

Chairman; Ms Alannah MacTiernan; Mr Bill Marmion; Mr Chris Tallentire; Mr Ian Blayney; Mr Paul Miles; Mr Andrew Waddell

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**Geraldton Port Authority —**

Mr M.W. Sutherland, Chairman.

Mr W.R. Marmion, Parliamentary Secretary representing the Minister for Transport.

Mr I.W. King, Chairman.

Mr P. Klein, Chief Executive.

Mr E. Curry, Chief of Staff, Office of the Minister for Transport.

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

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

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

The parliamentary secretary may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the parliamentary secretary to clearly indicate to the committee which supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the parliamentary secretary's cooperation in ensuring that it is delivered to the committee clerk by Friday, 5 June 2009, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and accordingly I ask the parliamentary secretary to cooperate with those requirements.

I caution members that if a parliamentary secretary asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the parliamentary secretary agrees to provide will be sought by Friday, 5 June 2009.

I now ask the parliamentary secretary to introduce his advisers to the committee.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Armadale.

**Ms A.J.G. MacTIERNAN:** I note that there is not a great deal of new expenditure in the budget. There are some miscellaneous works listed for 2009-10. What current volumes are going through the port, and where is the port at with its program for the new rail infrastructure—rail unloading equipment that is needed to handle increased volumes of iron ore? What are the current iron ore volumes, what does the port anticipate those volumes to be over the next couple of years and how will the port deal with those volumes without an upgrade to the rail unloading infrastructure?

**Mr W.R. MARMION:** I will refer this question to Mr Klein.

**Mr P. Klein:** Our trade forecast for this year is 7.7 million tonnes.

**Ms A.J.G. MacTIERNAN:** Is that for 2008-09?

**Mr P. Klein:** Yes.

**Ms A.J.G. MacTIERNAN:** How much of that is iron ore?

**Mr P. Klein:** Between 4.4 million and 4.5 million tonnes is iron ore. That is supplied by Mount Gibson Iron and Crosslands Resources Ltd.

**Ms A.J.G. MacTIERNAN:** What about 2009-10?

**Mr P. Klein:** At this stage we are looking at recently revised forecasts of about 7.1 million tonnes based on a later start to the season and therefore our expectation of lower grain.

**Ms A.J.G. MacTIERNAN:** How much of that is iron ore?

**Mr P. Klein:** We anticipate it being equivalent to what we are doing this year. We do not see any new start-up over the next 12 months.

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**Ms A.J.G. MacTIERNAN:** What is the growth trajectory for iron ore beyond that, as some new projects will be coming on?

**Mr W.R. MARMION:** I will defer to Mr Klein.

**Mr P. Klein:** We are engaged with three different companies with expansion opportunities. All of those projects are yet to be confirmed. As a result, we do not have those in our forward trade numbers at this stage. The previous question related to the train unloader. It is true that in order for us to accommodate Mount Gibson's Extension Hill start-up, we at least need to create a linkage from the existing network of conveyers from the train unloader to a new storage shed behind berth 5. Again, we are engaged with Mount Gibson on that. We have clarified our position and have written to the company and it is aware of that situation.

**Ms A.J.G. MacTIERNAN:** What is that situation? Has the port been unable to get capital funding for that project?

**Mr P. Klein:** It is true that we have put in preliminary business cases—in fact, twice, in October and December—but these have only been preliminary. We have been presenting those in the interests of getting them before government and making sure that they have the best opportunity of being understood and funded. Our final submission of that business case was always dependent on Mount Gibson giving the go-ahead for its project.

**Ms A.J.G. MacTIERNAN:** Can it give the go-ahead if it cannot get the material out?

**Mr W.R. MARMION:** Perhaps Mr Klein would like to talk about the status of the Mount Gibson extension when responding to the member's question.

