I note that negotiations between Atlas Iron, one individual junior player, and BHP Billiton have now opened. I was interested to read in *The Australian* the other day under the heading "Action aplenty as Pilbara rail and port fight heats up" —

BHP Billiton was the centre of most action in the world-class iron ore precinct, with its legal action against minnow FerrAus over-shadowing progress on third-party access to the infrastructure.

It was interesting that this article of 20 November, whilst reporting on the opening of negotiations for access for Atlas, was also reporting on the fact that access is being denied to these other junior players and that BHP is taking, I think, Supreme Court action to prevent these junior players from gaining access to its infrastructure. David Flanagan, the managing director of Atlas Iron Ltd, states in that article —

"It is access to transport and port infrastructure which turn it from an interesting looking mineral into something that is ore," Mr Flanagan said.

Atlas had a number of infrastructure options "but it has taken five years", he said. The barriers to entry had "given the majors the power that they have", adding: "It is the barriers that have created the supply and demand dynamics that have driven up the price."

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

The article goes on to say —

BHP may appear to relenting in its attitude to junior competitors, but the move on the Goldsworthy line does not add any iron ore to the market, change Atlas Iron's plans, or negatively affect BHP.

All the juniors trying to break into production want access to BHP's Mount Newman line, and the major will do everything in its power to prevent that.

It will be interesting to see how this develops into the future. For many years we have seen access matters go all the way to the High Court of Australia. From the point of view of the diversity of the small players, we have had some success in the Australian Competition Tribunal. But it will be interesting to see what access ends up being granted to these junior players in the future, what that does in opening up alternative suppliers, and what China does in response to that. I note that the article also refers to the purchasing of some of these junior players by Chinese interests.

What is going to be the benefit to Western Australia from the resources that are in its ground? In the past—we can go back to the 1960s—it was always about the future of steelmaking or downstream processing. That has not happened. The Premier has said in previous speeches in this chamber that we were trying to convert mining companies into steel producers. I think that is what the Premier said.

**Mr C.J. Barnett:** That was the old philosophy.

**Mr W.J. JOHNSTON:** Yes, that was the old philosophy. The Premier and I agree on few things, but this is one of them: that that philosophy did not work. Now the question is: can we add extra value to the chain of supply? It is important to remember that if we were to add value through steel production, it would have to be created out of additional supply because all our current supply is basically going in exports. I again refer to the figures from the Australian Bureau of Agricultural and Resource Economics. In 2004, of the 234 008 kilotons of iron ore produced, 211 359 kilotons were exported, so almost everything was exported. Crude steel production was 7 659 kilotons and pig iron production was around 6 500 kilotons. That effectively absorbed the entire supply of iron ore in Australia. If a steelmaking industry were to be created in Western Australia, it would have to come from additional supply because the current supply is being sold on the world market. Much of it is being sold on long-term contracts. Rio Tinto is only 18 per cent Australian-owned. I forget the figure for BHP, but a much higher percentage of that company is Australian-owned. Those two companies, along with Vale from Brazil, dominate the supply chains for iron ore. We would have to get additional supply if Australia were going to produce steel. Any industry that was created would also have to find a market for its off-take. Legacy producers in Europe, America and elsewhere are having trouble finding a market for their off-take, while the very dynamic and growing companies in what was called the Third World—now called the developing world or the emerging economies—are moving to dominate production. It would not be easy to set up such an industry in Australia.

There is, of course, another way; that is, to encourage these companies to do more of their design and engineering work in Australia. I have nothing against the idea of increasing the metal-bashing side of the engineering work for these major projects, but what I am saying is that that is not likely to happen if the engineering work is not done here. I read the Premier's comments on the Gorgon bill. He made the point that Australian participation in these giant projects would allow an Australian philosophy to be brought to the table. That is probably true. Australia is a country that imports capital; it does not export capital. We have a deficit on our capital account. That means that we are almost certainly going to be importing capital for these projects. As has been outlined by the member for Cockburn in another debate, we have an opportunity to start insisting on more value being put into these projects at the design stage and the early stage of engineering. That would be a way of capturing a high level of value for these projects. The amount of imported capital equipment for these projects is remarkable. It is not just the trucks, tractors, bulldozers and those sorts of things that are being imported for these massive projects, but also whole modules for crushers and all sorts of different equipment. I have spoken to people who work for the Sino Iron project at Cape Preston and they talk about huge pieces of equipment arriving on barges and effectively being slid across the project to their resting places. It is incredible that no Western Australian design or engineering work or any other contribution is being made to those unbelievable-size projects in Western Australia, other than earthworks and those types of things. I am not underestimating the complexity of designing the infrastructure for those projects, because it is an enormous technical achievement, but I reckon that we could use our thoughts and the few levers that we do have to try to gain more of the value of these projects.

An amount of \$3 271 million is in the budget estimates for royalty income. That is an incredible amount of money, but it means that we are dependent on others for our future if we are just going to spend that money as we receive it and do not leave any great legacy. There are no grand buildings. It is interesting that if Rio Tinto were to invest in a grand building, it would do it in London and not in Perth. We are effectively a colony for

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

these very large companies. They are happy to be here. They are happy to draw resources from us. I have a connection to Indonesia. Indonesia kept the Netherlands rich for hundreds of years, but that did not do Indonesia much good. It was not until Indonesia followed a different political path and looked at what was in its own interests rather than in the interests of the people exporting the resources that it started to get ahead. We have done very well. Western Australia is a very rich place. The incredible surplus value that is being produced by these massive projects in our north can be seen in our incredible standard of living. As I am sure the Premier will happily tell everybody, we are dragging the rest of the country along with us. Even though we are capturing only a low value from those resources, we are still doing very well. Imagine what we could do if we could get a bigger share of the value chain that starts here in Western Australia and ends up in different places around the world. Billions of dollars are being invested in capital equipment—virtually none of that here in Western Australia. Tens of thousands of brilliant minds are doing unbelievably complex technical work all around the world, some here, much of it not. In the 1960s the royalty rates were set at a relatively generous rate to ensure that we were a preferred location for investment, but it has meant that the companies have been paying less for our natural resources that they are exporting.

This bill has given me an opportunity to make these remarks. As outlined by our lead speaker, it reflects some achievements, but some things have been missed out. I, for one, will continue to monitor the development of Western Australia because it is such a critical issue for all of us and we hope we can do even better in the future.

**MR V.A. CATANIA (North West)** [7.20 pm]: As the member for Cannington pointed out, the Iron Ore Agreements Legislation Amendment Bill (No. 2) achieves quite a bit, but a lot has been left out that is desperately needed in my electorate of North West, particularly in the Shire of Roebourne and the towns within it. It is interesting to read the Premier's second reading speech, which states —

In the case of Rio Tinto, the minister can consider alternative investments or projects in lieu of all or some part of that company's remaining secondary processing obligations

I see that that provides a window in which the Premier can negotiate some of these outcomes that I would like to address tonight. Probably one of the biggest issues that have been facing the Pilbara, particularly Karratha, is water. The government made a timely announcement to provide an alternative water source by building a desalination plant in Karratha. It is a much needed outcome, one that will ensure that we can develop Karratha into a city. But it is very disappointing that the state—the taxpayers; people like us—have had to pay for a new water source given that companies such as Rio Tinto use potable water on their iron ore stockpiles for dust suppression. In this day and age when water is a very precious resource, it is shameful that companies such as Rio—granted they established the Pilbara, but they were provided concessions to do so—have, over time, definitely got the benefits of taking the ore out of the ground. It is now time to modernise the agreements that were struck in the 1960s and 70s that enabled them to use large amounts of water. It has been reported in the press that Rio believes it is entitled to 15 gegalitres of the Millstream system, and that is basically what Millstream has to offer. Some reports out of government indicate that Rio should be entitled to only 5.4 gegalitres. Given that Rio believes it is entitled to all the water in the Shire of Roebourne, a modern water agreement needs to be negotiated that will reduce Rio's entitlements and urge it to develop a new water source. When the government went out to look at who could supply water to Karratha, Rio indicated its interest in dewatering Bungaroo, a mine site it is looking at mining in, I think, around 2016. It will have to dewater that site anyway, so I think the offer made to the state was smoke and mirrors rather than a genuine offer to supply the town with water. I believe that, at the end of the day the taxpayer was going to pay for that water. My view and that of many of my constituents is that Rio's agreement should be modernised and it should be building its own water source, as pretty much every other mining company in the state is doing. I am talking not about drinking water quality but about water that can be used on its iron ore stockpiles without affecting the quality of the product. I believe that this bill will allow the Premier to open up those negotiations and deal with this matter.

Although we are dealing with the immediate shortage of water in Karratha by building a desalination plant—as I said, it is timely—I suppose we had to provide that infrastructure because we had been painted somewhat into a corner. I think we will run into the same issues with water over time. As Karratha grows into a city and as the population grows and development continues, more water will be needed. The only way to address that is by reducing entitlements. I believe that, ultimately, Rio should not be using our potable water; the water should be going to the community for further development. That is probably the number one issue that needs to be resolved. As I said, the government will strike those problems that we have managed to hold off for the moment; that is, we will continue to run into the water issues we have had in the past. I am gobsmacked that both sides of politics are reluctant to modernise that agreement to make sure our most precious resource is not used for dust suppression. That is something I will be pursuing with the Premier, this government, future governments and Rio itself, with the community support I have to tackle that antiquated agreement. I am sure we will persuade the state government and Rio to modernise that agreement. As I said, I found unacceptable the offer Rio made

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

originally to deal with the water situation—namely, to dewater Bungaroo to the tune of 10 gegalitres and supply five gegalitres to the state at a commercial rate, and keep five for itself. The state would have to upgrade the infrastructure to take the new water and in return Rio would still keep its water allocation as per the state agreement act, which it believes is 15 gegalitres. I do not think the state would be better off under that arrangement when Rio will have to dewater that site in any case to be able to continue operations there. It was a good decision by the government to build a desalination plant, but we still need to modernise the agreement so that we do not continue to come across these issues, which I know we will as we grow Karratha into a city.

