

Mr Eric Ripper; Mr Mark McGowan; Mr Tom Stephens; Mr Peter Watson; Deputy Speaker; Mr Vincent Catania; Mr Chris Tallentire; Mr John Bowler; Mr Paul Papalia; Mr Ian Blayney; Mr John Kobelke; Acting Speaker; Mr Bill Johnston; Dr Mike Nahan; Mr Colin Barnett

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**IRON ORE AGREEMENTS LEGISLATION AMENDMENT BILL 2010**

*Second Reading*

Resumed from 23 June.

**MR E.S. RIPPER (Belmont — Leader of the Opposition)** [4.22 pm]: I indicate that I am not the lead speaker for the Opposition on this legislation. Nevertheless, I want to take this opportunity to raise some issues that have relevance to this debate.

**Mr R.F. Johnson:** Who is the lead speaker?

**Mr E.S. RIPPER:** The lead speaker is the shadow Minister for State Development.

The opposition welcomes the negotiations between the iron ore mining companies and the government that have led to the ending of concessional iron ore royalties. However, we will be pursuing the full extent of the negotiations and the trade-offs that the government had to make to achieve this result. My colleague the shadow Minister for State Development and member for Rockingham will deal with those issues.

The first issue I want to raise is that the Minister for State Development, the Premier, and the state of Western Australia have been lucky in these negotiations. When the Premier came to power, he had on his table the outcome of negotiations between the previous government and the mining companies for the ending of concessional iron ore royalties on new projects. The Premier chose not to proceed with those negotiations and potentially, as a result of that decision, gave up \$500 million in government revenue over the forward estimates period. That might well have meant that that \$500 million was lost to the state of Western Australia forever, all because of the Premier's decision not to proceed with those negotiations.

Fortunately for the Premier, and fortunately for the people of Western Australia, BHP Billiton and Rio Tinto announced that they wanted to enter into a production joint venture. However, in order for BHP and Rio to enter into that production joint venture and to realise \$10 billion in synergies, amendments had to be made to the state agreement acts that govern their operations. That gave the Premier and the state of Western Australia another opportunity to negotiate the ending of concessional iron ore royalties. We are fortunate as a state that that opportunity came along. Had that opportunity not come along, the Premier's decision not to proceed with the Carpenter government's negotiated outcome would have deprived the people of this state of the benefit of additional income of \$500 million over four years from iron ore royalties.

The second issue I want to raise is whether royalty income remains in Western Australia for the benefit of Western Australians. In a technical sense, the royalty income that we raise from the mining industry does stay with Western Australians. It is important income to pay for infrastructure and for services. However, there is a serious qualification to that argument. That qualification is that the more royalty income we receive, the less we receive in goods and services tax income. Why is our share of GST income now only 68 per cent of our per capita entitlement? The answer is that we are earning more in royalty income. The reduction in our GST share means that our royalty income is in effect being redistributed to other states. It takes a while for that to happen. It takes two years for the data to get into the system. Also, the formula is based on a five-year rolling average. Therefore, it may be as long as seven years before the full impact of a royalty increase is reflected in a reduction in GST share. But it does happen. In the long run, this state retains only between 10 per cent and 30 per cent of its royalty income. That means, in effect, that any increase in this state's royalty income is as much good news for the Premier of Tasmania, the Premier of South Australia or the Premier of Victoria and to the people of those states as it is for the Premier of Western Australia and the people of this state.

There is a further complication that needs to be addressed here. The Commonwealth Grants Commission formula works on the basis of the royalty income that we could be receiving. In other words, it works on a basis that does not pay regard to whether we are actually receiving that income. If this state were to offer a concession on royalties, this state would lose GST income in the same way as we would were we to charge the full royalty rate. So, this state would be punished, in the form of a loss in our GST share, regardless of whether we charged the full royalty rate. It could be argued that the end of concessional iron ore royalties will not have the full impact on loss of GST share that it might otherwise have, because we have already lost our GST share. In fact, we have been paying, through our loss of GST share, for those concessional iron ore royalties for a very long period of time. Not all of Sir Charles Court's legacy has been good for the state's finances. The fact that concessional iron ore royalties were locked up in state agreements and could not be altered without the consent of the companies involved has caused this state to lose revenue in two ways—through loss of royalty income, and through loss of GST share as though we were charging the full royalty rate.

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This might lead people to conclude that the latest negotiations will mean that the full benefit of the additional royalty income will come to Western Australia and there will be no further loss of GST share as a result of this particular deal, because we have already lost that share of GST income in the same way as we would were we to charge the full royalty rate. When we were negotiating with the iron ore companies, I canvassed this particular proposition with the Department of Treasury and Finance. The advice that I received was that I was, unfortunately, being over-optimistic in my analysis. I was told that when the grants commission assesses what the full royalty rate is, it looks at the average effective royalty rates received across the country. Because Western Australia receives such a large proportion of the royalties received by governments across the country, any change to our effective royalty rate will have a pretty significant impact on the state average. Therefore, it will be the case, unfortunately, that this deal that the government has done, despite its being only the end of concessional iron ore royalties, will have a negative impact on our GST share.

This argument—which is a bit complicated, I agree—leads me to my third point. I believe that this house is owed an analysis by the Department of Treasury and Finance of the full impact on state finances of this deal. I do not want the Minister for State Development, the Premier, to think that I am asking for something unreasonable. To understand the full impact of this deal on state finances, we need to look at the impact over, say, a 10-year period. It cannot be done on the back of an envelope. There are 1 250 or more factors considered by the Commonwealth Grants Commission. There is a small cadre of specialists in each state Treasury and in the Commonwealth Grants Commission who are the only people who properly understand the full impact of the system. When I was dealing with the Department of Treasury and Finance on this matter, I noted that one of our specialists had a PhD in mathematics, which indicates the sort of complexity that we are dealing with.

**Mr C.J. Barnett:** It is probably the probability theory or the stochastic theory or something like that.

**Mr E.S. RIPPER:** We needed that level of mathematical intelligence and capacity to deal with the black box that is the grants commission process.

I am glad that concessional iron ore royalties will be removed. I think the iron ore industry is now in a significantly different position from the position it was in when it was building towns and establishing a new industry in a much less profitable environment in a very remote area of the country. The industry is now much more profitable than it was in those days, and there is no justification for the continuation of concessional iron ore royalties. However, to understand the full impact on state finances, we need to look at a 10-year period. We need to look at the loss of GST share, as well as the increase in royalties. Only the specialists in the Department of Treasury and Finance can provide us with that analysis. I suggest that if the Premier has not commissioned it, he commission an analysis and that he provide it to this house.

**MR M. McGOWAN (Rockingham) [4.31 pm]:** I am the opposition's lead speaker on this legislation. I start my comments by saying that the opposition will vote for this legislation if it indeed comes to a vote in this house, which I doubt it will. We will support the changes contained in the legislation.

I will set out for members what the legislation will do. The Iron Ore Agreements Legislation Amendment Bill 2010 will amend a range of historic state agreement acts between the state and various entities—largely BHP Billiton and Rio Tinto, or their predecessor organisations—that were entered into over a number of years dating back to the 1960s. Some of the existing legislation even refers to the terms “shillings” and “pounds” as the amounts in which royalties were assessed, indicating that some of that legislation was passed before 1966. The bill will change the royalty rate in each one of those eight or so state agreement acts from a concessional rate to the standard rate as contained in the Mining Regulations.

The history of this matter is that when the iron ore deposits of the Pilbara were developed in the 1960s and 1970s, after the removal of the restriction on exporting iron ore to Japan that was in place in the 1950s, which restriction prevented earlier governments from exploiting those resources —

**Mr C.J. Barnett:** It was to anyone, I think.

**Mr M. McGOWAN:** To anyone, was it?

**Mr C.J. Barnett:** It was believed that Australia lacked iron ore resources.

**Mr M. McGOWAN:** I was not aware of that; I thought it was a hangover from the Second World War. Indeed, it might have been a hangover from the Second World War when we think about the events.

**Mr C.J. Barnett:** No, my understanding is that it predated the war.

**Mr M. McGOWAN:** In any event, there was a restriction on exporting iron ore, which for 15 years or so prevented the immediate post-war governments from exploiting the resources in the Pilbara. In the 1960s those export controls were removed by the commonwealth; therefore, there was an opportunity for the iron ore

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resources of the Pilbara to be exploited. A few companies took advantage of that. As I recall, the predecessors of BHP Billiton and Rio Tinto took up that opportunity, and in doing so they received a concession on the royalty payments required. The first reason for that concession was that in those days the companies assumed the responsibility for providing towns with services such as electricity, roads, housing, ports et cetera. Sports and community centres and the like were built by the companies throughout the Pilbara in towns such as Newman, Hedland, Paraburdoo and Wickham.

**Mr C.J. Barnett:** Tom Price and Newman.

**Mr M. McGOWAN:** And Tom Price; I missed one. All those facilities were provided and those towns were company towns; hence, the term “company town”. Of course, all those facilities cost money. The state said that if the companies were going to do that and save the state that expense, it would provide the companies with a reduced royalty requirement on their operations.

The second reason that the royalty was reduced was that different sorts of ore were being mined—lump ore and fines ore. Fines ore was originally not as saleable. Apparently, in those days it was not as easy to go through the downstream processing in Japan and therefore it was not as valuable as lump ore. The companies wanted to be able to export a component of fines ore—30 or 40 per cent—but they said that because fines were of lower value, they should pay a lower royalty on fines.

**Mr C.J. Barnett:** It needs to be fused into small rocky pieces into almost a synthetic lump, so there is an extra cost in processing.

**Mr M. McGOWAN:** That is right, but I understand that these days it is not so difficult. In the 1950s, it was quite a process. I saw the Premier’s biography at an event the other day and I noted that he did geology in his first year at university. Obviously, he has retained something!

**Mr C.J. Barnett:** I failed! I passed geology 10; it was the other hard stuff that I couldn’t pass!

**Mr M. McGOWAN:** It might surprise the Premier to know that I tried to become a fighter pilot in the RAAF and I failed, too!

In any event, fines ore received a lower royalty. Lump ore is the most attractive. It is just dug out and put on a ship, and when it goes into the steel mill, it is very easily converted from ore into steel via those processes. The companies throughout the Pilbara received concessions. In the intervening period since the 1960s and 1970s when these eight state agreement acts were put in place, a range of other miners have come along and a number of other projects have been put in place not only in the Pilbara, but also elsewhere in the state, including the Great Southern and Mid West. All those other projects pay the full royalty rate as contained in the Mining Regulations. The major companies, in particular Rio Tinto and BHP Billiton, the successor entities to the original companies, are paying a lower rate on the most easily mined and best iron ore in the Pilbara, yet the other companies throughout Western Australia are paying a higher rate of royalty on ore of lesser quality. I am sure that those other companies would have thought that the royalty rates should be evened up. The taxpayers of Western Australia might even have thought that they should get some more value out of the ore that is, at the end of the day, theirs.

Over a considerable period from the 1990s onwards, there has been debate between governments and the companies to resolve this issue. Of course, the companies did not have to resolve the issue if they did not want to. Governments should not threaten state agreement acts; they are the basis of overseas investment in the iron ore and mining industry in Western Australia. The companies have come to various agreements over time. One agreement was put in place in 2005–06 under the former government but it was never ratified.