[9.10 pm]

**Mr P. Klein:** Mount Gibson has been operating through the port since about 2003-04. The recent extension of its mining operation to Extension Hill was very much on the cards during 2008. Mount Gibson ran into some difficulties late last year when some of its off-take partners reneged on some contracts. In fact, its operations through Geraldton port ceased for a period as a consequence of that issue. At that time, its plans to expand the Extension Hill project were iced—to use its phrase—and no further work was undertaken. It was partway through the construction of a new storage facility, behind berth 5 on a piece of land we had leased to it. The construction workers on that site left the site, so we currently have a half-completed shed on that site. Consequently, we understand that Mount Gibson has been drilling to understand the feasibility of that mine in more detail, given the declining market conditions for iron ore. It has advised us that it will make an announcement on whether the Extension Hill project will get going sometime around the middle of this year.

**Mr C.J. TALLENTIRE:** Regarding the estimate on expenditure of \$2.5 million, how much of that goes towards the monitoring of various environmental performance indicators, including dust, noise and seagrass re-establishment in Champion Bay as well as any other issues?

**Mr P. Klein:** The \$2.5 million, which was the only allocation of capital to the Geraldton port in the budget, is an allocation of capital that is generally not attributed. It is given to the board to spend at its discretion. We have our own procedures for gaining access to that fund internally, and any capital expenditure greater than \$10 000 requires board approval. That is explicitly for capital projects. The types of projects the member was indicating—seagrass research and other monitoring or operating expenses—are not drawn from that \$2.5 million but are otherwise drawn from our operating expenses.

**Mr C.J. TALLENTIRE:** Can the parliamentary secretary indicate how much money goes toward that monitoring of the port's activities?

**Mr P. Klein:** It is a matter of detail. I could not give the member the dollar figure right now. I can find that out very easily, but I do not know precisely the amount of money that is allocated towards those projects. However, under our environmental licence we are required to undertake a range of monitoring, including water, sediment and air. We are doing that at a frequency determined by the Department of Environment and Conservation and that is outlined in our environmental licence. We always meet that requirement.

**Mr C.J. TALLENTIRE:** Parliamentary secretary, can we receive supplementary information outlining how much is spent on meeting environmental standards?

**Mr W.R. MARMION:** To be clear, would the member like the whole amount that is spent on any environmental program?

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**Mr C.J. TALLENTIRE:** It has been indicated that programs exist to monitor noise, dust, air quality and also marine water quality and the re-establishment of seagrass. My question was to find out how much of the organisation's business activity is dedicated to meeting those standards.

**Mr W.R. MARMION:** Can we go into those different categories?

**Mr P. Klein:** We can.

[*Supplementary Information No A44.*]

**Mr I.C. BLAYNEY:** Can the parliamentary secretary outline the future of Geraldton port with the development of Oakajee?

**Mr W.R. MARMION:** That is a very good question, member for Geraldton. Perhaps Mr Klein might be able to answer that in terms of the synergies between the two.

**Mr P. Klein:** I guess to a very large degree the ink is not yet dry on precisely what our role is going to be once Oakajee is up and running. Consequently, I do not know that I can be more specific.

**Mr W.R. MARMION:** This particular item is the Geraldton Port Authority, so we are just dealing with the Geraldton port side. My understanding is that it will be the role of the Geraldton Port Authority to oversee the Oakajee port. I guess it is early days.

**Ms A.J.G. MacTIERNAN:** When it is built.

**Mr W.R. MARMION:** Absolutely when it is built. I would like Mr King to add more to that answer.

**Mr I.W. King:** I might just add to what Peter said. Geraldton port will look like a port with about 16 million tonnes a year going through it. That is almost double what it is doing at the moment. That should hold past 2014, which is when Oakajee will kick in, we think. Geraldton will have a very secure future as a town port. Of course, Oakajee will then kick in with its 30 million to 40 million tonnes. The two of them will be very complementary. I think the mid-west will have a pretty good system of export and import available to it, assuming that Oakajee does get up and running.

**Mr P.T. MILES:** Just following on from that, the parliamentary secretary is indicating that Oakajee will come on line in approximately 2014. Does he see that Geraldton port would still be running at full capacity? Most of the work would surely go over to Oakajee port, Geraldton's capacity would fall and the port would become more of a social scene.