The other main issue facing Pilbara towns and something that has been mentioned in this house before is the ability for local governments to rate the mining companies. As the state government's vision through Pilbara Cities grows Karratha and Port Hedland into cities and inland towns are rejuvenated, which is happening under the Pilbara revitalisation plan through royalties for regions, the local governments in those areas need to be able to rate these companies so that they can provide the administration necessary to cope with the level of populations that are moving to the north west. The only way that local governments can keep up with the pace is by getting assistance from the mining companies. When we consider the shortfalls with these shires in the Pilbara, we are not talking a lot of money; we are talking very small amounts to make a maximum impact so that they can provide the necessary administration and support in light of the state's vision for the Pilbara. Premier, they are the two main issues that need to be negotiated at some point to result in a modern water agreement that will allow local governments to rate these mining giants.

I quickly touched on the Pilbara Cities project. The conversion of Karratha into a city has begun with the embarkation of a land release that has never before been seen in the Pilbara. That is being done to ensure that we can attract and retain people in places such as Karratha by making land and housing more affordable. The vision of Pilbara Cities can only be made into a reality by resource companies making their contribution by curbing their fly in, fly out activities, but it seems to be going the other way at the moment. The fly in, fly out model is getting more prevalent and people are leaving the Pilbara in their droves to work as fly in, fly out workers. That has an impact not only on their personal lives, but also on places such as Karratha, Wickham, Roebourne, Dampier, and other towns in the Pilbara. It is like a smack in the face when we are trying to develop places such as Karratha and Hedland into vibrant cities.

I think that as part of the negotiations and final agreement it should be stated that companies such as Rio Tinto need to commit to investing in accommodation, as we are trying to entice developers to come to the Pilbara—to come to Karratha—and develop high-rise buildings and a more diverse type of accommodation. The land release of Malataga has gone out for expressions of interest, with the possibility of 2 500 dwellings being built there. The development is to be, basically, on the waterfront, and it will be like, as someone said, a mini Cottesloe. The only way we can really ensure that developers are confident enough to invest is to get mining companies such as Rio and others to come on board and consider purchasing these dwellings. That will provide assurance to developers, which, in turn, will make the banks confident to lend—it is very difficult to get banks to lend to people who want to develop in the north west. I urge the Premier, in his discussions and negotiations with companies such as Rio, to emphasise the state government's commitment of over \$1 billion of royalties for regions money and the construction of a desalination plant. That is a significant amount of investment from a state government that has not been seen before in the Pilbara. The only way I think we can all realise that vision is by getting the resource companies to come on board, to make a financial investment, and to curb their fly in, fly out activities to ensure that they take up investment opportunities such as the 300-unit high-rise Finbar development. Those companies need to take up the opportunity of the Malataga land release and the proposed 2 500 dwellings to make it attractive for developers to come in with confidence and give the banks confidence that resource companies are curbing their fly in, fly out operations to be part of the state government's vision of turning Karratha into a city.

**Mr D.A. Templeman:** Member, what would be the mark-up for building a house in Karratha now? I have heard that outside Perth, some companies charge up to seven per cent. What would it be up there to build and construct?

**Mr V.A. CATANIA:** For a three-by-two house it would probably be about \$700 000 to \$750 000, which is still a hell of a lot of money. But can I say, member, the construction side of the high-rise is now starting to take shape, and the injection of 300 units provides diversity. Not everyone wants a four-by-two or a three-by-two house, and those one-bedroom or two-bedroom apartments are necessary. The only way I see it working is by getting the resource companies to curb their fly in, fly out activities and to make those areas attractive for their employees to want to make their lives there. I think that is the only way we are going to realise that vision and provide the amenities that everyone expects. Karratha is starting to become a large suburb, and people expect to have all the modern conveniences that people have in Perth, and we are slowly starting to see a lot of that happening. The Finbar development will provide gyms and indoor cafes with air conditioning, and provide the

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

lifestyle that Perth people enjoy. By diversifying from what has been the norm and providing that choice, we will hopefully attract and retain people.

I think the state government is definitely well on track, but what is lacking at the moment is the commitment from the resources companies to get on board and be part of this vision, and curb their fly in, fly out activities to make Pilbara Cities a reality. That can come only with the modernisation of these sorts of agreements. As a government, we can apply pressure in a way that will support these resource companies by not only providing a workforce that is happy to live in the area in places such as Karratha and Hedland, but also supporting their ability to attract and retain workers. If the lifestyle in the north west was the same as everyone is accustomed to—which we are embarking on creating—it would be beneficial for everyone. I think a strong regional Western Australia means a strong state, and we can provide that in the north west.

**Dr A.D. Buti:** Member, do you know the percentage of fly in, fly out vis-a-vis Perth residents?

**Mr V.A. CATANIA:** Airports are probably a good way to judge the level of activity, and about 550 000 people fly in and out of Karratha every year. It probably has more activity than Hobart Airport, which is pretty amazing.

**Mr C.J. Barnett:** It's the biggest regional airport in Australia.

**Mr V.A. CATANIA:** There we go; and it is growing rapidly. I would love to see Karratha become an international airport one day so that we can really connect to the rest of the world.

I think the Premier has room to move in negotiating these outcomes. I do not want to see towns such as Wickham being left to the side. I know that Rio has committed \$23 million to the upgrade of Wickham, which has been in the planning for, I think, six years, and we are now starting to see that occurring, which is great. Any members who have been to Wickham know that it is a town that has been neglected for a very long time. There has been a lot of toing and froing over who actually owns Wickham and who should be doing what. The regional development office is working with the Shire of Roebourne and Rio on the revitalisation of Wickham, but I think the only way that can be achieved is by getting other resource companies to commit to building houses—not houses for fly in, fly out workers—that people want to live in and make their homes.

For the realisation of the vision, we really need to work on modernising the water supply agreement and work on local government rating so that support is provided to local governments because they are having a hard time. Suddenly, for the first time, they have actually got money and a state government with a vision that is putting its money where its mouth is. The federal government is still lagging behind by not investing any money in the economic powerhouse of the nation, which I find quite amazing. There has been so much talk about it all over this country, and there has been little action from the federal government. Resource companies are starting to come around, but I think they need a push. The only way we can push resource companies is to modernise state agreements to ensure that they reflect what is happening today. That is where governments have failed in the past, and unless agreements are modernised to reflect what is happening, they will continue to fail and not reach those visions. I believe the Premier has some wriggle room. We should not give away all the downstream processing obligations. It is only right that these resource companies come to the party and form a very strong relationship with this state government, which is actually doing something for the north west.

**MR C.J. TALLENTIRE (Gosnells) [7.40 pm]:** I rise to offer my support for the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010. Fundamentally, this bill is about making the impact of our Pilbara iron ore sector more compact. It is about making sure that there is the potential for a greater sharing of resources, and that, in turn, can lead to a reduction in impact. I realise there is a lot of detail and a lot of issues still yet to be resolved. I will try to address some of those as I go through, but I am very pleased to say that, fundamentally, I support this legislation.

I know the government is waiting for the PRAIC—Pilbara Rail Access Interdepartmental Committee—report. That committee examined issues around multiple access to rail lines. As I think other speakers have touched on, there are issues about the capacity of certain lines to handle additional players—that is, the juniors—if they get their mines up to a certain level, and about whether the lines would be able to handle that additional workload. For example, I know there is very little extra capacity on the Newman line, but apparently on the Goldsworthy line there would be some room for additional capacity. There are some issues there.

I also note that the legislation eventually provides for the Minister for State Development to take refusal action against certain proposals. There is a public interest assessment test that is about ensuring orderly development and ongoing access for all land users after a decision is made, and that there are no prejudicial implications of a decision. I believe—but I would like to hear the Premier clarify this—that the native title implications of any decision would be in favour of claimant groups and native title holders. Those are some of the preliminary things that I wanted to raise. This is all in the context of the incredible growth that we expect to see in the iron ore sector in the Pilbara. BHP Billiton Iron Ore is looking towards a 350 million tonne per annum production figure

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

by 2020. Rio Tinto is looking towards 330 million tonnes per annum by 2020. Huge growth and huge tonnages are forecast. That gets us straight into this issue of how we make sure that those production levels are transported efficiently to ports. Some people have said that a better way of managing things would be to have a Pilbara port authority. Other speakers have touched on how scarce water supplies are properly managed when, in some cases, we have an excess of water. A very good example of that is Weeli Wolli Springs, which has had to be dewatered. My understanding is that 45 gigalitres of water is now more or less going to waste. That is an annual production amount equivalent to our desalination plant 1. We are talking about huge quantities of water that could be used in a more constructive way than just being removed in this dewatering fashion, which is sometimes necessary for the extraction of minerals from mines.

I will now turn to some of the social impacts, which other members have also touched on. I was somewhat bemused recently to see reference made to a report suggesting that fly in, fly out workers are no worse off than other members of our community; that is, people who might be referred to as “direct commute” workers. A study was undertaken as part of a doctoral thesis by Susan Clifford from the School of Anatomy and Human Biology at the University of Western Australia. It was a thesis presented for the degree of Doctor of Philosophy. It is fair to say that she was probably taking much more of a physiological look at the consequences of fly in, fly out work. I note that she had a fairly small sample size—she questioned 222 fly in, fly out workers and spoke to 32 couples as part of her research. The conclusion of this study, as I understand it, is that fly in, fly out workers are not suffering unduly. I would question that.