The proposal for the joint venture that was announced a year or so ago between BHP Billiton and Rio Tinto provided for the resolution of these matters. Both companies want to merge some of their operations at an operational level. They do not want to change the ownership; they want to merge some of their operations at an operational level because that will improve the efficiency of the companies. They operate separate rail networks that run for hundreds of kilometres through the desert, they have separate rolling stock and they have separate ports. They operate in similar areas but under the existing agreements are unable to use each other’s infrastructure. In this day and age, obviously both companies can see the benefit of, and are of a mind to, agreeing to try to improve their operations by sharing their infrastructure. That is what they want to do. They reached that agreement a year or so ago and that has provided them with an opportunity to resolve a number of issues, of which the royalties issue was one. That was a good opportunity for the state also, and the state should, and has, taken the opportunity to resolve one of the issues, which is the royalties issue. A range of other issues are unresolved, and I will go over those in the course of this debate. The issue of royalties will be resolved

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irrespective of when the legislation is passed. It will be passed this session, but the royalty payments will be backdated to 30 July this year. The state will be the beneficiary of a little over \$1 billion over a four-year period, plus it will receive a one-off payment of \$350 million. I want to address a range of issues involved with that. Resolving the royalties issue was a good thing and the proposed merger provided that opportunity.

I have read some of the Premier's statements on these sorts of things over a considerable time. I read a speech the Premier gave in the United States in which he said that he has been on the case on this issue since the 1990s. His address at the James A. Baker III Institute for Public Policy in Texas is interesting. It was quite a long address and was well written. The Premier has been on the case of resolving the matter of the iron ore royalties since the 1990s. He claims in his speech that it was his idea to inject carbon dioxide under Barrow Island.

**Mr C.J. Barnett:** It was.

**Mr M. McGOWAN:** The Premier came up with that. At the end of the speech, he says that in the 1990s he was flying down from the Pilbara with Vice-Premier Zhu Rongji, the fellow who was the number two in China. The Premier said in his speech that he talked the pilot into doing a low-altitude figure-eight flight over the North West Shelf and that as a result of that flight we started selling gas to China. A few issues were resolved just by the Premier's intervention. He, of course, invented the idea that we should fix the royalty rates and inject CO<sub>2</sub> under Barrow Island, even though he opposed the development of Barrow Island! He did a figure-eight flight over the North West Shelf with Zhu Rongji and as a consequence we started selling gas to China. I am wondering whether the Premier also invented the internet!

**Mr R.H. Cook:** But he opposed it first!

**Mr M. McGOWAN:** He opposed the internet at first, but it was his idea back in the 1980s to link together all the computers around the world! He also came up with the idea of powered flight! When John F. Kennedy said in 1961 that America would send a man to the moon, he had just been on the phone to one Colin Barnett from Cottesloe to discuss the idea! He is a man who comes up with some great ideas. The figure-eight flight over the North West Shelf has resulted in everything that has gone on in China today.

**Mr C.J. Barnett:** I know that you are being funny, and that is a fair call, but that is not a claim I make at all.

**Mr M. McGOWAN:** Inventing the internet?

**Mr C.J. Barnett:** No; forget it.

**Mr M. McGOWAN:** Which one does the Premier not claim?

**Mr C.J. Barnett:** The point I was making in that address, which I have made publicly a lot of times, is that often significant progress or events can get underway by almost anecdotal events like doing a figure-eight flight or having a chance meeting or a personal relationships with someone. That is what I was talking about. The figure-eight flight over the North West Shelf project was something that Zhu Rongji referred to that night at the dinner, which Labor opposition representatives would have attended. The now Leader of the Opposition was probably there.

**Mr M. McGOWAN:** I will ask him whether he recalls that.

**Mr C.J. Barnett:** It is a minor thing, but the point is that events like that often trigger major agreements. Sometimes it is a chance anecdote or encounter. That is the reality and that is something that the business world does not well understand. That is the point I was making in Houston. I have an example of that occurring this morning, which I will not tell you about but which will have enormous implications to the state, and there was another one last week.

**Ms R. Saffioti** interjected.

**Mr C.J. Barnett:** Don't be silly.

**Mr M. McGOWAN:** The Premier has titillated us with whatever happened this morning; he cannot throw that out there and then not tell us. Where was the Premier this morning?

**Mr C.J. Barnett:** When it is agreed to, I will make a statement. I am sure that you will be supportive of it.

**Mr M. McGOWAN:** Were you doing anything this morning with Tony Abbott?

**Mr C.J. Barnett:** I attended Tony Abbott's excellent launch in Brisbane on Sunday.

**Mr M. McGOWAN:** We are not opening a Speedo manufacturing business here in Western Australia as consequence, are we?

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In any event, no doubt the people of the state appreciate the fact that the Premier has achieved all those things through those amazing activities that he has undertaken, such as a figure-eight flight and so forth.

Back to —

**Mr T.G. Stephens:** Reality!

**Mr M. McGOWAN:** Back to the real world.

**Mr C.J. Barnett:** Do you see why some of your members opposite were never taken seriously when you were in government? Not you, but some of your members. There is a flippancy that your government displayed that offended so many international customers of WA, such as the Japanese, for example. The flippancy that you displayed in government was a major problem for this state.

**Mr M. McGOWAN:** I am unaware of what the Premier is referring to, but I was always very respectful of the people I met with.

**Mr C.J. Barnett:** I excluded you from my comment.

**Mr M. McGOWAN:** There was a massive amount of overseas investment in Western Australia during our term of government that resulted in 170 new mines being developed in WA. I have always claimed that South Australia went from having five to 10 mines; it went from having five mines to 13 mines in that time. That figure was provided to me the other day by a senior bureaucrat from South Australia. South Australia went from having five to 13 mines; we went from having 200 mines, or thereabouts, to 370 on our watch. If we upset the people of Japan, they have a funny way of showing it by putting all that investment into Western Australia. We have always had a good relationship with the Japanese government and with Japanese investors, as indeed have I.

Back to the issue of the rates. There will be an increase in the rates on these projects, which will take the royalty rate for fines ore from 3.75 per cent to 5.625 per cent. The rate for beneficiated ore will increase from 3.25 per cent to five per cent. Under the Mining Regulations 1981, beneficiated ore is —

(iron ore that has been concentrated or upgraded otherwise than by crushing, screening, separating by hydrocloning or a similar technology, washing, scrubbing, trommelling or drying, or by a combination of 2 or more of those processes)

I am not sure what trommelling is, but it is ore that has been concentrated or upgraded. Under this proposal there will be two new royalty rates—5.625 per cent for fines ore and five per cent for beneficiated ore. The main change—I think everyone would agree—would be on fines ore, but it is an increase in tax and it is retrospective.

**Mr C.J. Barnett:** No.

**Mr M. McGOWAN:** It is an increase in tax.

**Mr C.J. Barnett:** It is not a tax.

**Mr M. McGOWAN:** It is the Premier's quaint point that it is not a tax. It is the price we pay for the ore. Whether the Premier calls it a tax or a royalty is a quaint point.

**Mr C.J. Barnett:** No, it is an economic point.

**Mr M. McGOWAN:** It is an increase. I am saying to the Minister for State Development, the Premier, that I agree with it. The company should pay for the ore. The ore is the property of the people of Western Australia. The company should pay for the right to mine the ore. I think some people actually forget that.

The Premier mentioned the price of iron ore in his speech in the United States. I knew the price but I will quote the Premier so that it has the added authenticity of someone who has discovered —

**Mr C.J. Barnett:** I am glad you are using it as a major reference document. I am very flattered.

**Mr M. McGOWAN:** Someone who came up with the idea of injecting carbon dioxide under Barrow Island and who invented the internet and all those things —

**Ms R. Saffioti:** Was that after he opposed it?

**Mr M. McGOWAN:** That was before he opposed it. But someone who did all those sorts of things deserves to be quoted. As the Premier said on page 10 of his speech, the iron ore price has doubled this year. If the iron ore price has doubled and the industry is already hugely profitable, naturally it is far more profitable as a consequence. Therefore, one would say that the industry can afford to pay more. That is what is happening. This bill represents an arrangement that will apply to existing operations to increase the amount they pay for a mineral that is the property of the state. That is a good thing, and they can afford to do it.

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Other industries, as I have said in this house before, in particular those that are not as profitable and those that do not have the incredible capacity to pay that this industry has, perhaps should not have those increases put in place. We have had a bit of debate in this place before about gold; I do not think that debate is over. We have had a bit of debate about nickel and some other ores in Western Australia, because the profitability in the case of some of them is not there, and there is a large amount of downstream processing of some of those ores. I therefore think that there is probably a bit of a different case for some of those ores than there is in the case of iron ore. That is reflected, I think, in what is happening with this bill, as it deals only with iron ore. But I make the point again that this is an increase and an impost on the mining industry that applies to existing projects and is therefore retrospective; and it is an impost by government on the industry. Whether or not the Premier calls it a royalty or a tax, the average person—indeed most people, except the Premier—would think it is an interesting debating point but not really a matter of great moment.

We have had the debate about the federal mining tax. I and the state opposition did say that the first model was flawed and needed to be changed. It has been changed. It has been changed with the agreement of Sam Walsh of Rio Tinto, with the agreement of Marius Kloppers of BHP Billiton and with the agreement of Xstrata—I am unaware of the name of Xstrata's chief executive officer. However, the arrangement has been changed with the agreement of those three companies, and there is an ongoing process to work out the arrangements that will exist in the future.

However, as the Premier said himself, the price of iron ore has doubled this year, and there is a greater capacity for industry to make a return to the people of Australia. I believe the new arrangement has been far improved on the old arrangement. The old arrangement was not good, but this arrangement in the Western Australian context basically applies to iron ore.

**Mr C.J. Barnett:** I don't want to start a debate, but I will just make an observation, and I am being absolutely truthful. I have not met a single person in the mining industry—I am talking about management level—who believes that the current Julia Gillard proposal will remain anything like it is now. That includes the major companies, the medium-sized companies and explorers; no-one believes this arrangement will stick.

**Mr M. McGOWAN:** If Labor does not win the election, it will not.

**Mr C.J. Barnett:** No; even if Labor wins the election, no-one believes it. There was the same view in Queensland when I spoke to a group of miners there.

**Mr M. McGOWAN:** In any event, there is the Argus consultation committee, which I think will resolve a number of the outstanding issues. If the core point is whether there is a greater capacity to pay, I think there is. But if the core point is whether the government thinks there is a greater capacity to pay, the government is putting up the price on industry for existing projects right now. That is what we are discussing in this place today.

**Mr C.J. Barnett:** And we are all in agreement that we are removing a concession.

**Mr M. McGOWAN:** We are all in agreement. It is a retrospective matter.

**Mr C.J. Barnett:** It is not retrospective. It applied from 1 July.

**Mr M. McGOWAN:** I am using the Premier's own language. It is applying to existing projects.

**Mr C.J. Barnett:** All of which have been increasing. All the assets have been depreciated long ago for those companies—virtually all.

**Mr M. McGOWAN:** I understand that as well, but they are projects that are already in place. This increase will apply to existing projects, not new projects.

Although the amount of the mineral resource rent tax is higher, in principle the great objections were the retrospectivity and the application to existing projects. That is what is happening with this bill, and we are all in agreement on it, but they were the two most vehement objections. That is what the Liberal government of Western Australia is doing to the iron ore industry; the main industry in this state to which the mining tax will apply. It is applying an increased tax to an existing project that has been in place for a long time. It is not as much, I agree, but as the Premier said himself, the iron ore price has doubled this year. If the iron ore price has doubled this year for an industry that is already incredibly profitable, there is obviously a greater capacity to pay. Sam Walsh and Marius Kloppers obviously agree with that.

In relation to the issues historically, the Premier made a speech in this house about all the things that should happen in the iron ore industry. The Premier has made many speeches in this house, so this one might not stick

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in his mind. He made a speech—perhaps when he was on the backbench in opposition—about what should happen in the Pilbara in resolution of these matters.