**Mr I.W. King:** I can give the member the Geraldton Port Authority's view on that, but I must caution myself when I say it because we are preparing a brief for the minister, and the minister would have to give us direction on that before it became actual. From where we sit, we will hold our ground. Our trade volumes in 2014 will hold through our contractual arrangements that we will strike over the next 12 months, with ministerial approval. If that is the case, Geraldton port trade will not diminish but hold at that 16 million tonnes for many years.

**Ms A.J.G. MacTIERNAN:** Following on from that, obviously at the moment the port has a certain volume and the adviser is talking about it doubling. We know that the port would need to do a major upgrade of the train unloader to be able to get up to the volume of 16 million tonnes. What other capital investment would be required to enable the port to operate at 16 million tonnes?

**Mr I.W. King:** If I may answer, Peter might want to add some detail. The two major areas of infrastructure will be a new train unloader —

**Ms A.J.G. MacTIERNAN:** Which is roughly?

**Mr I.W. King:** It will be roughly \$30 million to \$35 million. It will be a double rotating dump. The plan is that the successful company that will come to Geraldton will build that out of its own capital and it will not involve government funding.

**Ms A.J.G. MacTIERNAN:** It is a new company.

**Mr I.W. King:** It is a company that we are dealing with and waiting for ministerial direction on.

**Ms A.J.G. MacTIERNAN:** Could the parliamentary secretary clarify that?

**Mr W.R. MARMION:** Go ahead.

**Mr I.W. King:** I will just backtrack a little. The Oakajee agreement requires Geraldton port to stay at a cap of 12 million tonnes of iron ore after 2014. That means that Geraldton port has the ability to expand to that 12 million tonnes. We think that with current trade diminishing between now and 2014, there is available

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capacity for a new player to come in that can provide 10 million tonnes to Geraldton port. Any overflow from that 10 million tonnes can go to Oakajee.

[9.20 pm]

**Ms A.J.G. MacTIERNAN:** There is obviously a finite number of companies. Is this Gindalbie?

**Mr W.R. MARMION:** I am happy for Mr King to answer this question as long as it does not impinge on commercial confidentiality.

**Mr I.W. King:** I am staggering on this, to be fair. The minister will not address this issue until 12 June. Until he gives us direction and says, "Yes, your briefing is fine" or "Go ahead on that plan", I cannot be certain it will be Gindalbie. There is a choice of Gindalbie or Asia Iron.

**Ms A.J.G. MacTIERNAN:** Can we run through the other infrastructure that would be required for the Geraldton port?

**Mr W.R. MARMION:** Perhaps Mr King can run through all that without interjection.

**Mr I.W. King:** It is almost at a close in that sense. The other infrastructure is a new berth, which will be berth 7, and that will be then captive to the new trade that Geraldton does not yet have. That new trade will be either Asia Iron or Gindalbie. Both those companies will need a new berth, and the proposal currently on the table that will be briefed to the minister will be for either government money or private money or a partnership between the two. That has not yet been decided.

**Ms A.J.G. MacTIERNAN:** We do not like private money in ports any more.

**Mr I.W. King:** This will be a single-user berth.

**Mr W.R. MARMION:** I think the member has her answer.

**Ms A.J.G. MacTIERNAN:** What is the cost of the new berth?

**Mr I.W. King:** It has not been finally costed but, based on experience, it will be \$110 million or \$120 million.

**Mr P.T. MILES:** Given the disaster in Esperance with the lead fiasco, can the parliamentary secretary find out whether the Geraldton port has looked at how the lead poisoning came about and whether it is looking to cover this at its port? I know that lead is not being exported there.

**Mr W.R. MARMION:** I think the member's question relates to how safe the loading of bulk goods, produce and minerals at Geraldton is. I pass it to Mr Klein.

**Mr P. Klein:** Following the situation in Esperance, DEC reviewed our operation. That review was without incident for the port; however, we were required to contract an independent environmental expert to undertake an audit of the port. We contracted a person who reported that situation to DEC. From that report we developed an environmental improvement plan, which began with about 58 steps that we could take to improve our overall operation, some of them very minor, some more substantial. A lot of them, in fact, are the responsibility of our leaseholders to deliver. We have delivered, substantially, that project. There are, however, a number of elements of that project that require a capital allocation. We have made application to the government for funding for those projects. We have not yet been successful, but we have been encouraged to continue to pursue that funding, and we are doing that.