**Dr A.D. Buti:** Member, that would be statistically insignificant; it is too small a sample size.

**Mr C.J. TALLENTIRE:** I suspected as much, member for Armadale. I think that a study of this scale is too small. It is a shame because this is obviously a very important issue for our state’s development.

I heard the member for North West put some very good points about how we need to encourage people to live in the Pilbara to create those cities that will become real communities and not just places that people fly into and fly out of. I think when any one of us passes through Perth Airport, at certain times we are amidst a veritable sea of high-visibility jackets. They are worn by all the people who are off to the different mines. Perth Airport is very busy because of this. If we were to ask those people how they feel about leaving their loved ones for at least two weeks or whether they are really looking forward to going to work given those circumstances, I think we would very quickly find that we have some fairly conclusive evidence that people do not really enjoy fly in, fly out circumstances at all. It is not the ideal lifestyle choice.

I am aware of a growing trend involving people who work for companies such as BHP Billiton and Rio Tinto, or who work for contractors who contract to those two majors and some of the others. People who are on their two weeks off—it is actually coming down to one week off—are required to attend courses while in Perth on their time off. They are often health and safety–related courses. I think there are some real issues around that. That time that people spend back in Perth should be absolutely sacred. That time is to balance the fact that they have spent a lot of time away from their families. It is an opportunity for them to catch up with their families and friends. It is not a chance for the company, their employer, to send them on training courses just because it is convenient to send them on those courses while they are down in Perth supposedly on their rest and recreation time. There are some worrying trends in the whole fly in, fly out sector. I guess some companies are seeking to extract every last ounce out of people—really pushing them to the limits. The consequences are that people find it very hard to maintain relationships. People find it hard to even get into relationships or maintain good contact with family and friends. It is a worrying trend if we have this ongoing reliance on fly in, fly out workers. I know the Premier gave some very up-to-date figures. The figures I looked at suggest that at the moment we have about 56 000 people in fly in, fly out situations. That is set to grow by another 27 000. It is a big issue for a lot of people—definitely people in my electorate who are attracted by the higher rates of pay. There is the opportunity to really earn some money quickly. They find it an attractive option from a financial perspective but not one conducive to a good family lifestyle.

I would like to quickly turn to the environmental aspects of the various mining operations and their negative impacts. We have to be frank and acknowledge that there are no environmental positives to major mining activities. However, when dealing with companies the size of BHP Billiton Iron Ore Ltd and Rio Tinto and their various offshoots, we can be reasonably confident that when they commit to rehabilitate the land that is to be locked away under the conditions of approval by various ministerial conditions, those commitments will be honoured. That is a positive, but there is no getting away from the fact that there are many negative consequences to mining operations. It is an extractive industry that depletes our resource base. We should keep that in mind when talking about the royalties that are paid to the state. It should be kept in mind also in the context of the federal discussions about the minerals resource rent tax. These companies are depleting our resource base and diminishing the environmental values of the Pilbara. It is unfortunate that many people in my electorate have not been to the Pilbara or have been there only as fly in, fly out workers and do not necessarily

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

have a strong understanding of the environmental values that can be lost through mining activities. It is very important for the community to educate itself about that so we can turn what is presently a loss situation into a win-win situation. It is essential that a company that is digging a huge hole in the ground should be responsible for the environmental improvements to that area. There should be a positive environmental outcome and a good environmental offset as a result of the mining operation.

I am very keen to hear the Premier's views on environmental offsets. The Environmental Protection Authority has done a lot of work on that. It seems logical that if these companies are to make huge profits out of our state—they do make contributions via royalties schemes—we should ensure that there is an environmental benefit, and an offset scheme would do that. It could be as simple as ensuring that the land surrounding the mine site is added to the conservation estate. I note in passing that many of the bioregions of the Pilbara are underrepresented in the conservation estate. Ideally, about 30 per cent of every ecosystem type should be represented in the conservation estate. That is the target we should be aiming for. We are significantly under that target in the Pilbara. We can do other things, too. I commend the companies for their management of the pastoral leases when they are the pastoral leaseholder in addition to being the entity that extracts the mineral wealth out of the ground on the pastoral lease. In those cases the companies do a commendable job of managing the pastoral leases in a superior way to the pastoral leaseholders whose primary land use is for livestock grazing. When mining companies hold a pastoral lease, it is fair to say that it is a nuisance to them to have livestock grazing on the lease and to be responsible for the livestock enterprise. We need to be more flexible and allow an offset mechanism to be put in place that enables pastoral leases that are held by a mining company to not require the mining company to have livestock on the lease. That would meet conservation objectives and enable the company to get on with its mining extractive industry while at the same time giving us a better environmental outcome. There are ways forward.

I will conclude my remarks on the environmental values that could be improved through various offset mechanisms. We need to be active on this front because it is important to note the environmental indicators. According to the Environmental Protection Authority's 2006 "State of the Environment" report, some areas of the Pilbara have up to 14 species of declared rare flora on a terrestrial subregion basis. There is room for the mining companies to be more engaged in improving that situation. Another indicator is the number of threatened and priority fauna per terrestrial subregion. In many parts of the Pilbara there are up to six species of threatened flora. There is definitely scope for improvement. Another good indicator is the incursion of weed species per terrestrial subregion. In the Pilbara in general, according to the "State of the Environment" report, we are looking at an incursion of about 86 different species. That is a very high number compared with other regions. I grant that it is less than the south west of the state, but it is a higher number than in many of the other regions.

There is plenty of scope for mining companies to improve their environmental credentials. As I have said, they have the financial capacity to make those improvements and to be active participants. Often I have been struck by the dedication to the task of many of the environmental officers who work for resource companies. Those companies have the technical capacity and money to do these things. At a very senior corporate level and at the shareholder level there is a desire to see those positive outcomes. This legislation enables the companies to improve their profit margins because it means that they can work more collaboratively with adjoining properties, subject to the public interest assessment test that I mentioned earlier. If we enable resource companies to become more efficient and effectively make more money out of the state, we also have every right to expect higher standards from them regarding their contribution to looking after the environment of the Pilbara, where the companies extract huge profits from and diminish its environmental value in many places.

I have also touched on the issue of the social consequences of the mining operations in the Pilbara. I believe that a lot of work must be done on that matter. We should set ourselves some serious targets to ensure that a much higher percentage of workers are not fly in, fly out workers but are residents of the Pilbara so that those communities can grow. We can save Western Australians and people from the other states from the stresses involved with being a fly in, fly out worker. I am pleased to support the bill and I look forward to hearing the Premier's response to the second reading debate.

**MR R.H. COOK (Kwinana — Deputy Leader of the Opposition)** [7.58 pm]: I rise to make a few comments in support of the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010. It is obviously intelligent legislation in progress. This is the integration of a range of agreement acts, not by substance, but by actions. This bill will substantially allow for the increase in the efficiency and, one assumes, profitability of the iron ore mining industry in the Pilbara, particularly in the case of BHP Billiton and Rio Tinto. The legislation does a range of things that transform the non-integrated stand-alone state agreements to provide a range of efficiencies for the sharing and integration of infrastructure and the blending of mine products to provide a more appropriate product for overseas markets. The legislation will also allow for the cross-sale of product free of royalties; therefore, royalties will be based upon only the final sale overseas. It allows for mine gate sales so that BHP

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

Billiton or Rio Tinto can purchase smaller mining companies' products, again, to integrate and blend into the final product. The legislation also allows for the transfer of infrastructure so that infrastructure nominated and highlighted in and dedicated to a particular state agreement can be carried over to other mine projects.

Therefore, this is a very sensible approach to the plethora of state agreements we have kicking around our system. I do not think that there is a member or participant in public policy who has not from time to time lamented both the extraordinary rights that state agreements provide to mining companies and the clumsiness and rigidity of state agreements in not enabling mining companies to do more creative activities, be more efficient and participate in the global market in a much more modern way. We compete in a global market. Brazilian and other South American companies are competing very aggressively in the global market, investing in very large transport infrastructure and moving a lot of product to the same people we want to sell our product to. Therefore, it is important that the miners of the Pilbara and the Mid West are able to continually improve their processes to ensure that our product remains competitive. However, it is also incumbent on governments and, by virtue of that in this case, Parliament to continue to modify the regimes in which they operate to allow for that increasing competitiveness; to not erode their obligations or provide rights beyond those that they might have always enjoyed under the state agreement process, but simply to provide a commonsense and modern way in which they can participate in the global economy.

It is important to remember that the mining companies also occupy an extremely privileged part of our community. Their role in the community can be no more stated in its importance than the role they play in developing the Aboriginal economy. We all know about the disadvantage and conditions in which a lot of Aboriginal people live in the same areas in which these mining companies operate. We know about the many billions of dollars that mining companies make in profits. We know about the very modest and, indeed, impoverished conditions of a lot of Aboriginal people. In my former role as the CEO of an Aboriginal land council working in both the Mid West and the Pilbara, I saw on a day-to-day basis the incredibly important role that these mining companies play in making their contracts available, creating employment opportunities and nurturing allied and other aspects of the Aboriginal economy to ensure that opportunities continue to be provided. We see a very small aspect of that from time to time in the very fine artworks that both Rio Tinto and BHP Billiton promote as part of their commitment to those local communities. Therefore, as we step forward and change the environment and the regulatory regime in which these mining companies work, we must also be cognisant of the fact that they play this important role. We must constantly assess the role that mining companies play to ensure that they not only meet the detail of their obligations to those communities under either some form of legislation or agreement, but also go further and meet their moral obligations as very large mining companies operating in these areas.