An opposition member: Did he tell the truth and could you believe him?

**Mr M. McGOWAN:** In the days of Matt Birney's leadership, the Premier was extremely truthful in this place. He made a speech about all the things that should happen in resolution of these matters. One of them was rail access for smaller players. Rail access for smaller players, the Premier said, was not negotiable.

**Mr C.J. Barnett:** I said there were three issues.

**Mr M. McGOWAN:** The Premier was very clear that rail access for smaller players absolutely was one issue that had to be resolved. The other was local government rates.

**Mr C.J. Barnett:** No; the other was a stamp duty issue.

**Mr M. McGOWAN:** Sorry?

**Mr C.J. Barnett:** Stamp duty—not rates.

**Mr M. McGOWAN:** This is historic; this is not recent.

**Mr C.J. Barnett:** I know. I put three issues on the table when BHP Billiton and Rio Tinto announced their proposed merger; they were royalties, stamp duty and rail access.

**Mr M. McGOWAN:** Members might think with a six-week break that I would have found the speech. I did not have time to find it, although I have it somewhere.

**Mr C.J. Barnett:** They were the three issues.

**Mr M. McGOWAN:** The Premier was very firm, I thought, on the issue of rail access and local government rates, but I will speak about that anyway.

**Mr C.J. Barnett:** Stamp duty.

**Mr M. McGOWAN:** I can talk about stamp duty as well. I will start with stamp duty. The Premier is on the record initially—I am not talking way back, but recently—saying that those companies would pay stamp duty whether or not they were liable.

**Mr C.J. Barnett:** No.

**Mr M. McGOWAN:** That was the Premier's first intervention in this debate. The Premier said they would pay stamp duty. When those two companies announced their joint venture, the Premier was very angry—I could not quite work out why—and said that they must pay stamp duty. He then backed off from that and came up with the premium payment arrangement. I think the Premier realised that it might give the impression that there was a risk to our reputation as an investment destination, but he was of the view that they must pay stamp duty.

**Mr C.J. Barnett:** No. I made it very clear that I would not tolerate any contrivance to evade stamp duty.

**Mr M. McGOWAN:** That is not fair enough in any event because it is not the Premier's decision; it is the Commissioner of State Revenue's decision. He decides whether or not the company pays stamp duty. He is an independent officer.

**Mr C.J. Barnett:** According to the law, and the government and the Parliament can change the law.

**Mr M. McGOWAN:** Therefore, the Premier would change the law if he did not like the decision of the Commissioner of State Revenue.

**Mr C.J. Barnett:** When the initial announcement was made I had a concern that it may have been an attempt to try to avoid stamp duty. I made it very clear that if it was that, I would act. Now I am satisfied that as the detail has changed, it has emerged that is not the case. Whether or not the company is liable is determined by the tax commissioner, and how he determines will probably be as result of what the European Union and the Australian Competition and Consumer Commission determine, so there is a long way to go on the stamp duty issue.

**Mr M. McGOWAN:** If the EU knock it back, there will be nothing for the Premier to worry about.

**Mr C.J. Barnett:** If the EU can determine it to be a merger, it will probably change the ruling.

**Mr M. McGOWAN:** In my view, that is a matter for the Commissioner of State Revenue. The Premier was essentially of the view that the company should pay stamp duty. He initially said that the company would be paying stamp duty and then moved somewhat subsequent to that and said that he would let the Commissioner of State Revenue analyse the matter and decide whether or not the company should pay stamp duty, which is as it

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should be for a destination that wants to attract investment. I conducted a freedom of information search and found all the documents. The Premier then came out with the premium payment arrangement, which is another issue that I will talk about soon.

I want to talk about the railway. The Minister for State Development, the Premier, is of the view that small players who have stranded assets should be able to access the major players' railways. The major players put in the railways in the 1960s. There are two main spines, one of BHP Billiton and one of Rio Tinto. Those stranded assets are so-called because they are basically smaller deposits in the vicinity of one of the rail lines owned by someone else. The smaller player cannot afford to build its own railway, but if it can access a main line of BHP or Rio, that would mean it could exploit that resource. Rio and BHP obviously do not want competitors to use the assets that they constructed. As part of this package, the Premier's original view was that that issue should be resolved and that the smaller players should get access to the main lines of BHP and Rio. The Premier has not done that.

**Mr C.J. Barnett:** You are assuming that.

**Mr M. McGOWAN:** This is the key point that I want to get to: I can only quote what the Premier has had to say on this issue in the press. I have been able to find only two comments in the press about what the Premier has said about trade-offs under this deal. They are not in the bill and they are not in the second reading speech. What the Premier is trading off is not in the legislation. I do not know when it is coming in and where it is. The second reading speech makes an oblique reference to it when it states in relation to the one-off payment —

This amount will be paid once the other variations to the state agreements as required by the companies and agreed with the government pass through this Parliament and receive royal assent.

I do not know where they are, but I would have thought that even though we are agreeing with this legislation, we should know what we are agreeing to. All the other stuff is bumf. This is the central point. We are agreeing to an increase in royalties but what is the trade-off? We do not actually know because it is not in the legislation. The Premier can put that interesting frown on his face all he likes, but all we understand has come from his press release and a comment in *The West Australian*. All we know about the trade-offs is contained in two paragraphs. The press release states that it will give companies the ability to share ports and rail infrastructure and blend iron ore, which should keep them competitive on international markets. In *The West Australian* the Premier said that we are allowing the integration and we have modernised the further downstream processing provisions and modernised the agreements. That is all we know. That is contained in about 30 words in total. The Premier has obliquely referred to the fact that he might be giving smaller players access to the railways. Is that true?

**Mr C.J. Barnett:** No, I did not say that. Negotiations are going on at this stage, at least with one of the two companies, on haulage for small operators. The Australian Competition and Consumer Commission has determined haulage on the Goldsworthy and Robe lines. Goldsworthy may not be that important. So we are starting to get some movement on that issue. As to further processing, they are refinements and modernisation, and that in due course will become part of this agreement. This agreement is basically to adjust the royalties and to allow the companies to integrate infrastructure. The companies have basically conceded the royalty issue. The \$350 million is recognition of the integration of their infrastructure.

**Mr M. McGOWAN:** We should know.

**Mr C.J. Barnett:** You do, because I had just told you.

**Mr M. McGOWAN:** Okay. What is happening with the refinement of the downstream processing?

**Mr C.J. Barnett:** There will be some further legislative change. This is what is necessary to get the increase in the royalty and the \$350 million payment. Further changes will come into place, but there is no mystery about them; they are simply tidying up and modernising the agreement acts, because they are antiquated. As you said, there is pounds, shillings and pence in them.

**Mr M. McGOWAN:** That is right, but irrespective of what the Minister for State Development, the Premier, has just said, I would like to know the detail of what we are trading off. I think that is fair.

**Mr C.J. Barnett:** What we are trading off is their right to integrate. They cannot do that. What we are saying is that if they want to integrate their infrastructure, we—the state; the people—will extract a price, and that price is \$350 million.

**Ms R. Saffioti:** Is that it?

**Mr C.J. Barnett:** That is it, and there will be some modernisation of some of the value-adding forward processing.

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**Mr M. McGOWAN:** What does that mean?

**Mr C.J. Barnett:** It is nothing more or less than that they can connect their railways and they can blend their ore and use each other's ports. That is it.

**Ms R. Saffioti:** How much is it worth to them?

**Mr C.J. Barnett:** Their claim is ultimately \$10 billion over time.

**Ms R. Saffioti:** It is worth \$10 billion.

**Mr C.J. Barnett:** That is what they claimed from day one. That was the whole justification for the negotiation between BHP and Rio.

**Mr M. McGOWAN:** Surely the Premier can see the point that if we are debating the increase to the royalties, when, as part of that, the same agreements are in effect going to be changed as a consequence, we should actually have the whole picture.

**Mr C.J. Barnett:** Well —

**Mr M. McGOWAN:** Just let me finish. The Premier is saying that these are not major changes to the other agreements, and that is the basis of this.

**Mr C.J. Barnett:** They are major changes and they are significant.

**Mr M. McGOWAN:** Let us say in the so-called modernising of the downstream processing obligations there is something very significant in that. Once we agree to this and then maybe find something incredibly significant in that, we might say that we might not have agreed to it.

**Mr C.J. Barnett:** You can oppose it when it comes to Parliament.

**Mr M. McGOWAN:** Yes, but we think that we should have the right as a Parliament to examine what the Premier has agreed to.

**Mr C.J. Barnett:** You will, and the Parliament will when it comes to Parliament

**Mr M. McGOWAN:** The whole thing is a package.

**Mr C.J. Barnett:** So you would happily defer hundreds of millions of dollars until we have resolved every other issue relating to the iron ore industry. I am sorry but I will not do that.

**Mr M. McGOWAN:** The Premier has not read his own speech. In his speech he says that the payment of royalties will be backdated to 1 July. Whether it is passed now or in one month or two months, it does not matter.

**Mr C.J. Barnett:** I am not backdating it. We have signed the agreement with the companies and they are paying the higher royalty already.

**Mr M. McGOWAN:** They are paying a higher royalty. In any event, they will be paying, but we need to know, and I think the Parliament has a right to know, what the Premier has traded off; and I think we have a right to know now and not in the future.

**Mr C.J. Barnett:** It is in the bill.

**Mr M. McGOWAN:** It is not in the bill.

**Mr C.J. Barnett:** There is no other deal.

**Mr M. McGOWAN:** The Minister for State Development, the Premier, should show me where it is in the bill.

**Mr C.J. Barnett:** There is no other deal, other than we have said that we intend also to modernise some of the provisions.

**Mr M. McGOWAN:** So there will be another bill.

**Mr C.J. Barnett:** Yes, there will. There will be further changes.

**Mr M. McGOWAN:** So it is not in the bill.

**Mr C.J. Barnett:** I have just said it three times.

**Mr M. McGOWAN:** The Premier has just said that it is in the bill.

**Mr C.J. Barnett:** What has been agreed is in this bill. We will continue to modernise the agreements and I will bring other changes to Parliament.

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**Mr M. McGOWAN:** That will be part of this entire arrangement.

**Mr C.J. Barnett:** No, as further ongoing arrangements. What has been agreed is reflected in this bill.

**Mr M. McGOWAN:** Seriously, the Premier is treating the Parliament and his own members with a bit of contempt.

**Mr W.J. Johnston:** He is saying that he does not yet have an agreement on those other matters.

**Mr C.J. Barnett:** We have an agreement to modernise other aspects of the bill. They will happen in due course and they will come to Parliament.

**Mr W.J. Johnston:** But you don't know what they are yet.

**Mr C.J. Barnett:** The work is being negotiated between BHP Billiton, the State Solicitor and the Department of State Development.

**Mr W.J. Johnston:** So you don't know what the outcome will be.

**Mr C.J. Barnett:** I know the outcome is \$1 billion for Western Australia.

**Mr W.J. Johnston:** But you don't know what the benefit is to the companies.

**Mr C.J. Barnett:** It will come here, and any other changes to the agreement acts will come to this Parliament.

**Mr W.J. Johnston:** But the agreements are not done yet.

**Mr C.J. Barnett:** Okay, let's all give up, shall we, like you did in government, and achieve nothing.

**Mr W.J. Johnston:** You haven't achieved anything yet!

**Mr M. McGOWAN:** The Premier has taken this amount of money, this increase in royalties, but he has not signed up the other bit. In effect, had the Premier wanted to—although I would not advocate doing so—he could have increased the royalty more and he could have received more as part of his premium payment at some point in the future in exchange, but he did not do that. He took this amount on the basis of something that is still being negotiated, whereas if he had perhaps not accepted this amount, we might have had a better deal. That is one interpretation of what has happened.