**Mr C.J. TALLENTIRE:** Using the revenue to government from public corporations figures, which are on page 278, it appears as though the Geraldton Port Authority has a projected stream of business activity that looks remarkably static. I refer to the income tax expense items over the next financial years. In 2009-10 it is \$2.1 million, but from 2010 to 2013 we are looking at \$9.1 million for each of those years. Why is there a big step up and why does it then become static?

**Mr W.R. MARMION:** I thank the member for Gosnells for the question. I am travelling blind now, because I do not have that particular paper, so I will have to rely entirely on Mr Klein to answer that question.

**Mr P. Klein:** That is entirely related to forecast trade. Our expectation would in fact be that the achievement of a greater volume of trade would trigger the opportunity for us to review our port charges and in fact not deliver the type of return that is indicated there. Again, the guidance that we have been given and that we are working to is a rate of return of six per cent to eight per cent. As we secure additional trade, we would review those charges. I will point out, though, that it is significant that those budgets were established in October-November-December 2008, prior to the iron ore cap being applied to the port. The member will note that the trade that would underpin those sorts of returns is significantly higher than what we are now forecasting.

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**Ms A.J.G. MacTIERNAN:** So, prior to the cap being imposed on the port, what was the expected volume through the port? What is the difference between what the port expected to be able to do before the cap and what it is now expecting to do?

**Mr P. Klein:** Prior to the cap, we were engaged with a number of parties who were looking at start-ups through the port of Geraldton, in addition to our existing iron ore customer base. We had no reason to believe that we would not be able to complete the deals with the companies that we have referred to tonight—Gindalbie Metals, Asia Iron and Mt Gibson at Extension Hill. That trade that we had in our initial budget that was submitted in December was based on the expectation that we would eventually achieve deals with those companies.

**Ms A.J.G. MacTIERNAN:** What volume of ore did that translate into?

**Mr P. Klein:** About 20 to 24 million tonnes.

**Mr C.J. TALLENTIRE:** From what I am understanding here, we could be looking at a situation in which in 2009-10 the dividend to the state is \$1.5 million, but the projections for 2010-11 onwards could be very much over overestimated. In that case, we could be looking at a budgetary shortfall of at least \$12 million over the next three years beyond the next financial year. Therefore, over the period of the forward estimates we should be allowing for yet another shortfall. We have seen a lot of shortfalls elsewhere, but here is another \$12 million gone.

**Mr W.R. MARMION:** I do not have the figures to look at to analyse that in the short time available to me, but I am happy for Mr Klein to respond:

**Mr P. Klein:** We would anticipate at the moment that our financial performance ought to reasonably mirror what we are currently achieving. However, as I have indicated, the budgets that were indicated in December have now changed fundamentally as a result of the introduction of the iron ore cap on the port.

**Mr A.J. WADDELL:** Is the revenue based on the volume or the value of the goods that go through the port?

**Mr P. Klein:** Our overall revenue comprises a range of sources, including our lease fees, which are not based on trade, but generally the revenue that we derive from our cargo and ship activity is based on one charge in respect of trade and another charge in respect of the registered tonnage of the vessels that we are handling.

[9.30 pm]

**Mr A.J. WADDELL:** Would the recent reduction in the price that is being paid for iron ore have an impact on the Geraldton Port Authority's revenue stream?

**Mr P. Klein:** No. The only way that would have an impact on that port's revenue stream would be if the exporters themselves reduced their export program.

**Ms A.J.G. MacTIERNAN:** Picking up a point that was made before, in order to get to the 22 million to 24 million tonnes of ore that the authority previously expected to go to, what expenditure other than that talked about tonight—what would have been the additional capital investment required to get to that —

**The CHAIRMAN:** It is time to conclude the examination of the Geraldton Port Authority.

**Mr W.R. MARMION:** Mr Chairman, I thank Peter and Ian for coming down from Geraldton for the half-hour. I am disappointed that we did not get an answer to that question, too.

**The CHAIRMAN:** They would not have missed it for chips!