One aspect of this legislation that impacts on Aboriginal people is the provision for the minister to approve proposals before the native title process has been completed. It is noted that approval of the proposals in fact does not grant tenure or in any way compromise the native title process, but it is interesting that although we use these opportunities to smooth the path for mining companies and other proponents for the work they do in this area, we often ignore the opportunities that might come from these proposals to provide other benefits to the community, particularly the Aboriginal community. I am reminded on many occasions of how the native title holders are told about the way they are holding up development and holding up the mining process. Of course, all members will remember the hysteria of the early 1990s whipped up by the Chamber of Minerals and Energy of Western Australia and some of its more active members in scaring the bejesus out of the public that somehow native title was going to spell the end of the mining industry. As we know, nothing could be further from the truth! We have all moved on from those very dark days indeed.

But again we come to this situation whereby the Premier, through the good work of his office and by the drive of this government, has created this great new opportunity for these mining companies to become more profitable and be more efficient, yet we are still to see other aspects of government legislation touch upon these regimes that come into play. One of the areas that I want to talk about in particular is the area of Aboriginal heritage. The Aboriginal Heritage Act in Western Australia was struck in 1972. At that time it was fairly modern legislation. It provided for blanket protection, it provided a positive obligation on proponents to ensure that they did not interfere with the heritage values of a particular piece of land and it placed a particularly strong onus on proponents to ensure that they seek approvals and the appropriate permissions in order not to interfere with the heritage values of the particular patch of land in question. It is also true to say that time has passed that legislation well and truly by. I do not think that there has been a government since 1972 that has not committed itself to a review of the Aboriginal Heritage Act, and this government is no different from the others. I have often imagined that a new Minister for Indigenous Affairs must come into his or her first meeting with departmental officials and say, "I want to review the Aboriginal Heritage Act", and in their minds the officials must cast back to a filing cabinet in the corner of a room at the Department of Indigenous Affairs where in file

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

upon file upon file are reviews of the Aboriginal Heritage Act, all of which were undertaken with great gusto, goodwill and intent but all of which came to nowt. There was a period in the early 2000s when we almost gained the integration of state heritage regimes into a commonwealth regime. I was privileged enough to be part of the negotiating panel that was working with then commonwealth heritage minister, Senator Robert Hill, who —

*Point of Order*

**Mr C.J. BARNETT:** I do not want to be difficult, but to get into a discussion about Aboriginal heritage is a long, long way away from a bill that integrates state agreements on iron ore. Aboriginal heritage is relevant to the industry, but I think there has to be a bit of balance here.

**Mr M. McGOWAN:** I have a further point of order, Mr Acting Speaker. Page 3 of the Premier's second reading speech refers directly to native title processes and native title issues, and measures not intending to circumvent native title. Native title and issues to do with Aboriginal people are intimately involved in this legislation, and I think some latitude needs to be given in light of the Premier's second reading speech.

**The ACTING SPEAKER (Mr A.P. O'Gorman):** There is no point of order.

*Debate Resumed*

**Mr R.H. COOK:** I was going to say that a good agreement was achieved and it was not until the intervention of the Prime Minister of the day that the legislation, unfortunately, was stopped from going ahead. That agreement, and the subsequent legislation and cooperation between state regimes, would have greatly improved the heritage regime that applied across the country. It would have also assisted the iron ore industry to deal with a fairly old piece of legislation. These iron ore companies on an ongoing basis will have negotiations with Aboriginal communities under a range of legislation, including the Native Title Act 1993 and the Aboriginal Heritage Act 1972. Other legislation might include the Aboriginal Lands Trust Act 1996 if there is land associated with that process. This government has gone a long way to improve the efficiency of, and the opportunities for, the mining industry, yet we continue to wait for any signs of an update of the heritage legislation. I refer members to 2 June when the minister reported to Parliament that the department was undertaking a review and a green paper would be brought out around this time of year for consultation and to make sure that it was moving ahead in reviewing the legislation.

Native title is very relevant, Premier, to how we go about improving the processes in the iron ore industry. Having a responsible, modern, appropriate Aboriginal heritage regime is crucial to the success of not only large iron ore companies but also small iron ore companies that are looking to get projects and move them forward. This legislation goes a long way towards assisting those smaller companies with improving their processes to make sure that they can move product to market. It also assists with ensuring that there are appropriate infrastructure connections not only between companies and mining projects but also between companies and other companies. This bill sets out a regime under which infrastructure is shared and consolidated. It also allows for the integration and blending of different iron ore products to ensure that companies have a modern and appropriate product to sell overseas.

As the member for Gosnells just reminded the chamber, it is not too much to ask that these mining companies increase their capacity for environmental protection. It is not too much to ask that the government continue to improve and modernise the heritage processes and that these companies continue to commit to good economic outcomes for the Aboriginal community.

In conclusion, I simply call upon the government to immediately make public this green paper, the investigation and review of the Aboriginal Heritage Act, as it said it would do back in mid-June. I call upon the government to make that paper public so that we can see the sort of considerations it has in mind in relation to Aboriginal heritage. While mining companies continue to enjoy the benefits of a modern mining regime, the Aboriginal community, from whose country the mining companies continue to derive many billions of dollars in profits, would also benefit from a modern heritage protection regime.

**MR E.S. RIPPER (Belmont — Leader of the Opposition) [8.14 pm]:** I will make a few brief comments in support of the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010. I will talk a bit about some of the issues associated with developments in the Pilbara. The scale of prospective developments in the Pilbara is almost unimaginable to those people who are not familiar with it. We are going to see massive development in the Pilbara. It is the task of government, and others, to manage this boom so that Western Australians receive the best opportunities that result from it, so that the benefits of the prosperity are distributed fairly, and so that there is a decent legacy for Western Australia from this growth. Nowhere are these requirements more evident than in the epicentre of the boom in the Pilbara. Mining companies and the government face enormous challenges to get the best value out of what is about to happen in the Pilbara.

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

Let me turn to some of the issues raised by the legislation. The state agreement acts, which in many cases are decades old, contain a mass of rigid requirements for approvals. The number of detailed approvals that historically the Minister for State Development has had to provide in order to allow development to proceed is remarkable. Clearly, the state agreement acts need to be overhauled, modernised and given more flexibility to reduce burdensome approval requirements.

The scale of development proposed in the Pilbara requires a more rational and coordinated approach to the provision of infrastructure. The state agreement acts, rather than promoting such a rational and coordinated provision of infrastructure, have become an obstacle to such sensible and rational development in the Pilbara. Therefore, a piece of reform has become necessary and that has resulted in this legislation coming before the house.

One of the driving forces behind this legislation is the need to increase royalty rates. The work of Sir Charles Court in assisting the development of the resources sector has been widely appreciated. Nevertheless, it is also true to say that one of the legacies left to us by Sir Charles Court is low royalty rates that were difficult to change because of the rigidities of state agreements and the requirement of consent from the very companies that would have to pay increased royalty rates. The need for the public to get a better return from the mineral resources, which are constitutionally owned by the people of Western Australia, has fortunately coincided with the need of mining companies to gain flexibility in the requirements of their state agreement acts in order to proceed with the massive developments that they are anticipating.

The previous Labor government concluded in-principle arrangements with the companies to provide for the payment of full royalty rates on all production from new projects. An agreement was negotiated between former Premier Alan Carpenter when he was the Minister for State Development and the companies. Letters associated with those in-principle agreements were exchanged and there was a process of negotiation on the detailed changes required to the state agreement acts. When this government came to power, it inherited that deal. The deal was ready, or almost ready, for execution by the state government. The current Premier declined to implement that deal. In declining to implement the deal, he took a huge risk with state finances. That deal was worth half a billion dollars over a four-year budget cycle. The global financial crisis meant that the companies were less interested in expansion—at least temporarily. The Premier's failure to execute that deal was a very big risk for the state and its taxpayers. We as a state are fortunate that the companies then proceeded with their joint venture proposal. Their joint venture proposal provided another opportunity for the renegotiation of royalty rates. If that joint venture proposal had not come into play, it is possible that it would have been much more difficult to get the royalty increases, which the Premier threw away when he declined to implement the agreement reached by the previous government. As it happens, we now see agreement to pay increased royalties on all production, not just production from new projects. That is an advantage over the deal that had been previously negotiated. That is the bargaining power provided initially by the joint venture proposal and now by the resumption of a commodities price boom, despite the temporary hiccup in that market caused by the global financial crisis.

The Premier has clearly gone for the money for the state. Therefore, full royalties are being paid. In effect, we are seeing the backdating of full royalties with the payment of \$350 million on the royal assent to this legislation. A lot of debate in Western Australia has assumed that these royalties are ours, that they cannot be taken away from us and that, consequently, they are much to be preferred to the federal government's minerals resource rent tax. That sort of commentary ignores the impact on the GST of royalty revenue. It is the case, to state it bluntly, that the more royalty revenue that we receive, the less GST share we get. What is the reason for Western Australia's low share of the GST? What is the reason for Western Australia's share of the GST further declining? The basic answer is royalty revenue; that is, the more we get in royalties, the more we lose in GST. It is not the nasty Commonwealth Grants Commission. It is not Labor politicians at the federal level. It is the way the formula works, and the formula is derived from the GST deal signed by Richard Court and Peter Costello in 1999. We do not get to keep the royalties in effect because we lose GST for every royalty dollar that we receive. Ultimately, we retain only 10 to 30 per cent of the royalties that we collect. Between 70 and 90 per cent of the royalties that we collect is redistributed to other states in Australia through reductions in our GST share and increases in their share. Naturally, there has been a strong debate in Western Australia about the minerals resource rent tax. I think there has been some exaggeration in that debate, because there is already a loss of Western Australian royalties through the operation of the GST agreement signed, as I once again point out, by Richard Court and Peter Costello. We do not see an immediate loss of royalties; that is, it takes two years for the data to be incorporated in the grants commission process, and that process operates on a five-year rolling average. What can be seen in state finances is that an increase in royalty income is reflected in the early years of that seven-year cycle. However, the full impact of the GST bites towards the end of that seven-year cycle, and, consequently, the benefit is severely reduced. That is a good reason why the early royalty windfalls, which sometimes result in big surpluses, should not be immediately spent because the operation of the GST system will mean that that high level of income is not sustainable.