**Mr C.J. Barnett:** You're giving me an insight into why you couldn't get a deal in government.

**Mr M. McGOWAN:** We did not have the joint venture.

**Mr C.J. Barnett:** You didn't have the nous to crunch a deal.

**Mr M. McGOWAN:** We did not have the joint venture.

**Mr C.J. Barnett:** Oh, okay.

**Mr M. McGOWAN:** Hold on; maybe my memory is incorrect, but it was announced a year ago, and the Liberal and National parties formed government two years ago.

**Mr C.J. Barnett:** No, this is the third attempt at a merger.

**Mr M. McGOWAN:** Yes, but the Premier was a minister for eight years in the 1990s, and he did not achieve a deal then, either, when there was no joint venture. He did not achieve a deal even though, according to his speech, it was on his agenda. He did not achieve a deal; obviously the joint venture was the catalyst.

**Mr C.J. Barnett:** Sure.

**Mr M. McGOWAN:** I still recall the estimates hearing when the Premier said that something might fall from the sky; obviously, a week or so later, we knew what he meant when we saw what fell from the sky. However, the previous government did not have the joint venture, and of course we could not negotiate a deal without that sort of leverage. It gave the Premier huge leverage, and he knows it.

**Mr C.J. Barnett:** I think you might have.

**Mr M. McGOWAN:** Hold on; the Premier was resources minister for eight years and he could not achieve a deal. He could not achieve a deal after having been Premier for a year, until the joint venture came along. I think, on the balance of evidence, the Premier is speaking with a forked tongue on that one.

**Mr C.J. Barnett:** History will show.

**Mr M. McGOWAN:** What will history show?

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**Mr C.J. Barnett:** History will show that the Liberal–National government made a deal with BHP and Rio that got \$1 billion for Western Australia.

**Mr M. McGOWAN:** It will, and it is a good thing that we have lifted the royalty rate, but I think the Parliament should be treated with a little more respect so we know the full details, rather than the Premier’s 30 words and the short explanation he gave us a moment ago about modernising local content. What does that actually mean?

**Mr C.J. Barnett:** I didn’t say “local content”; I said “value adding”.

**Mr M. McGOWAN:** Value adding onshore. In effect, is a bit like a tax or a royalty; it is splitting hairs. In any event, I would like to have known the full detail. Does the Premier have any idea when it will be brought in?

**Mr C.J. Barnett:** Our agreement is to make these amendments to allow the integration of the infrastructure and to increase the royalties, and there is an in-principle agreement to look at modernising the agreement acts as part of that.

**Mr M. McGOWAN:** What if the Parliament does not support the future changes?

**Mr C.J. Barnett:** This deal stands as it is, by itself. It is complete, and when this bill—under which companies are committed to paying the high royalties from 1 July—receives royal assent, they will send over a cheque for \$350 million in addition. That is it.

**Mr M. McGOWAN:** In any event, the Premier should provide a better explanation about what he has. I think he should have included it in this legislation, considering that he will be amending exactly the same bills. I think the Premier should have given Parliament a full explanation of all the trade-offs, so that we actually know what they are.

**Mr C.J. Barnett:** You keep using the term “trade-offs”; it is modernisation. For example, we have had value-adding clauses in these bills for years that have never achieved successful value adding.

**Mr M. McGOWAN:** They have to some degree.

**Mr C.J. Barnett:** Not really. The HBI plan was the closest we got, and that failed.

**Mr M. McGOWAN:** It did fail.

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

**Mr M. McGOWAN:** Was that one of the Liberal Party’s ones?

**Mr C.J. Barnett:** It was.

**Mr M. McGOWAN:** I turn back to the other points. Stranded assets is one of the issues that the Premier indicated was incredibly important to him, and I actually agree, so I will be interested to see what comes out of that. He earlier made a cryptic reference about waiting and seeing what will come out of that. It might be something that is negotiated. Again, the issue of stranded deposits is something about which we should have received better information. The opposition will also talk about local government rates. The member for Pilbara represents communities that would have liked to see local government rates issues resolved. They are now resolved for all future state agreement acts; it is now a standing condition that local government rates will be applied. In this renegotiation, there was an opportunity for the Premier to do that, but it appears, from all his commentary and from what he has just said, that that is not one of the issues that will be resolved as part of the new legislation that will be brought forward. I say to the Premier that those are two major issues that should be resolved as part of this legislation. I do not know whether the Premier wants to comment on that now, or whether he is of the view that the local government rates issue is a little too hard. Local governments in that part of the world would love to have seen the local government rates issue resolved, but obviously the Premier does not particularly want to comment on that. It is instructive, member for Pilbara, that the local government rates issue will not be resolved for the Town of Port Hedland and the other three shires in the Pilbara that would have liked to see that issue resolved.

That finally brings us to the \$350 million payment. It was an interesting manoeuvre; the Premier took the \$350 million and put it straight towards the children’s hospital, because he knew that there would be considerable disquiet in the business community about that payment, and I think there is.

**Mr C.J. Barnett:** I haven’t had one complaint—not one, apart from Labor members of Parliament. I haven’t had one person in the mining industry ever complain about that to me.

**Mr M. McGOWAN:** Not to you, perhaps.

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**Mr C.J. Barnett:** Not one. Not one single person. In fact, I've had lots of people congratulate me and say, "What a great outcome".

**Mr M. McGOWAN:** I have heard a fair bit of disquiet about it. Liberal members should think about this: all it requires to change the law in Western Australia is a payment of \$350 million. Liberal members should think about that and where they are coming from, and about it being an action of government to require a payment of that magnitude to change the law. How does that sit with the Liberal Party's philosophical background?

The opposition will support this legislation. When we go to consideration in detail, there will not be much in this legislation to discuss, but there might be a few things. However, there is not enough detail there for us to ask the real questions. We do not know the full detail of all the other negotiations, and it is obvious that all the other negotiations have not yet been concluded. Had they been concluded, we would have had some proper questions to ask, but considering they have not been concluded, we are unable to do so. I repeat: it would have been far better had all these matters been brought to the Parliament as a package so that we could examine them.

**Mr C.J. Barnett:** We would be in the second term of government by the time we did all that. I can see why you guys weren't able to crunch issues through. You just display it repeatedly in here.

**Mr M. McGOWAN:** The Premier's arrogance and pomposity is on display for everyone present.

**Mr C.J. Barnett:** If it is arrogant to get a new children's hospital, fully funded, then I'm arrogant. I'm willing to plead guilty. If that's what you're so against—a deal where our resources pay for a new children's hospital—I don't think you get it.

**Mr M. McGOWAN:** There he goes again. Treating the Parliament properly would have meant that all the issues would be here for us to discuss, debate and examine, but they are not. When we go to the consideration in detail stage, there will be some very minor things to look at. Be that as it may, we will look at those minor things.

**MR T.G. STEPHENS (Pilbara)** [5.19 pm]: One of the advantages of having been around the Pilbara region for an extended time is that one gets to see the comings and goings and discussions about the Pilbara iron ore industry. The companies retain the benefits of longstanding corporate knowledge of negotiations and discussions with government. Only too rarely, however, do I see in Parliament any display of longstanding corporate knowledge on the part of the parliamentarians and ministers who are engaged in the handling of public affairs to the benefit of all Western Australians. My first experience of the iron ore industry was in the late 1970s when I went to Cockatoo and Koolan Islands and saw small boats coming in from China. They seemed to be not much bigger than sampans. The boats displayed the Chinese flag. Back then, they were picking up the first small quantities of iron ore.

On my first drive from the Kimberley into the Pilbara in 1980, I crossed the Goldsworthy line and saw what was largely an American company operating. The general manager of that company, Alf Kober, who was German, operated a very successful operation from Goldsworthy out to Shay Gap extracting good quality iron ore. The operation was eventually subsumed inside BHP. I have been lucky enough to be privy to discussions and commentary from the iron ore sector about its future, and about the future benefits for the Pilbara region and this state. I have watched agreements come and go. I have also watched the discussions about them. Some of those agreements were put in place by this Parliament—some by Labor administrations. Those agreements, if we believed them, would have resulted in new towns in the Pilbara region once ore bodies were extracting iron ore over and above the initial start-up phase of those mines.

I watched from my electorate in the north west as towns like Shay Gap and Goldsworthy disappeared. Other resource towns no longer operate as the towns they once were. Cockatoo and Koolan Islands were vibrant communities, as were the townships of Telfer and Wittenoorn. The community of Finucane Island was another vibrant, independent little community that operated with residents and had a whole life to itself. Life has changed in the Pilbara and in the north west over the 30-plus years that I have watched these iron ore operations. I remember the prediction made by the then mine manager at Newman—I think that was his title; it might have been a more elevated title—Peter Laver. He went on to a senior job in Canberra from BHP, as it was. He predicted in 1982, to the Labor team that was present, that the life of the Mt Newman mine site would be about 20 years. He said we could expect the Mt Newman mine to come to its conclusion and the town to cease operations after 20 years. That was the anticipated life of the mine at that time. Thirty years later, the successors to Peter Laver talk about iron ore extraction, on double current tonnages, from that part of the Pilbara going for at least another 70 years. That will double existing tonnages and will require an iron ore port in Port Hedland out into the outer harbour. It will involve producing vast quantities of iron ore long into the future; 70 years was his prediction.

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While in Singapore recently I had the opportunity to catch up with Rio Tinto's iron ore export people. They are based there these days. They are marketing people. They told me that their expectations of the agreements they have struck with Guinea-Bissau, or the opportunities that were looming at that stage to develop a new mine in Guinea-Bissau, would result in the quadrupling of the longevity of Pilbara iron ore prospects. This expectation was because the Guinea-Bissau developments deliver for that company the chance to blend iron ore delivered from two parts of the globe. It will also produce for its customers a product that will secure the type of lower grade iron ore that is on offer in various parts of the Pilbara and can be blended with higher quality ore from other parts of the globe within Rio operations.

We have to recognise that resource companies have had limited views in the past. They have passed on those limited views to the communities and governments they have dealt with. Regrettably, I have watched resource companies make frequent agreements to my colleagues, but these were never followed up with firm written agreements. These negotiations only created foundations for agreements and discussions between the government of Western Australia and those companies. I will give an example. BHP said it was putting in place an agreement that would lead to a major training operation at the Jigalong community that would deliver opportunities out of Jigalong for the training and employment of Aboriginal people that could benefit that community long into the future. It is 30 years since that promise was made to me. BHP Billiton now seems to be embarking upon delivering that 30-year-old commitment that underpinned its goodwill agreements that were developed with the Labor government in the early 1980s.

BHP Billiton is no orphan in this regard. I have observed similar discussions with Woodside in its development of the Burrup project. There were to be jobs and facilities galore for the Aboriginal people of Roebourne and the Pilbara as a result of the Burrup development. If one believed the discussions that Woodside had when the Labor Party was in opposition in 1982—when I was first elected—and then as we went into government in 1983 and developed our relationship with Woodside, Roebourne was to have gutters lined with gold and streets paved with diamonds from the benefits that were to flow from the Woodside agreement. Instead, over 30 years I have watched Roebourne increasingly become an absolute backwater. There were about two Aboriginal people employed in Woodside operations up until about two years ago. Now, of course, with all eyes on the Kimberley hub, Woodside says it will deliver employment and training opportunities for the people of the Kimberley. I heard those comments 30 years ago but they were never delivered upon. However, I have watched Woodside lift its game in recent times. Finally, over the past couple of years, some training and employment opportunities have been put in place. I have watched BHP Billiton in recent times and Rio Tinto lift their game significantly in terms of the training and recruitment of Indigenous people.