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

I want now to turn to some of the missed opportunities. Obviously, the Premier got the royalty increase and got mining act royalty rates to be paid. That is a good outcome for the state's taxpayers, but it is not such a good outcome as it could be given the impact of the GST deal and the effect of redistribution of most of it to other states. But there are some missed opportunities with regard to this agreement. The first missed opportunity is the opportunity to have government leadership for the construction of an integrated electricity grid in the Pilbara. Electricity supplies in the Pilbara have been developed as a result of individual decisions by individual companies. Massive benefits are to be gained if we have an electricity market and an integrated electricity grid in the Pilbara. Junior miners will find that the capital they are required to invest in power stations will be reduced because they will have access to power produced by other people. There is the possibility of independent third parties coming in to produce power. There is the possibility of gas-fired power stations replacing diesel-fired power stations. There is the possibility of large solar-thermal plants. When gas-fired power replaces diesel power, there is a significant improvement in the greenhouse impact of that power generation. There is an even better improvement in the carbon footprint of power generation when solar-thermal power stations are used instead of diesel or gas. We will not have these gas-fired power stations or these solar-thermal power stations or the efficiency of an electricity market unless there is an integrated electricity grid in the Pilbara.

I think there is a real role for government leadership in the construction of such a grid. I do not think that taxpayers' money has to be the majority of the money or even much of the money invested in a Pilbara electricity grid, but it requires leadership; it requires the government to get the companies together in order to have the complementary investments made that will result in an integrated electricity grid. I think that the government has missed a major opportunity in not seeking to lead this development. I know that there is support within the companies for such an integrated electricity grid. How do I know that? I know that because in the final months of the previous government, I was pursuing the idea of an integrated electricity grid in the Pilbara, and there was a study into that proposition. That study was not funded by the government; it was funded by the companies, with government leadership. For the companies to be prepared to pay for the study shows that this is not some idealistic dream from someone who does not know much about it. This is genuine. This is real. There is a good chance that this could happen. These negotiations could have been used to promote the idea of an electricity grid in the Pilbara; they could have been used to lever commitments from the companies for cooperation with such a scheme.

There is going to be massive development in the Pilbara. It is going to add to the carbon footprint of the country. If we had an integrated electricity grid, we could have that development with a much reduced carbon footprint. An integrated electricity grid in the Pilbara could be the nation's largest greenhouse gas-abatement project. Members should think about that. They should think about the possibility of leaving the Pilbara with a modern piece of infrastructure as a result of this period of growth, and about the possibility of the nation's largest greenhouse gas-abatement project.

The second missed opportunity is on the question of third party access to the rail infrastructure. The companies made commitments when the initial state agreements were signed to provide for third party access to their infrastructure. Those commitments were drafted at a time when policy was less sophisticated. They have never been, for practical purposes, enforceable. We have not had, for practical purposes, any genuine third party access to rail infrastructure in the Pilbara. A complicated set of legal processes that occur at a federal level can result in private monopoly infrastructure being declared for the purposes of third party access. Those legal processes have not yet produced any genuine third party access. It was our view, when we were in government, that the best way to proceed was to promote a third party haulage regime. We, in fact, established a Pilbara rail access interdepartmental committee, known as PRAIC, to develop a model for a rail haulage regime in the Pilbara, and there were significant negotiations with BHP Billiton at the time on that haulage regime. I would be very interested to know from the Premier what has happened to the work of that Pilbara rail access interdepartmental committee. I would be very interested to know from the Premier whether the government is pursuing the goal of establishing a regulated haulage access regime in the Pilbara to assist those junior miners.

The third opportunity that the Premier has missed in these negotiations is the opportunity to redress the position of local governments in the Pilbara. Local governments have not been able to collect their share of revenue from Pilbara developments because of rates concessions imposed in state agreement acts. The government talks about its royalties for regions program and its investments in the Pilbara, but it still inhibits local governments from collecting what they regard as their due through local government rates.

[Member's time extended.]

**Mr E.S. RIPPER:** I think it can be argued that the Premier went for his objective, which was money for the state government, and put good policy on rail access lower down the priority list; and he put local government revenues even further down the priority list. Rail access and local government revenues were not given enough priority in the negotiations. The Premier went for the money for the state and left those other things lower down

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

the list and undone. The tragedy of going for the money for the state is, in effect, that we are assisting Tasmania, South Australia and the Northern Territory. We only keep, I repeat, once we have gone through that seven-year cycle, 10 to 30 per cent of the additional revenue that we raise courtesy of the GST deals. Whenever members hear complaints about WA's GST share, the reason is additional royalty income. The formula is not political. It is not something that federal Labor did and it is not even bureaucratic in the sense that the Commonwealth Grants Commission has gone off on a frolic of its own. It relates specifically to the arrangements agreed to in 1999 between Richard Court and the now Premier, who was a member of the budget committee, and Peter Costello, the Treasurer in John Howard's government.

The other issue that I want to briefly talk about is water issues in the Pilbara. The government has agreed on a desalination plant to provide augmentation to the West Kimberley water supply. That plant is a phenomenally expensive plant. It will cost \$370 million to build, and it will provide only six gegalitres of water. The annual subsidy to that plant will be \$40 million. I ask members to have a think about this: over a four-year budget cycle, the cost of the plant will be \$370 million and the cost of the subsidy will be \$160 million. Therefore, state debt will go backwards by more than half a billion dollars over a four-year budget cycle to provide just six gegalitres of water. I would be very interested to see the government's cost-benefit analysis for such an expensive investment. It looks to me as though the government was under pressure to do something about water supply in the west Pilbara and the quickest, albeit the dirtiest, way to go was a straight government investment in desalination. I have had plenty of discussions with people interested in water supply in the west Pilbara, and there are all sorts of other proposals that might have come forward had the government properly engaged with the private sector on a West Kimberley water supply.

**Mr C.J. Barnett:** Karratha would have run out of water!

**Mr E.S. RIPPER:** That is the issue. The Minister for Water mucked around for two years and the Barnett government was left with an urgent need to do something, and the only thing the government could do, apparently, was make this direct investment of taxpayers' money that will cost half a billion in state debt over four years for a very expensive desalination plant. If the Premier had got on with it, he might have been able to —

**Mr C.J. Barnett:** You would be the last person to talk about getting on with it! You were the most inept minister we have ever seen. You couldn't even pick up the phone and Inpex lost a \$15 billion project, and you come in here and talk about desalination. You are a joke—an absolute joke!

**Mr E.S. RIPPER:** That is the Premier's pompous, arrogant approach. Let us not even go there. If the Premier had got on with it —

**Mr C.J. Barnett:** What did you do for eight years for water supply to the Pilbara? Nothing! Not a thing!

**The ACTING SPEAKER (Mr A.P. O'Gorman):** Premier! The Leader of the Opposition has the call. You know it is unparliamentary to interject. I ask you to withhold your interjections and allow the Leader of the Opposition to make his speech.

**Mr E.S. RIPPER:** The issue here is that the Premier left his decision making to such a late stage that there was only one option, apparently, available to him to supply the water. This is phenomenally expensive. Members should think about it: six gegalitres of water, and the subsidy per kilolitre of water is \$6.60. That is more expensive than the subsidy at the time the Premier proposed his far canal project. It is the most expensive water the state has ever heard of for a large-scale project. I know that big mining companies were involved with proposals to use their mine dewatering water, which is very high quality, as the basis for a water supply in the Pilbara. I think the government should have done a lot more to engage with the private sector on those types of proposals, because they might have given a more effective and more cost-efficient water supply than this extremely expensive desalination process. I regret that the government did not cover water issues in more substance in negotiations with the companies on these changes to the state agreement acts. Members sitting on the back bench might ask, "What's it to me if half a billion dollars goes on a desalination plant in the west Pilbara?" I can tell those members what it means to them. It is a school, a road, a hospital or an electricity network augmentation in their electorates that cannot be fitted in within the limitations of state borrowing, because so much state borrowing has gone to this very expensive last-minute urgent project in the Pilbara. I repeat, if the Minister for Water had engaged on this issue when the opposition was urging him to, there might have been a better outcome for the taxpayers of this state and for water security in the west Pilbara.

Labor supports this legislation. I repeat that the royalties outcome is not as good for the people of Western Australia as it might have been because of the GST share deal agreed to between Richard Court and Peter Costello, and there are missed opportunities to promote an integrated electricity grid in the Pilbara, missed opportunities to promote a rail haulage regime to advantage junior miners in the Pilbara, missed opportunities to

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

look after local government rates revenues and missed opportunities to deal with the pressing issues of water supply in the Pilbara.