In reference to these resource agreements that are to be amended and will lift the payment for ore fines, we propose to support the increased cost to be worn by the resource sector as part of these agreements being struck. The Minister for State Development, the Premier, has described other agreements in place that will lead to benefits flowing to the Western Australian government. If the agreements are put in place by December 2010—in reference to the merged operations of Rio Tinto and BHP Billiton—we will see a cheque of \$350 million delivered to the state government but nothing in place to secure benefits for the four Pilbara councils covered by these resource agreements. They are excluded from benefiting from the presence of large industrial infrastructure within their municipal boundaries. As a result, the biggest ratepayers in places like Port Hedland, Tom Price, Newman and Karratha—those organisations that own the shopping centres and have small amounts of infrastructure—end up paying more in rates for those sites than the amounts paid for the industrial sites occupied by multibillion-dollar enterprises.

Yet the government had within its gift the opportunity of ensuring that, as part of this deal—of which this particular bill is just one part—the four councils and the communities that they serve would benefit from the ending of those exemptions from the payment of local government rates. That has not happened. The Premier did indicate to me, in an earlier discussion across the chamber, that he was prepared to come back to the house and tell us what progress he was making on this change. The Premier said that he did not want to see—he did not use this word, but this was the general issue—“gouging” by the communities. However, I think the boot is really on the other foot. The companies are in fact the ones that are benefiting only too well from these exemptions from the payment of local government rates. The councils can scarcely cope. The Shire of Ashburton in particular is struggling. The Town of Port Hedland has had a change of chief executive officer, because the former CEO has been head-hunted to work for the government, and vast numbers of other staff are leaving the shire. It is terribly difficult for those municipalities to recruit officers who can deliver all the basic functions that local government needs to deliver for communities across the Pilbara region. It is important that the local government rate exemptions provided for under these state agreements come to an end in double quick time. That was nearly completed when we were in government. The current government had the opportunity to rapidly conclude the

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work that had been done by previous ministers, including minister Bowler and other former ministers who are still on our side of the house and who did some quality work in advancing that issue.

We in this Parliament should not fool ourselves into thinking that the Pilbara towns are entirely normalised shows. In fact, in 2000, the head of Hamersley Iron's ore operations—its successor is now Pilbara Iron; the company has had a variety of different names in that process—had before him a recommendation that he was about to sign off on. I think the company had demolished 14 houses in the town up to that point. That recommendation was to demolish the whole town of Paraburdoo. However, he paused before he agreed to that proposal. During that pause, China exploded, and the demand for iron ore quickly turned around. As a result of that, instead of seeking to demolish Paraburdoo, he was left with the task of upgrading the single persons' accommodation and recruiting more people and expanding the town rapidly to cope with the increase in demand. Paraburdoo is not a normalised town by any means. It is for all intents and purposes a company town. A similarly situation exists in Tom Price. People might suggest that because Tom Price is an "open town", it is somehow normalised. Tom Price is a town in which the utilities are still delivered by Rio Tinto. That company delivers the power, water and sewerage support services for that community. The growth of that town is limited by Rio's preparedness to allow for expansion. Therefore, if a competitor such as Fortescue wanted to put its workforce in that town—as it has been exploring to do in the past—it would effectively be prevented from doing that, because Rio can sit on the hose and stop the expansion of the basic services to that community and thereby prevent that competitor from coming into what is supposedly a normalised town. Work needs to be done in the Pilbara to normalise the region and make it possible for other iron ore and resource operations to stand alongside the majors and to take a solid place with them in providing local employment and training opportunities and benefits for the people of the region and the state.

The problem is that there are large disincentives for small operators that want to come into the Pilbara region. A good example is Atlas Iron Limited. The very brilliant chief executive officer of that company is doing a massive job on the national stage by bleating about the national government's resource tax. But I know that the biggest problem for that company is the lack of focus on its needs by the state government. For starters, the state government has failed to accelerate access by that company to the Goldsworthy iron ore railway line. I can tell the Minister for State Development, the Premier, that people have always said that if someone wants to have a good long sleep, the Goldsworthy railway line is the best place to throw down a swag, because the trains from BHP pass across it so rarely. That is an almost entirely unused piece of infrastructure. That is a massive resource that largely excludes all other players. Okay, agreements are in place that will slowly advance access for other companies to that operation. However, those agreements should be accelerated.

[Member's time extended.]

**Mr T.G. STEPHENS:** As well as that, close to the Atlas operations are stranded ore bodies that are held by the major companies. Those ore bodies are simply holding operations. The ore in those bodies will never be extracted so that benefits will flow to the community. The profitability of Atlas would be enormously advanced if that company was given a bit of love and affection and attention from the government of Western Australia to help it resolve these issues in the company's favour. That should be done in double quick time. However, rather than do that, the government is pretending with crocodile tears that it is the friend of companies such as Atlas. The government is bleating about the taxation agreements that are being struck at the national level. Instead of doing that, the government should be focusing on Atlas Iron, which is a wonderful little company, and on the prospects for that company to provide opportunities for the community. This government should get rid of its ideological blinkers to the issue of an interconnected power grid for the Pilbara. If the government elevated that grid and gave it sufficient priority, the various resource companies in the Pilbara would be able to cooperate and collaborate with the government, with the support of the national government, and provide a Pilbara power grid that would service the entire region and increase the productivity and profitability of those operations. The fears about the federal resource tax would then be only a small blip in terms of profitability when contrasted with the benefits that could be extracted from that interconnected power grid.

**Mr C.J. Barnett:** Just so that I am clear, you support the mineral resource rent tax, do you?

**Mr T.G. STEPHENS:** I believe that there will be the opportunity through the Argus committee to finetune that tax proposal and make it better.

**Mr C.J. Barnett:** There may well be, but do you support it?

**Mr T.G. STEPHENS:** Yes, and I will tell the Premier why. Last week, on the Nullagine road, two of my constituents were killed. That road has been badly degraded by the resource sector. That stretch of road, which is 0.8 kilometres south of the Fortescue Cloud Break turnoff, used to be a backwater. It used to be a safe road that

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station workers and Aboriginal people could travel along without any great fear or danger. I have been telling this house, I have been telling this government and I have been telling the resource sector that money is needed to make that road safe. However, there has been a failure to focus on that. If it requires a tax from the national government to deliver funds to make a road such as that safe, of course I will support such a tax. A \$2 billion return for Western Australia on an infrastructure project such as that could have saved the lives of not only that family but also other people who may drift off that heavily corrugated and degraded road.

There are iron ore camps in the Pilbara that are not safe because the companies have not properly made their workers safe. There are roads that are not safe and that are killing people. If it takes the national government to put some funds on the table as a result of a new taxation initiative such as this, so be it. I no longer believe the likes of Clive Palmer, Gina Rinehart and Twiggy Forrest when they say that they will stay focused on the needs of the Pilbara region. For too long I have listened to and seen too little from these players. The region requires not simply the generosity of billionaires; it requires the settings and frameworks of government to deliver benefits for the community of Western Australia and to make the developers of those resource projects provide some return to the region, including rates for the local councils, roads that are safe, and camps that are safe so that people do not die when a small breeze goes over the top.

*Point of Order*

**Mr P.B. WATSON:** The member for Riverton is calling out while he is not in his seat.

**The DEPUTY SPEAKER:** Will the member for Riverton settle down, please.

*Debate Resumed*

**Mr T.G. STEPHENS:** I support a focus by government on the infrastructure needs of the region. I object strenuously to the concept that governments simply look after their own coffers through bills such as this and fail to simultaneously put on the table a bill that will remove local government rate exemptions. The government has failed to deliver safe roads in an area of the resource-rich central Pilbara and instead is presiding over the destruction of those roads through neglect. People are at risk of loss of life or limb and at risk of injury and tragedy as a consequence of the government's failure to focus. What happens in this state is that people spend time in the northern regions of the regional areas of Western Australia when they are young. They become decision makers as they move their way through the system, but they seem to make decisions based on their memory of the way things were done 30 years ago. Why do I know this is the case? I know this because I have knowledge of my part of the world. I have to keep familiarising myself, and so I realise that the road in that part of the world is no longer a sleepy road. It is a road that requires the full attention of government by directing the funds that will flow from this type of cash extraction from the resource sector back into those locations to make them safe. The communities of Tom Price and Paraburdoo need to see the completion of a safe, direct road from Tom Price and Paraburdoo to Karratha. What is the point of a government delivering a focus, as it says, on twin cities along the coast that will deliver services to the inland communities that are effectively cut off from those cities because there are not safe roads upon which to travel? The Minister for Regional Development has said in public and in Parliament that he has never seen people leave regional areas because of the state of the roads. Last week, two people left Nullagine in a box because of the state of the roads that they have been left with by this government. Two people are in hospital as a result of the state of the roads. The hospitals and morgues will be filled because of the government's failure to deliver focus and attention on the roads that are needed by communities such as Tom Price and Paraburdoo. The inland communities of Newman, Nullagine and Marble Bar have every right to access the increased cash that is now being delivered into the coffers of Western Australia, rather than see a distracted government that cannot get its act together in responding to the challenge of the communities in the Pilbara.

**Mr C.J. Barnett:** Do you support Pilbara Cities?

**Mr T.G. STEPHENS:** Of course I do, but on the basis that it does not become an excuse for neglecting the needs of inland communities. When we were in government, the community of Tom Price told us about the need for the upgrade of Tom Price District Hospital. The fact that the Liberal Party has been elected to government does not take away that need. The fact that that committee now seems to have gone quiet does not justify the government ignoring the Tom Price community's need for hospital and health facilities. The government cannot justify it on the basis of putting a hospital facility in Karratha; this community is not connected to that hospital because the government will not invest in a safe, direct road that the community is entitled to and has long been seeking.

There will be a dramatic injection of funds into the coffers of Western Australia as a result of this bill and the agreement that has been reached by the companies to merge their operations. There will be a \$10 billion benefit

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for the companies and their shareholders if that merger takes place. The community of Western Australia will see a \$350 million one-off payment, all of which I gather, will go to the children's hospital. Yet the government will be delivering to the Pilbara region, for which I have the responsibility of advocating, more victims of neglected roads and more young children who are either killed or injured on roads that are no longer safe. These road users are competing with vast-sized iron ore rigs and uranium company trucks that tear up and down the roads as they try to become the first uranium operation in the state. Gold operations are expanding in the region. BC Iron Ltd hopes to put a private parallel bitumen road along the length and breadth of the Nullagine road so that it can shift its iron ore trucks, yet the government is ignoring the adjacent road.

I will have the opportunity to speak again and again about these issues until the government realises that the Pilbara region is not the sort of place that can be neglected if it is looking after the interests of Western Australia. The entire state's interests will be served by putting focus and attention on issues that are, in the overall scheme of things, small issues. There is, adjacent to the Atlas Iron Ltd operation, an unutilised iron ore resource that is currently held by BHP Billiton. Agreements come and go in this Parliament and the government could have said to BHP Billiton, "You haven't done anything with the iron ore deposit near the Atlas operation for 30 years. What about surrendering that so that somebody can do something with it and produce some benefit for the people of Western Australia?" The government could have focused on that issue, which is a state responsibility, and simultaneously showed through that focus and attention that it is interested in these issues. Instead, the government seems to neglect its responsibilities. It does not find ways to keep the basic infrastructure in the regions safe. It takes money from the regions and does not have a fully integrated approach to these issues. Pilbara Cities has my entire support, but it needs to be backed up with connectivity to inland communities and a sensible approach to the infrastructure issues with which the region is faced.