**DR M.D. NAHAN (Riverton)** [8.39 pm]: I will make a few comments on the Iron Ore Agreements Legislation Amendment Bill (No. 2) 2010 both in relation to the agreement itself and also the importance of agreement acts in general. I will also respond to some of the statements made by the Leader of the Opposition.

This is an unambiguously good outcome for Western Australia. It has been an aim of governments for a long time to alter the dispensation or the lower royalty rate given on fines to the early miners. These royalty rates reductions were given with the aim of facilitating downstream processing and to try to address the problem, when the mines were first started, of fines being of a lower use. As time went by, the market value of fines increased. And, of course, downstream processing did not take place. The issue was how to go about increasing the royalty rates.

One of the cornerstones of Western Australian development is, in fact, the agreement acts. The process is unique to Western Australia, though I think Queensland had some in the past. As I understand it, Queensland moved away from agreement acts. In fact, there is a trend or quite widely held view that agreement acts no longer have a major role to play and that we should at least reduce them if not do away with them altogether. I disagree. Western Australia has a quite unique mineral base, particularly in iron ore. It requires long-term investment involving multi-billions of dollars. The miners have to put in huge infrastructure—rail; ports; in the past, town sites; water; and electricity—at a cost of billions of dollars and which will go on for decades. The world is an uncertain place. Our agreement acts are basically a contract between the Parliament of Western Australia and the developers that outline each others responsibilities and where there are areas for negotiation and flexibility. They provide the proponents with a level of certainty second to none. Of course, as all contracts do, they restrict the flexibility or unilaterality of one party to change, but that is the nature of the agreements and that is actually one of their strengths. Once there is an agreement in place, the government cannot unilaterally decide to change certain terms of the contract. Early on, the agreements actually specified royalty rates. As time went by, some of the royalty rates were left out of the agreements. Nonetheless, the early agreements specified the royalty rates and that gave the developers a great deal of certainty. In response to that certainty, they invested hugely in infrastructure. I will talk about one of the interesting things, which the people in Canberra miss out. The comparative advantage Western Australia has in iron ore does not lie with its iron ore resource. Western Australia's comparative advantage and the reason it was able to respond very rapidly to the growth in demand from China both before and after the global financial crisis is that it had huge and world-class infrastructure in terms of the processing facilities, the people and teams working with it, the rail and the ports. It had the infrastructure that was able to move the mountain to the port and to China.

**Mr E.S. Ripper:** And the infrastructure was capable of relatively rapid expansion.

**Dr M.D. NAHAN:** Yes, and that is the key comparative advantage of the Western Australian system. South Africa has equivalent resources, but it simply does not have the logistical infrastructure to bring it to port. That is one of the weaknesses of the super tax or the mining tax—the federal government thinks that the value of the operation lies in the resource rather than in the infrastructure. It is going to try to tax the resource, assuming that the resource cannot move around, but it will actually tax the infrastructure, and the infrastructure simply will not be reinvested as it has been in the past.

The agreement acts pursued by Western Australia are a unique but excellent mechanism for addressing issues between developers and the state, particularly for very large projects. The positive outcome of this bill is not only the lump sum payment and the increase in the royalty rates on fines, but also that the agreement was reached in a very amenable manner and that there was not huge argy-bargy. Both Rio Tinto and BHP have plans for massive increases in infrastructure and expansions. This took place in a rather positive manner.

As I understand it, the lump sum payment will not affect our grants. It depends on how the Commonwealth Grants Commission rules. Sometimes it has rulings in which lump sums are included in the grants commission process. That is yet to be determined. The royalty rates will be wound back in the grants commission process, but I think the lump sum payment will not be to date. A couple of comments have been made repeatedly in Parliament about the grants commission process and the goods and services tax. I think members opposite get those two purposefully confused. There are two things about how we get money from Canberra in terms of general purpose grants. First, the money that comes from the GST, which is raised on most expenditure, is put into a machine called the grants commission fiscal equalisation process and redistributed back to the states. The question about our share is not determined by the source of the money—the GST—but rather the grants commission process.

**Mr E.S. Ripper:** Yes, but when the GST agreement was signed, it was directed that the grants commission process would apply to its distribution.

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

**Dr M.D. NAHAN:** As it did before. To my knowledge, none of the grants commission processes was changed. They evolved after that, but the GST deal did not change the grants commission process.

**Mr E.S. Ripper:** But that was the big opportunity, was it not, to change the processes? It was missed.

**Dr M.D. NAHAN:** Yes, it was a big opportunity. But as the Leader of the Opposition well knows—he was involved in a couple of these debates and, when in government, in attempts to change it—we have a real problem at a state base. It is a zero-sum gain, if members wish. Some states lose and some states win from any changes to the grants commission process. Commonwealth governments will always say, “You go out and decide and then tell us”, knowing full well that there will be no outcome.

**Mr E.S. Ripper:** That was Peter Costello’s approach.

**Dr M.D. NAHAN:** Every federal government in memory has done that, except Bob Hawke’s government way back in the 1980s. He lost the prime ministership on that basis, if the Leader of the Opposition remembers. The issue in terms of share is not a problem with the GST but a problem with the grants commission. Treasury officials have indicated to the Premier that, under the conditions forecast, if our share of GST drops below 50 per cent, it will be a real issue.

**Mr E.S. Ripper:** I once had cause to ask Treasury whether it could take us below zero.

**Dr M.D. NAHAN:** Yes.

**Mr I.C. Blayney:** What did they say?

**Mr E.S. Ripper:** They weren’t entirely sure that they couldn’t get at us even if it dropped to zero.

**Dr M.D. NAHAN:** It depends how well New South Wales and Victoria go. How we go about changing the grants commission process is this state’s biggest long-term challenge. If a significant change were made, Tasmania and the Northern Territory would steer towards bankruptcy. The level of transfers they get through the grants commission, largely via us, is huge. An issue faces members on both sides of the house; that is, to argue the case that the grants commission process, which was set up in the 1930s after a fiscal crisis, no longer fits and needs to be changed significantly. We have to come up with a model. The Premier has suggested that we put a floor of 75 per cent on that. That is one way to do it. Canada has two parts. Part of the transfer to the commonwealth is for redistribution, so that all the provinces can provide similar levels of services—that is equalisation—and another one is just a per capita payment. We could evolve towards something like that. It would require a transitional period for Tasmania, South Australia and the Northern Territory, and that could be negotiated.

**Mr C.J. Barnett** interjected.

**Dr M.D. NAHAN:** Yes.

**Mr E.S. Ripper:** It would spark up their politics in Tasmania!

**Dr M.D. NAHAN:** It would, significantly, since they are now dismantling one of their sole export earners—namely, the native timber industry.

How we go about effecting change, particularly with a fragile Parliament in Canberra, is the big question, but that is what must be done. I believe the Gallop government, in conjunction with the New South Wales and Victorian governments, started a process and hired a number of groups to argue the case.

**Mr E.S. Ripper:** I commend to you the report by Vince FitzGerald and Ross Garnaut.

**Dr M.D. NAHAN:** Allen Consulting Group.

**Mr E.S. Ripper:** Unfortunately it went nowhere, but it would be interesting to see whether Victoria and New South Wales would still support it.

**Dr M.D. NAHAN:** It went nowhere, but as I remember, the problem at the time lay with Western Australia making changes to the Commonwealth Grants Commission that benefited Western Australia, and there was less of an incentive to remain in the coalition at that time. I think they treated capital a bit differently, if I remember correctly, and Western Australia went from a contributor to a claimant state again, along with Queensland, which had always been a claimant state. Partners have to be found—namely, New South Wales, Victoria, and maybe Queensland—and some sort of alternative has to be developed, which is our biggest challenge.

I turn now to the subject of the grid in the Pilbara, which has often been discussed. A central issue to the agreement we are debating now is whether we should negotiate the necessary changes to a range of agreement acts that have been established over 40 years. What should we open up and should we use those as leverage? The

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

Leader of the Opposition suggested that since they were going to be opened, we should use the opening up to achieve not money in hand, because the commonwealth would take it away from us at least in part.

**Mr E.S. Ripper:** No, I am happy for us to get the royalty increase, even though I am sceptical about the long-term real benefit.

**Dr M.D. NAHAN:** Yes, but we have to deal with the grants commission process irrespective of whether we get more royalties or remain with what we have now. If the forecast trajectory from Treasury is accurate, we simply will not be able to meet many of our obligations, be they infrastructure or recurrent expenditure. An important thing that Canberra does not seem to understand is that liquefied natural gas projects, from which all the revenue goes to Canberra, but, more importantly, mining projects—particularly those of the junior miners—require large amounts of up-front capital, both social and economic, that the state is required to pay, and if the money is quickly going to Canberra and being spent in New South Wales or Tasmania, that will undermine our ability to provide the necessary capital.

**Mr E.S. Ripper:** Let alone the demands of our population as they pay increased prices for everything because we have a resources boom on.

**Dr M.D. NAHAN:** That is right.

My own view is that the Premier did the right thing. The issues of the agreement were opened up and the debate on the table at the time was the fines royalty but he also allowed for changes to downstream processing requirements, and he did a deal. If, for instance, we followed a couple of areas that the Leader of the Opposition suggested, I think we would never have gotten a deal.

The Pilbara grid, which we have debated and which was a pet project of the former member for Armadale, has merit in the long term—it does. Horizon Power, I think, has forecasted 2 000 megawatts of baseload demand into the future, over the next decade or so; that is huge growth, and there could be substantially more. A number of power stations are also being built in isolation, and if they could be put on some sort of grid system it could improve efficiency, build flexibility, and add capacity to the system for junior miners and other smaller developments that cannot afford to pay for the infrastructure. The problem is that this takes a great deal of planning, and a key issue that must be addressed in the operation of a grid, before it happens, is whose priority it operates by. Right now, all the miners, largely, operate their own power stations to their own demands and their own requirements 24/7, and security of supply is paramount. They cannot afford outages or breakdowns. Basically, since all these things are gas-fired baseload power, they just operate 24/7. If we were going to have a grid system to connect urban areas—limited as they are—or tack on small miners, then we would have a multiplicity of objectives to decide on and fulfil. Then the big miners would say that they are worried that if they are part of a grid, by contributing their power stations to the grid and allowing them to be operated under the rules of somebody else, what would the rules be and would they be worse off.

**Mr T.G. Stephens:** Can I say to that, though, that in the case of the Tom Price and Paraburdoo communities, those communities are hanging off a power supply that's first priority, from the company's point of view, is to look after their mine sites.

**Dr M.D. NAHAN:** Yes.

**Mr T.G. Stephens:** So they look after their mine sites and don't mind shutting off a town, in the absence of a grid that looks after a significant community.

**Dr M.D. NAHAN:** Do they shut off the power to Paraburdoo?

**Mr T.G. Stephens:** They do, and they have.

**Dr M.D. NAHAN:** Have they?

**Mr T.G. Stephens:** And the town goes down.

**Dr M.D. NAHAN:** Paraburdoo is a mining town created by the firm, right? It is the only operation in Paraburdoo.

**Mr T.G. Stephens:** Yes, but Tom Price and Paraburdoo are towns with residents who have an entitlement to power like any other citizen of Western Australia—maybe more than most because they produce more than most!

[Member's time extended.]

**Dr M.D. NAHAN:** As I said, there is case for that, and we have Horizon Power operating up in the north to provide power to urban areas. Right now we have the mine sites operating for their own purposes, and there is a case for that. But it will be a long-term project to negotiate how the grid will work and under whose priority, and

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

who pays. There will be questions around what the source of energy will be. If we started loading the grid up with windmills and solar cells, the costs would increase significantly. As I think the Leader of the Opposition suggested, we should use this grid as a hallmark investment for minimising greenhouse gases. That is a laudable aim, but how it would be achieved is questionable, and also why should it be there. I think there is great capacity for integrating it and increasing the scale of the units that are operating. CITIC Pacific just built a very large gas-fired power station, and it seems to me that there could be huge gains from putting that on a grid. But that will take time.

**Mr E.S. Ripper:** There would be big gains in the long run.

**Dr M.D. NAHAN:** And it will require some agreement as to how the grid will be operated, who the operator of the grid is, what the priorities are, what the conditions are, and what types of power will be built there.

Rail access has been one of the biggest and most contentious common-user issues in Australia for 10 years. There have been numerous cases on it and the Australian Competition and Consumer Commission has ruled on it repeatedly. If members read the legal judgements, one of the key issues up in the north, particularly with BHP and Rio Tinto, is that they argue—it is debatable—that these are not just ordinary resources and that rail lines are an integral part of their operations. More importantly, they argue that they are expanding operations so there will be 100 per cent capacity utilisation of the rail facilities. There may be times when there may be surplus capacity, but there must be negotiation around when that surplus capacity will be available and whether the rolling stock—its origin and destination—would fit with the operations of Rio Tinto and BHP. That will take time. There are formal processes to it. The member for Kalgoorlie, who is not in the house, made a very important statement today; that is, whatever we do, we must ensure our mines continue to operate at a world-class level, particularly our big ones but also our small mines. What the member for Kalgoorlie said is absolutely right—we are going through a period of change in which China has come in and has, quite rapidly, become “the” world steel producer. I think it now produces more steel than Europe and Japan combined. It went from a minor producer to the world’s largest producer in less than 10 years. Most of that steel is being used in its own development, but eventually China’s development levels will level off. All other countries that in the past went through this major development grew very rapidly in terms of infrastructure, but eventually it levels off. As the member for Kalgoorlie quite rightly said, when other ore bodies, particularly in Africa, are brought online—whether it is Rio Tinto’s investment or China’s investment—we will see additional sources of supply and volumes in competition with Western Australian output and prices will drop. I believe the key objectives of Rio Tinto and BHP Billiton, and everybody else, are to get into the market quickly and get the contracts and systems lined up so they are there first. We have to assist them in getting their expansion up first by making sure that we do not load it with unnecessary cost, so that when the prices come down, they remain as they were before the China boom; that is, the most cost-competitive producers of iron ore in the world, particularly towards China. That is their objective. Rail access is a very important issue with small miners but we do not want to undermine the alterations of these agreements to achieve that. There are other ways to do that.

One of the important debates that the opposition leader pointed out related to royalties. I remember years ago we had a review of royalties. The issue was how to get returns from mining resources. Do we put a royalty on them, which is transparent, open and applies to everybody, or do we go out and say to large miners in particular that we want payment in kind, like rail access or grid, water, or something of that nature?

**Mr E.S. Ripper:** The grants commission cannot get it, though.

**Dr M.D. NAHAN:** The grants commission cannot get at that—that was the debatable point. The problem is it increases sovereign risk significantly. One negotiates by saying, “I want you to build a port. I want you to build excess capacity for the junior miners. I want you to build excess capacity in your rail line so that you can use it for somebody else.” Firstly, that causes an excessive cost to miners that, as the member for Kalgoorlie said, we do not want to load them with. Secondly, it causes sovereign risk. The miners come into the deal but they do not know what they will be asked for, particularly if there are minor changes in agreement acts. I believe that the appropriate thing to do is solve, as best we can, the distortions of the transfer from Western Australia that underlies the grants commission rather than start allowing excessive costs to miners.

I might add that if we look around the world, large numbers of nations have resources but those resources are not being developed. Resources can be a curse. One of the causes of the curse is that people start to try to grab it instead of negotiating for it, which in turn leads to a lack of transparent deals rather than transparency through royalty rates. This deal is excellent for Western Australia. It shows the continued importance of the agreement act. It also shows how we can vary agreement acts and modernise them over time. The fact the bill comprises 1 000 pages shows that it should have been done some time ago. There are a large number of infrastructure needs out there. The Pilbara grid should be looked at. Water is a major issue. I would argue that gas pipelines and rail access are other issues, but this agreement achieved a very good outcome. There are other ways to achieve those

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

needed pieces of infrastructure. The real challenge all of us here face is to convince our colleagues in other states, and in Canberra, to start looking at state–federal relations in particular, but more importantly, how the nation’s and Western Australia’s fiscal largesse is allocated primarily to the needs where it is being generated out of Western Australia.

**MR C.J. BARNETT (Cottesloe — Minister for State Development)** [9.05 pm] — in reply: I thank members for their contributions to this debate. I particularly thank the opposition for its indication of support for this legislation. It was a wide-ranging set of good contributions, not so much talking about the intricacies of this bill but a more broad debate about the iron ore industry in the Pilbara.

The member for Rockingham talked about the history and the growth of the iron ore industry, and also the role of state agreement acts. He made some philosophical points. The point I would make about the variations is that it reflects a deal. One can either be perfect or do nothing. This is the deal that the government struck with BHP Billiton and Rio Tinto. I think it is a good deal. It got rid of the concessions. It has generated an extra \$300 million a year in revenue and it will generate a \$350 million lump sum payment. It was a significant reform; something that had been talked about for at least 20 years but has now finally been achieved.

The member for Rockingham outlined how the proposed joint venture basically fell apart when it was clear that BHP and Rio would not get European Union agreement. When the proposed production joint venture was first announced by BHP and Rio—in fact a total merger—I said there were four issues. One was royalties. This bill, and a previous bill, has dealt with that. The other issue was stamp duty. I was concerned that the two companies may be trying to structure the deal in a way that they would not be liable for stamp duty. As it was, stamp duty did not come into play because they did not enter into a merger arrangement. However, in effect, as part of this deal the state extracted a \$350 million payment.

All parties, the government and the two major companies, have recognised the growth of rail access. We have also had lines declared through national competition. There is a preparedness on the part of the companies to negotiate access arrangements or haulage arrangements. That is continuing. I guess the proposal put by BHP with Atlas Iron is the first sign of that.

There was some discussion about local government rating. That is not a new issue. When I was a minister in the 1990s we introduced a rate equivalent for BHP with respect to the failed hot briquetted iron plant. That is the way the issue should progress. A number of members raised the issue of local government rating. It was not something that should properly have been included in this particular variation to the agreements, but as I said to the member for Kalgoorlie, I undertake to try to negotiate a rate equivalent payment to apply in the Pilbara and presumably other agreement act areas. I think local government needs to be a little bit —

**Mr E.S. Ripper:** Hasn’t the government lost its leverage on that issue now?

**Mr C.J. BARNETT:** No, not at all.

Local governments need to be a little conscious, though, that if they succeed in getting a rate payment, some of the companies may exit the area of community contribution. In some cases some communities may be worse off. I think we have to be quite careful in how we work. For example, BHP, over the years, has received a fair bit of criticism for not doing enough in Port Hedland. Having been in Port Hedland in the past few weeks, I was overwhelmed by how much BHP is doing in that community. I would suggest it has contributed far, far more in terms of community contributions than ever would have been achieved through a rate payment. It is a double-edged sword in that regard. I undertake to try to resolve an issue which has been around for 20 years and which must be resolved. The member for Pilbara commented on state agreements. I do not think he has ever been a fan of them, but they have facilitated development. They have changed over the years since they were first used. They are prestigious to the companies and allow the state to strike a deal. Perhaps that is a strange rationalisation for it, but if we did not have a vehicle like a state agreement, the state would have very little ability to negotiate and bargain for the use of its resources, and this is an example of striking a deal. The member referred to the Mesa J issue. I commented by interjection that both sides were at fault in that case. However, I compliment Rio Tinto because it sat down with the state government and reached a fair deal. True to its word, the cheque for \$55 million was in the post the next day. That money will go to the construction of the new children’s hospital. That is a benefit to not only Perth, but also the Pilbara. Many children from the Pilbara are evacuated from the Pilbara and cared for at Princess Margaret Hospital for Children. The high labour turnover in the Pilbara is a problem. A number of members raised the issue of fly in, fly out workers. It is a concern that about half the workforce comprises fly in, fly out workers. It is concerning also that on a regular basis about 4 500 people fly from the eastern states, New Zealand, South East Asia and even the United Kingdom. The member for Pilbara also talked about the amenities of towns and downstream processing. Despite all the attempts over 50 years, we

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

will never turn mining companies into manufacturing companies. I have spoken in this house recently about a new and modern approach to that, which is why the development at Oakajee is so important.