I say to the people who come to Parliament after me that resource companies, whether they be Woodside or BHP Billiton, have long memories, and their memories are improved when their arrangements with government are formalised and in black and white. The great lesson for me from watching it over the past 20 or 30 years is that I take their word for nothing until there is a binding agreement. And even then the binding state agreements need to be carefully monitored by Parliament and by government agencies to make sure that the companies are doing those things that they are obliged to do for the benefit of the people of that region, such as training and recruitment obligations, and not simply hand over the cash and run. For instance, in the town of Tom Price, the companies need to deliver power and water services to fulfil and discharge their obligations under these agreements. In the town of Pannawonica, the companies need to deliver quality school facilities under these agreements. Instead, school students too easily have to sit in neglected classrooms, despite the fact that the companies have the obligation under that statute to deliver the facilities for those schoolchildren. There is work to be done. The government needs to focus.

**MR V.A. CATANIA (North West) [5.50 pm]:** When the member for Pilbara speaks, I sometimes forget that he is not a new member of Parliament. He has been a member for nearly 30 years. When he talks about everything that has not been achieved, it is a bit hypocritical of him to have a go at any side, and particularly to have a go at this government, which is actually delivering to regional Western Australia. However, I do sympathise with him about the people who die on the roads, especially as a result of once sleepy roads becoming busy. It is quite distressing that that occurs. We have an opportunity to put money back into the roads. The member for Pilbara mentioned the federal government. I have said in this place previously that even if members agree with the rent resource tax, they cannot agree to all the money leaving Western Australia and Western Australia not getting any benefit back from it, other than what has been proposed regarding upgrading the facilities to the airport. None of that money is being directed back into the Pilbara, which is where most of the money that will go to the eastern states is coming from.

**Dr M.D. Nahan:** It is \$7 billion.

**Mr V.A. CATANIA:** It is \$7 billion. Can members imagine how many roads could be fixed if the federal government matched our royalties for regions program and what an effect it would have on the supply of power and water and on the other amenities that are desperately needed?

The Iron Ore Agreements Legislation Amendment Bill 2010 is a welcome start, but it does not go far enough. I am disappointed that the issues that were not tackled in these negotiations either were not placed on the table or have not been included in this bill. I will go through four issues that I believe need to be looked at and supported. I will not support any future amendments to the legislation unless these amendments are looked at. This is because I believe it is vital that if we do create a city in the north west, which we have well and truly started, we need to ensure that the resource companies get on board and make sure that they put their fair share of money on

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the table. As I said, it would be wonderful if the federal government of whatever political persuasion would follow suit and in its contributions reflect on what is happening in the Pilbara.

I am most concerned about certain issues and I would love to see relevant amendments written into the state agreement because I believe the companies have neglected these issues. That is probably not their fault; past governments probably have not put enough pressure on companies such as Rio Tinto. Every time opposition members say that the government should do this or that, I remind them that they had the opportunity to introduce the amendments that the members for Rockingham and Pilbara spoke about. I was a part of that government that needed to make these changes, but they did not happen. As I said, the amendment that I will push for with this government is for local governments to have the ability to rate resource companies. If we want to create two cities in the Pilbara, local governments will need the authority to rate the resource companies to generate an income that will match the growth that is happening now and is expected to happen in the future. That is absolutely vital. If there is a question mark about Pilbara Cities, it is whether the local governments will have the ability to assist on making that development happen. There is a problem with the ability of local governments in the Pilbara to fulfil the state government's vision; namely, to create two cities in the north.

The member for Pilbara talked about the Indigenous community in Roebourne and what the resource sector has done for them. This is an opportunity to modernise the state agreement for Rio Tinto and BHP Billiton to include a good faith bargaining clause concerning traditional owners that will enable them to look at ways in which native title negotiations will not be held up by lawyers and which will not contain sneaky clauses that do not allow the traditional owners to progress their native title claim. That would overcome what is occurring at the moment in Roebourne with the Ngarluma Aboriginal Corporation, as it is finding it very difficult to deal with Rio Tinto regarding native title claims. If we want expansion and harmony and if we want to ensure that the traditional owners can go ahead, we need to ensure that they are part of this state agreement.

I have seen how the resource companies have neglected the infrastructure of some of the smaller towns in the Pilbara, such as Wickham, Dampier and Roebourne, particularly Wickham and Dampier, which have been traditionally owned by the resource companies. Those towns have been left to become rundown and no-one knows who owns what. The Premier and the Minister for Regional Development signed a memorandum of understanding with Rio Tinto to try to work out ways to improve the amenities of Dampier, because it is a fantastic tourism destination in the Shire of Roebourne. We need to work on the opportunity to build a marina. The resource companies, particularly Rio Tinto, have neglected the towns. I will name Rio Tinto as much as possible because it should be shamed at not attending to the upkeep of the towns, such as Dampier and Wickham, of which it has been a part for so long. Places like Roebourne have been left to rot, basically. Only now are those towns getting the attention needed to revitalise them to ensure that there is at least some decent housing. That is something that previous governments have failed to do. The state government is leading the way in that respect. I have been extremely disappointed by the conversations I have had with Rio Tinto about who should do what and what level of input should come from the resource sector. We have an opportunity, and that opportunity is called royalties for regions. The state government is leading the way in putting dollars on the table, and, hopefully, it can attract matched funds from the resource sector and the federal government. The opportunities are there. The state government is willing to right the wrongs of the past, but there does not seem to be any will from the resource sector to do that—particularly from Rio Tinto. I would like to see in the state agreement a modernisation of the onus on Rio Tinto to ensure that towns such as Dampier, Wickham and Roebourne get a much-needed facelift and are provided with the amenities that are so desperately needed.

The big issue at the moment, particularly in Karratha, is water. Who would have thought that in this day and age when there is such a large population in the Shire of Roebourne, particularly in Karratha, we would see potable water being used on dust suppression? It is absolutely crazy that there is not enough water to expand housing in Karratha because water is being allocated to the resource industry. We could fix the water problem tomorrow if Rio Tinto looked at its own supplies and ability to use alternative water sources at some of its sites rather than continuing to use drinking water to suppress dust. When there is a shortage of water and that shortage is hindering future development, it makes sense for companies like Rio Tinto to look at the ways in which they can deliver water to relieve the pressure on growth of the towns. Why should taxpayers pay for something that the mining company has had a good run at? It is time to modernise the agreement to reflect what is happening there today. That is probably one of the biggest issues that I would like to see fixed in any future negotiations and agreements.

**Mr P. Papalia:** Are you going to advocate that the local government rating concession be revoked?

**Mr V.A. CATANIA:** No, I firmly believe that local governments should be able to rate the resource sector. As I said, the towns should be able to take away a resource company's right to use potable water for dust suppression

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when there is a shortage of water. We would not have to build a desalination plant or look at other water sources if Rio Tinto looked after its own water supply.

*Sitting suspended from 6.00 to 7.00 pm*

**Mr V.A. CATANIA:** Before the dinner break I spoke about the smaller towns in the north west and how Rio Tinto has not pulled its weight to ensure that those towns could keep pace with what is going on in this state. I said to the Premier that we, as a government, need to be strong and that we should not approve any of Rio Tinto's expansion plans for Cape Lambert. We should stand firm and say that we want the four points that I mentioned earlier to be amended in the state agreement so that we can modernise the agreement and ensure that areas like the Shire of Roebourne are able to fully fulfil the vision of the state government—that is, for Karratha to become a city.

The member for Pilbara had a lot to say about roads and infrastructure but not once did he mention what the state government is doing with royalties for regions. Now I know why. During the dinner break I did a bit of research and found that a preference deal has been reached between the Labor Party and the Liberal Party in the seat of Durack for the coming federal election. It has been quite difficult to get any clear answer from the major parties on whether they support royalties for regions and whether they would match it dollar for dollar in the federal scene. The resources rent tax has not delivered any benefits to the Pilbara, where the royalties actually come from. It will continue to fund the deficit that is increasing on a day-by-day basis under the federal government. I did a bit of research and found that the Labor Party candidate, Shane Hill, is preferencing the Liberal Party in the seat of Durack. I find it quite amazing that the two major parties are ganging up on the only party that has started to deliver to regional WA through its royalties for regions program. The National Party is revitalising the inland towns of the Pilbara and is creating two cities in the north—Karratha and Port Hedland. It has also developed a Gascoyne revitalisation plan to fund to the tune of \$150 million projects that the community has put forward. This preference deal surprises me, but, then again, it does not. It shows that the federal Labor government does not want to support royalties for regions. The federal Labor government wants to ensure that the National Party does not continue to gain ground in regional areas, which it has been doing by representing local communities in a local way by delivering royalties for regions. The federal Labor Party has done a deal with the federal Liberal Party to swap preferences. I find it quite amazing that it would set out to try to end royalties for regions. There is also the prospect of the federal resource rent tax, which could jeopardise royalties for regions. The detail of the proposed tax is as yet unknown. The federal government may collect all the royalty payments of the states and territories and then give back a proportion, as it does with the goods and services tax. We hold grave concerns about it. I will make sure that the community of the north west finds out tomorrow that the Labor Party has preferenced the Liberal Party in the seat of Durack. I am sure that the whole of the seat of Durack will know by tomorrow that this deal has been done between the Labor Party and the Liberal Party. All I can say is: shame on the Labor Party! I thought the Labor Party had some morals left, but those morals have obviously escaped—they must have left when I left. It is clear that I have taken them to this side!

I return to the bill before us. The government needs to think long and hard about it. The opposition had its chance to amend the state agreements when it was in government. I commend the opposition for starting the process and for exploring the idea of implementing new state agreements to allow local governments to rate the resources sector, but I am very disappointed that it did not amend and modernise the state agreements when it had the opportunity to do so. It is a bit hypocritical for the opposition to now attack the state government for failing to do this or that when it failed to do those things when it was in government. The federal government has definitely failed the people of the Pilbara by not investing in the Pilbara at all.

I urge the Minister for State Development, the Premier, to consider the amendments that I move this evening. They are absolutely vital if we want to create a vibrant city in the north, if we want local governments to be able to keep pace with what we are doing, and if we want the outer towns of the Shire of Roebourne, such as Dampier, Wickham and Roebourne, to really prosper and grow with Karratha. We need to ensure that Rio Tinto includes all those plans and puts them into action, so that those towns can become vibrant communities. I hope that the Premier will use whatever bargaining power he has. He should not allow Rio Tinto's expansion plans at Cape Lambert to go ahead. I will do my best to make sure that those expansion plans are put on hold until Rio Tinto agrees to these amendments, which I believe are required for the development of cities in the north west.

**MR C.J. TALLENTIRE (Gosnells)** [7.08 pm]: I am very pleased to speak to the Iron Ore Agreements Legislation Amendment Bill 2010. It is fair to say that this bill is welcomed by all members of this house because it will remove the concessional royalty rates. This is needed because, for too long, two of the wealthiest and most profitable companies in this state have been able to continue their operations on the basis of agreements that were signed back in the Sir Charles Court era. As other members have pointed out, those state

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agreement acts are old. I do not believe that they really take account of the expectations of the community, which I will address in more detail. I also do not think that they really pick up on a basic equity issue of how the broader community can profit from these mineral resources, which, after all, we can dig up only once. I am the first to admit that all of us are the beneficiaries of the mineral wealth of this state of Western Australia, but I think we are getting to a point now when we have to weigh up the cost that comes with our mineral extraction activities. It would be completely wrong for any member of this place to imagine that mineral extraction is a benign activity; it comes with huge costs. There are social costs—I will touch on some of those—and there are also environmental costs. Therefore, if we are prepared to accept that we will suffer some degree of cost, we must make sure that we receive some adequate form of compensation, and that is where this royalty revenue really does come in. I maintain that the new amount of royalty revenue that has been set through this amendment bill is not adequate; we should be going a lot further. I was pleased to hear the member for North West touch on that very point.