The member for Cannington talked about the availability of investment funds, rail access, value adding and the like. He is right about investment funds. They provide a pool of funding, whether it is from superannuation or insurance groups, that can properly be applied to infrastructure development rather than mining development as such. That is what I would hope to see from a project like Oakajee.

The member for North West raised a number of issues that he has spoken about at length before, including water issues in the Pilbara. The government has made a decision on the desalination plant. I note the criticism of members opposite, but we will not allow the Pilbara, and Karratha in particular, to run out of water. We will be dealing shortly with the water supply for Onslow and Port Hedland. We have made the correct decision. The desalination plant has the capacity to grow significantly beyond six gigalitres and will be flexible. If we get three or four cyclones in the Pilbara, we will not need to desalinate the water in the Pilbara, but if we do not get three or four cyclones, we will need an emergency supply. The desalination plant will be the safeguard for the towns in the Pilbara.

**Mr E.S. Ripper:** Are you prepared to make available to the house the financial analysis for your decision?

**Mr C.J. BARNETT:** No, I am not.

**Mr E.S. Ripper:** Why not?

**Mr C.J. BARNETT:** Because I do not want to.

**Mr E.S. Ripper:** That's an outrageous statement.

**Mr C.J. BARNETT:** Well, cop it.

**Mr E.S. Ripper:** I think you'll cop it for making such a pompous statement. What would be wrong with giving us a financial analysis to justify it?

**Mr C.J. BARNETT:** I do not trust the Leader of the Opposition and I have very little respect for him.

**Mr M. McGowan:** What about the public?

**The SPEAKER:** Members!

**Mr M. McGowan:** Doesn't the public have a right?

**Mr C.J. BARNETT:** Yes, and we will account to the public for everything we do.

With regard to land supply, the royalties for regions funding is transforming the Pilbara towns of Karratha, Port Hedland and some inland towns. It is a remarkably big project that will cost \$1 billion over four years. Anyone who goes to Karratha, and particularly Port Hedland, will see a scale of development and a number of projects being undertaken that has not been seen in the Pilbara for more than 20 years. In fact, it probably has not been seen since the development that occurred during the 1960s. In the 1960s, a Liberal government developed the Pilbara, and a Liberal government has redeveloped it in this century. It was the bleak, dull and lifeless years of Labor in between when nothing happened.

**Mr M. McGowan:** We might go into committee after all. You have not answered any of my questions.

**Mr C.J. BARNETT:** I did. I went right through the member for Rockingham's speech. The member actually gave a decent speech. It is rare when I pay a compliment, but it was actually a good speech. For the member, it was a particularly good speech.

**Mr M. McGowan:** You said that last week about one of my speeches.

**Mr C.J. BARNETT:** I think the member has potential.

**Mr T.G. Stephens:** You didn't answer any of the points of the member for Rockingham.

**Mr C.J. BARNETT:** I did. Read *Hansard*.

**Mr M. McGowan** interjected.

**Mr C.J. BARNETT:** I went through it. Read *Hansard*.

The member for Gosnells raised social factors about the quality of life and fly in, fly out workers and talked about the environment and environmental offsets. A good example of that is Gorgon. He also made some good points about pastoral leases. The member for Kwinana properly acknowledged the significant efficiency gains that this legislation means for BHP and Rio Tinto, and therefore for the biggest part of the Western Australian

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

iron ore industry. It is in all our interests for the iron ore industry to be world competitive because there is no doubt that the growth in demand for iron ore will taper off at some stage. That may be a decade away, but when it does taper off, the survivors will be the low-cost producers. The investment in infrastructure that will flow from this legislation will allow for better than world-class infrastructure to be put in place. The member for Kwinana also talked about all the failed attempts to review Aboriginal heritage. He is probably right about that. It is a confusing, complex piece of legislation. A huge amount of effort goes into probably fairly marginal heritage protection gains, yet the history of important Aboriginal heritage has been one of neglect. The Leader of the Opposition basically talked about what a fantastic job he did and about what a lousy job this government has done. That sums up his speech. He talked about the boom. This state is not in a boom. There certainly is a massive mining expansion but one need only look at the housing and retail sector —

**Mr E.S. Ripper:** Many people are missing out.

**Mr C.J. BARNETT:** They are not missing out. There is a myth about the boom. The Leader of the Opposition's colleagues in Canberra keep talking about the boom. Some of those members ought to look at some of the suburbs of Melbourne, Sydney and Adelaide. I know more about their electorates than they do. How could they talk about a boom if they understood the realities of the economies of those states? The Leader of the Opposition also talked about the electricity grid. There certainly are opportunities to improve sharing the electricity. Again, I remind members that the Pilbara is prone to violent electrical storms.

**Mr T.G. Stephens:** Have you seen the powerline between Karratha and Port Hedland? There is a 200-kilometre powerline and it has never gone down. Have you looked at the powerline between Karratha and Port Hedland?

**Mr C.J. BARNETT:** I heard the member's speech. I do not think he knows much about his electorate. If he did not spend his entire parliamentary career in Shenton Park and actually spent time in the Pilbara, he might be up to date about what is going on in the Pilbara.

**Mr T.G. Stephens:** Do you think that wounds me?

**Mr C.J. BARNETT:** The only thing the member has ever approached me about regarding the Pilbara is whether he could have a ride on the Premier's plane. I offered it to the member and he did not turn up. I will not do that again. All the member for Pilbara is worried about is his creature comforts.

**Mr T.G. Stephens:** You are a creep.

**Mr C.J. BARNETT:** A creep?

**Mr T.G. Stephens:** You are a creep.

**Mr C.J. BARNETT:** What a horrible thing to say.

**Mr T.G. Stephens:** You are a creep.

**Mr C.J. BARNETT:** At least I live in my electorate and work for my electorate. Third party haulage —

**Mr T.G. Stephens:** You steal money out of other people's electorates and put it into your own.

**The SPEAKER:** Member for Pilbara!

**Mr R.F. Johnson:** We could sit late on Thursday.

**Mr C.J. BARNETT:** And Friday; we have Friday.

**Mr M. McGowan:** This is encouraging us to go into committee.

**Mr R.F. Johnson:** It's in response to some of the rubbish that was said.

**Mr C.J. BARNETT:** The member for Rockingham should have heard it. He was not here. He gave his speech, which was a good speech, and then walked out and I had to listen to all the other rubbish.

**Mr M. McGowan:** You were asleep for most of the debate.

**Mr C.J. BARNETT:** I was here. I sat through all the speeches. I doubt that I missed more than five or 10 minutes of the debate; I listened to everyone's speech.

**Mr M. McGowan:** I said three times during my speech that I supported the bill and at the end you asked me, "Do you support the bill?"

**Mr C.J. BARNETT:** I just wanted to get it clearly on the record.

The discussions between BHP Billiton and Atlas Iron are a first step forward for third party haulage agreements. If that comes to fruition and if there is—I hate the word—a "hub" for smaller producers to deliver iron ore that can be conveyed to the port, it will open the door for a lot of smaller producers and for otherwise marginalised or

**Extract from *Hansard***

[ASSEMBLY — Tuesday, 23 November 2010]

p9334c-9365a

Mr Mark McGowan; Mr John Bowler; Mr Tom Stephens; Mr Bill Johnston; Mr Vincent Catania; Mr Chris Tallentire; Mr Roger Cook; Mr Colin Barnett; Acting Speaker; Mr Eric Ripper; Dr Mike Nahan

---

isolated smaller deposits to be commercialised. I hope that will be successful. The member for Riverton gave a sparkling speech—that is the only way I can describe it—about the long-term economics of the industry, which is an industry that he knows a great deal about.

I thank members opposite for their support for this legislation. It is a good result for Western Australia. The bill is 1 000 pages long and there has been extraordinary effort in its preparation and drafting. I acknowledge the work of the State Solicitor, the Department of State Development, the Department of Mines and Petroleum and the Department of the Premier and Cabinet. There has been an enormous effort in government to bring this legislation to this stage. I also thank BHP Billiton and Rio Tinto and their substantial teams of people who have worked on this legislation. The bill comprises 1 000 pages and it is incredibly complicated, modernising and integrating 11 agreement acts across two companies in one go. It has been done in a short time and the reward for the state is basically \$1 billion. This is one of the most productive and best efforts from the Western Australian state public service that I have seen in my time in politics, and it has earned \$1 billion for this state—it has paid for half of the new children's hospital. Therefore, it is a good outcome for Western Australia and I thank members for their support of the legislation.

Question put and passed.

Bill read a second time.

Leave denied to proceed forthwith to third reading.