I want to turn, though, to some of the social costs that we have seen with mineral development in the Pilbara. I bow to the knowledge of the member for Pilbara, his passion for the region and his intimate knowledge of the Pilbara. I have observed on various occasions that I have been in the Pilbara that there are great extremes of wealth there. There are places, of course, that produce incredible amounts of wealth, and there are places right next door where there is abject poverty. People often refer to the comparison between Karratha, the activities on the Burrup and the plight of the community at Roebourne. That example is certainly one that people often consider.

I have also observed the situation at Newman. I recall in 1998 passing by Newman and seeing the gated enclosure of the town of Newman and signs up saying that it was the tidy town of the year. Indeed, Newman had immaculate suburban Perth-style manicured lawns and there was a very happy well-to-do sense about the town. Then, outside the gates of the town of Newman, I saw the total poverty of the Parnpajinya community; an Aboriginal community that I believe is mostly made up of people from the Jigalong desert community, who came to Newman because they wanted to access alcohol and were staying in the terrible shanty town of Parnpajinya. I recall contacting Stedman Ellis who was at BHP at the time—he has now gone on to be deputy director general at the Department of Mines and Petroleum—and asking what action was going to be taken by BHP on this matter. He assured me that the company was very concerned and that all layers of government were very concerned that there was this outrageous level of poverty right next to an area which had a good quality of life and wealth and which was thriving on the exploitation of the nation's wealth in the extraction of resources at the Mt Whaleback operation. I am sorry to hear from the member for Pilbara, though, that things have not moved on terribly much since I saw that in 1990. The Parnpajinya community is still living in a high degree of poverty. This argument about how our mineral, oil and gas wealth can be used to change and help the plight of Indigenous people has been used very frequently. I am yet to see a solid example of mineral wealth that has been converted into real significant advancement for the great many Indigenous people. Some have definitely been able to improve their lot in life, but there are far too many still left behind. That is something, therefore, that I remain concerned about.

There are other social costs as well, not just for Indigenous people. It has to be said that there are many social costs that go with the fly in, fly out culture that is so very much embraced by the resources sector these days. People are seeing cases of marriage breakdown, relationship breakdown and general stress that go with the fly in, fly out culture. Other costs relate to the more social and economic side of our mining industry, such as infrastructure costs. As everyone knows, trying to find car parking at Perth Airport was just about impossible at one stage. I think it has improved in more recent times, but there was a time when there simply was no infrastructure in place to deal with the number of fly in, fly out workers.

Of course, now we are talking about having to improve the traffic network around the airport and the upgrade that is necessary to the intersection at Tonkin Highway and Leach Highway—an enormously costly proposal. The necessary upgrade, though, has been brought on by the activity of our resources sector. It is therefore only reasonable that that resources sector be made to contribute to these costs. We must have a mechanism to do that. Things like royalties and mineral resource rent taxes are the way that we can gain the necessary funds to improve things; because if we leave it to the companies themselves, I do not think we will get the benefits that we need.

I want to move on to the negative impacts of mining on the environment. We must weigh up whether we are getting enough of a royalty rate. Is a little more than five per cent adequate to compensate for the environmental loss that we face when it comes to the mining industry? The industry is very quick to say that when we look at it in terms of hectares, the actual footprint on the Pilbara is not enormous. But the reality is that, when we consider that through its operations Rio Tinto is exporting presently 225 million tonnes of iron ore a year, going up to 330 million tonnes in the next few years, and BHP's iron ore operations involve similar amounts, we are not

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talking just about a footprint impact; we are talking about very dramatic landscape change. Those are enormous volumes and they do leave an impact on the environment.

The issue is broader than just a change to the physical landscape; although on that I have an interesting anecdote. I received an anonymous email from a Rio Tinto employee who is at a place called the Auski Roadhouse. That person is involved in some exploration work about 30 kilometres away from the Auski Roadhouse. The message that I got was: here is an area that we have discovered has high mineral prospectivity—the iron ore deposit is indeed a solid one—but we are going to be blowing that up. In fact it is an area that looks like a mini Bungle Bungles. That is the sort of landscape change that is being wrought on the state in the Pilbara region through this form of iron ore mining activity. Are we, therefore, gaining enough to compensate for that loss? It is a loss that many Western Australians do not even understand because they are totally unaware of our natural heritage in the Pilbara.

I know also that there are significant amounts of Indigenous heritage there, which I will come to in a moment, but I want to stick with the theme of environmental loss. There are other things. For example, Rio Tinto's expansion of the Hope Downs project led to dewatering of the Weeli Wooli springs. The dewatering was such that the water was then put down Weeli Wooli Creek. That might sound like there was a bit of mine activity going on causing some minor dewatering of a mine site. The volume of water involved was actually enormous—about 45 gigalitres a year. We have heard other speakers mention the problem of water supply in the Pilbara. Rio Tinto dewatering 45 gigalitres of water down the Weeli Wooli Creek a year has an Indigenous cultural impact; it impacts on the rainbow serpent there. That is upsetting for the traditional owners of the area. Forty-five gigalitres of water is about the same volume as our desalination produces; it is about 17 per cent of Perth's annual water consumption. It is an enormous amount of water, and it is being dewatered—effectively going to waste. That kind of dewatering has led to the degradation of various ecosystems downstream of Weeli Wooli Springs that were dependent on the surface water. That has all been changed. That dramatic ecosystem change has been caused by mining activity. Is that justified by our receipt, previously of only 3.75 per cent, but now, wow, up to a little over five per cent of royalty revenue to the state of Western Australia? There is clearly a case for significant reforms of the way in which we gain benefit as a whole community from the activities of the mining industry. For that reason, I am fully supportive of the proposals put forward by Prime Minister Julia Gillard and the federal government. We need to put things into the context of profit levels. Rio Tinto recently announced a first-half net profit of some \$6.4 billion. I also mentioned that Rio Tinto's production is expanding from 225 million tonnes a year to 330 million tonnes a year. Rio Tinto is investing about \$11 billion in its expansion operations. It is an absolutely huge scale.

Members have referred a little in this debate to the longevity that we can expect from that iron ore resource. However, we are obviously talking about a resource that is depleting. I recall hearing the Premier talking about this issue—I think it could have been about 10 years ago—and saying at that time that to his knowledge we had about 200 years of iron ore remaining at the 1999–2000 level of extraction. Whereas now, I am hearing experts such as Peter Strachan, a well-recognised expert on the iron ore industry, estimating that at the present level of extraction we are probably looking at the depletion of the economically viable aspects of the resource within the next 80 years. There is nothing infinite about this resource. This is our natural capital. It is our resource, and we should not be giving it away for nothing. It is a resource that is depleting. By giving it away for a five per cent royalty I do not think that we are gaining the sort of wealth that we deserve and that will leave us with the quality of infrastructure that future generations will be able to point to as reflecting the return that we gained from extracting all that iron ore. We will not be able to say, “We have no more iron ore left as a result of that frenzied extraction of iron ore in 2010 and through to 2020, that China-fuelled enthusiasm for extracting iron ore, but we now have these monuments and facilities and these developments in Western Australian society that reflect the return that we gained from extracting all that iron ore.” The fact is that, basically, we are just too soft when it comes to negotiating with these companies.

I notice that in the second reading speech on this bill the Minister for State Development, the Premier, said that the negotiations had been productive, albeit tough, over an extended period. I would really love to hear later on from the Premier some evidence that demonstrates how tough those negotiations were. When we look at the profit levels of these companies, it has to be said they are getting it pretty damn easy!

I also hear from people who are in middle-level management at both Rio Tinto and BHP Billiton Iron Ore. Their view is that, of course, they could pay more and they would be totally viable if they were to pay more. They say, “Of course we are not going to be going off to Africa to set up there.” They have far too much infrastructure to do that. They are exceptionally profitable operations and they can afford to pay more. I only get to briefly shake hands with people like Sam Walsh, but I realise they say that there are difficulties for their companies when they are approached with requirements that they pay a bit more, but I think that the people who really have their eyes

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on the figures—those middle-level managers who are in the various mine viability areas—can see that it is totally feasible for them to be paying more. I am very concerned that there has been a debate at a national level where senior figures from the Liberal Party especially have tried to convince people who are working in the mining industry that they would be out of a job should there be any increase on the return that we as a whole community are seeking to gain from the extraction of iron ore.

I have no doubt that the issue of changing a royalty regime, and changing regulation as well, sometimes evokes a degree of angst in companies. They love to react to it, and they are very quick to react. They have public relations firms that can immediately come out with quick responses to counter any government desire to extract a little more from their profit take. All too quickly I believe that the term “sovereign risk” gets raised. It needs to be very clear, when it comes to this issue of sovereign risk, that it is not a matter of sovereign risk when a nation or a state like Western Australia decides to increase its royalty rate or, indeed, impose regulations. To argue otherwise and to suggest that such changes somehow create this issue of sovereign risk or diminish our standing as a player on the international business stage and might somehow change our AAA credit rating would suggest that we are locked into the ideas and the policy settings of past generations. I find that totally unacceptable. Why should we as Western Australians today be satisfied with the royalty rate that Sir Charles Court and others agreed to many years ago? It has to be that we as a community are allowed to change our royalty regimes and our taxation regimes and to regulate where necessary to make sure that companies are brought into line with the expectations of the Western Australian community today.

I believe that the state agreement acts that are involved here in many instances are old; not only that, there are concerns about state agreement acts in general. There is a view that perhaps we should not use state agreement acts in the future. I recall the Keating review of major project developments in Western Australia that was conducted during the time of the Gallop government. That review raised some serious questions about the use of state agreement acts. I suspect one reason for that was because they are not always effective mechanisms to gain the economic return that we as a state deserve.

I support this legislation because it is a positive step forward, but I hope the Premier will be able to address some of my concerns. I am particularly interested to hear how this was supposedly a tough negotiation. My suspicion is that it was far too soft a series of negotiations.

**MR J.J.M. BOWLER (Kalgoorlie)** [7.28 pm]: I rise to support this legislation and to congratulate and commend the Minister for State Development, the Premier, for what he has achieved for Western Australia. The Minister for State Development stated in his second reading speech that since 1996 successive governments had been trying to standardise and normalise royalties on fines and beneficiated ore. Indeed, as a backbencher, initially of the Gallop government, I worked a bit towards achieving that. I know that was a goal that the then Minister for Mines, Hon Clive Brown, was seeking to achieve, as was the Carpenter government later on. It is good that it has finally come to fruition, particularly considering that more recently we have a relatively new state agreement in the Pilbara—the Iron Ore (FMG Chichester Pty Ltd) Agreement Act 2006, which sees FMG, on the same ore and in the same region, paying the full tote odds that are now being imposed from here on.

I was also involved in transferring the former Poseidon nickel agreement at Laverton. The then minister—once again Clive Brown—was surprised when the mining company that was taking over the state agreement from the former Western Mining Corporation said that it wanted to include such things as local government rates and some other provisions that will probably be normal into the future.

That was done when that state agreement was transferred from Western Mining to the company that was reopening those Windarra leases. Therefore, this does not set a precedent; it is really just part of the normalisation of the mining industry in Western Australia, which is something that the government has brought to fruition.

The federal election is less than a fortnight away. Although the context is that this is a state government negotiating for state royalties, we have recently had the debacle of Canberra trying to indicate to the rest of Australia that royalties somehow belong to Australians—they do not. The iron ore in Western Australia belongs to the people of Western Australia and the royalties on those minerals belong to Western Australia.

**Mr C.J. Tallentire:** Have you got a Western Australian passport?

**Mr J.J.M. BOWLER:** Of course, hang on —

**Mr C.J. Tallentire:** There is no such thing as being a Western Australian citizen!

**Mr J.J.M. BOWLER:** If the member wants to defend that, he can go sit in Canberra because —

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**Mr C.J. Barnett:** Is that the Labor position, is it?

**Mr J.J.M. BOWLER:** Is that the member's position? Does the member think that we should not have state royalties?

**Mr C.J. Tallentire:** How can you claim that we are entitled to it especially as Western Australians, when we are a nation?

**Mr J.J.M. BOWLER:** But the member just supported this bill, did he not?

**Mr C.J. Tallentire:** Yes, of course I did.

**Mr J.J.M. BOWLER:** I just want to get this right: does the member not support this bill now?

**Mr C.J. Tallentire:** Of course I do; I said I did.

**Mr J.J.M. BOWLER:** Okay. This really points out—as I said, the election is now less than a fortnight away—that it was the biggest land and money grab in Australian history to say suddenly that the mineral rights belong to all Australians. They do not; it is a state government that is imposing this and the state government receives royalties. Of course, member for Gosnells, as we can see through the federal government's grants commission and the equalisation, I think we end up with about 15c in every dollar, that the rest of Australia does benefit. However, the right to impose those royalties belongs to Western Australians and that is what this government has done. As I say, everyone benefits; I think about 85c in the dollar ends up staying in Canberra. I agree that that is probably the way it should be. I wish we kept more here in Western Australia but I agree that I am an Australian and therefore this is a way to provide that flow of money to all Australians. Sometimes we get a bit greedy and think that we should keep more. What would happen if a massive oilfield was suddenly found in Tasmania? We would all suddenly want to be Tasmanians or say that we are all Australians and want the Tasmanians to share with us. Of course, it was not until the 1960s that Western Australia paid its way anyway. We were a mendicant state that until the 1960s did not pay its way as a part of the Commonwealth of Australia. Therefore, we must remember that as well. However, we must not forget that the fact remains that royalties belong to Western Australians and it is the right of the Western Australian government to impose those royalties. I congratulate the Minister for State Development for doing that.

In his second reading speech the Minister for State Development talked about this money going to vital infrastructure. Please do not rebuild Subiaco Oval before we build Wiluna North Road. That road is vital—not so much for the Goldfields—and was promised when the Liberal government, I think it was, pulled up the railway line from Meekatharra to Wiluna 54 years ago. The government said, "Don't worry about pulling up the railway line; we're going to build a road next year." It is 54 years later and we still do not have a road —

**Mr J.E. McGrath** interjected.

**Mr J.J.M. BOWLER:** The member for South Perth can build his oval. By the way, the oval will be filled on only two days a year—the two derbies—now that the Eagles are going badly and the Dockers do not have enough members to fill it! The member for South Perth wants to build a new oval because the current one is full on two days a year. I want to see a new oval, too, like most football lovers and sport lovers do, but I say to the Premier, who is in the house now, that a road in the north is far more vital to state and national interests because it will save hundreds of millions of dollars in the next two or three decades. If we move all that tonnage from the eastern states and put it off at Kalgoorlie—we will build a transmodal shipping centre in Kalgoorlie—and take it straight up Goldfields Highway from Wiluna to Great Northern Highway and into the Pilbara to the gas projects, the savings will be astronomical. The couple of hundred million dollars it will take to build that road will be saved, I say, within a decade. That road is far more important than the oval. Once we have done that, members can have their oval and everything else that they want in Perth. They can put bitumen on top of bitumen again, as they usually do because everything else is so wonderful down here in Perth —

**Mr J.E. McGrath:** You don't have to come down here, you know, member for Kalgoorlie!

**Mr J.J.M. BOWLER:** I do because Parliament is here. I come down as late as I can and I get out as quickly as I can! However, I have to come down here.

If we are going to use this money for infrastructure, that road is vital to not only the Western Australian interest but also the national interest because it cuts about 200 kilometres off the route from west Kalgoorlie to Perth and then up to, say, Newman, plus it will reduce the tonnage that currently comes in to Perth, and has to be transhipped on highways in and out of Perth along Leach Highway through South Perth and Como. All of a sudden, all those trucks that do not have to be in Perth would be able to go straight from Kalgoorlie to the north,

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but they will not be able to until that road is built. Therefore, I think that is vital infrastructure. I believe that it is gathering momentum and I look forward to the next state budget moving in that direction.

Another matter that I urge the Minister for State Development to consider the next time he is negotiating with these companies is the inclusion of local government rates. I was part of the government that I thought had pulled that off. The previous government had a policy that if any state agreements were changed, local government rates would go on the table. I urge the Premier, the Minister for State Development, to do the same. I was, first of all, the Minister for Local Government and then the Minister for Resources, so I was intimately involved in some negotiations with the companies. There was concern that local government rates would apply to some of that big infrastructure in the iron ore industry and that the companies could be up for \$40 million or \$50 million—there was even talk of \$80 million or \$100 million—a year to the Shire of East Pilbara and so on. We got the Valuer-General's office to get the companies to open their books on seven state agreements—a coal agreement, an alumina agreement, a gas agreement, a nickel agreement, two iron ore agreements and the diamond agreement in the Kimberley. The Valuer-General assessed the books to let the companies know what they would be up for if local government rates did apply, so there would not be any major surprises. I suppose that if the worst-case scenario occurred, and they were up for \$80 million to be paid to a small council, we could then make some legislative changes to ensure that the companies were not screwed and that some commonsense prevailed. The only two companies that dragged their feet on that were Rio Tinto and BHP Billiton. I had been minister for a couple of months and I kept thinking that it was all progressing until I found out that BHP and Rio had not opened their books and were refusing to participate. The other five companies had. I called both companies on a Monday and said, "If your books aren't here and your agreement isn't here by the close of business Friday, we're going to do it and when we do it, if suddenly you are paying the \$80 million a year to Port Hedland or the East Pilbara shire, so be it!" We were only trying to protect the companies. By the close of business on that Friday they had both reluctantly agreed to participate, but they still do not pay local government rates. My argument with the senior executives of both companies was that they would give this money to local government like every other company does in Western Australia and, lo and behold, that money would be then spent in their towns to benefit their workers and their families. So what was the big deal about not having local government rates? The companies said, "We give the Newman shire a million dollars here and we give the Port Hedland town council a couple of million dollars here." That is chickenfeed. They should be paying local government rates and it behoves the government to ensure at the next opportunity that they do it. The companies say that they have a state agreement, but I say that if they want to stick to the letter of the law of those state agreements, let us stick to them and go back and see what we, the community of Western Australia and the government, has paid out on hospitals, police stations, footpaths, roads and all those other services that under the state agreements, the companies were required to provide. They have not provided that in two decades. They literally use one part of the state agreement and stick to it and do not do anything on the other side. If companies do not want to pay for state agreements, we should send them a bill for what the taxpayers of Western Australia have paid as their part of the state agreement for the past 20 years. If companies do not want to pay local government rates, that is what we will do—we will send them a bill. I would say that the bill would amount to many hundreds of millions of dollars. The companies are getting away with that.

I had another argument with senior executives; I will not mention their names. I kept on saying that they are going to spend this money in their towns where they may employ 85 per cent of the workforce and the other 15 per cent are probably contractors supplying their companies anyway. They were saying that it is not their company and they want to control their money more directly. The fact is that they are in those communities, which were run down in the seventies, eighties and nineties. The member for Gosnells said that they are doing it very easy these days and the money is flowing. In fairness, he is right—right now they are doing it very easy. But for 25 to 30 years it was not like the good days we are seeing now. When houses in mining company towns such as Newman were first built in the sixties, they were of a similar standard to the normal suburban house in Perth. They are far from that now. The mining company officials defended their position by saying that they spent a lot of money and these towns are really nice. I asked where they lived. They all live in Perth. They fly up north for one or two days and then come back to Perth. I said that their families are in Perth but they want their workers to live in these towns where the standard has dropped in the past 30 years. Local government normalisation is a small part of that. The next time these companies are at the negotiating table, I urge the Premier to put that in.

There are mining companies in the member for Roe's electorate—they used to be in my electorate for the previous eight years—such as Cliffs-Portman in Koolyanobbing, that pay the rates that these companies pay and they pay local government rates. It is not as though Rio and BHP are being asked to do something special that other iron ore producers in the state do not do. Everyone else does it except Rio and BHP. They should. What is happening here is a long time coming, more than a decade. It is good for Western Australia. I point out to the

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member for Gosnells that it flows on to the rest of Australia. It is good that the state government is imposing these royalties. It has been a long time coming. I hope that the next time the Premier has them at the table, he includes local government rates in those negotiations.

**MR P. PAPALIA (Warnbro)** [7.43 pm]: I rise to speak on the Iron Ore Agreements Legislation Amendment Bill 2010. At the risk of covering ground that just about every member who has spoken has already covered, I want to focus on some concerns I have on the two shadow portfolios I hold. I admire the Premier's stamina and appreciate the fact that he is in the house tonight. It is a tiring job. I have always admired the people who fill the role of Premier.

**Mr C.J. Barnett:** It's only the first day of the session.

**Mr P. PAPALIA:** I know. I am sure that the Premier was busy during the recess and he is now feeling very weary, particularly after all the callisthenics he was doing earlier today, captured in living colour on Channel Seven.

**Mr M. McGowan:** It was almost a star jump. The Premier's aged a bit since the star jump; he can't quite get there any more.

**Mr P. PAPALIA:** That is right. At least the viewers could not see his legs going. It is a good thing that the Premier is here to listen to these contributions.

I am thankful that I am following the member for Kalgoorlie because at the end of his contribution he put forward the issue of local governments quite forcefully. He clearly articulated the argument for why we need to focus on rating of mining companies in this particular negotiation. An inconsistency has been identified by perhaps a reluctance or perhaps the government is negotiating to change the rules of rating. It appears as though that has not necessarily been considered at the outset; it is certainly not mentioned in the second reading speech. There is an inconsistency with how we as the Parliament or how the government is dealing with local governments at the moment.

On Thursday last week the Minister for Local Government nipped down to the Western Australian Local Government Association's annual conference early in the morning. I was going there to listen to him speak. When I got there, I was told that he had already been and made an announcement but he was coming back. I wondered what that announcement would be. I was told that it was an announcement about the state local government partnership agreement, except it is not called a partnership any more; it is a state local government agreement, a re-signing of the agreement. I thought that was interesting because I had been waiting for that. I got onto the website to see whether the minister had put out a media release. He had not, and he still has not. I wonder whether the reason he has not and the reason he nipped down to the conference in the morning without any great fanfare and just made the announcement to the local government councils that were at the conference that morning is that we are two years into this new government. There has been a consistent inquiry on behalf of the membership of the Western Australian Local Government Association as to its relationship with the state government, specifically the Premier, of what will be the agreement about meeting, how frequently it will occur and whether he will continue the groundbreaking agreement that was reached by the Gallop government originally and continued by the Carpenter government whereby there was an agreed method for meeting. It was formalised, minutes were taken and regular meetings were undertaken by either the Premier of the day or the minister in his stead. In light of the fact that we have now gone through 18 months of uncertainty as a result of the push for structural change in the local government sector, I felt that that refusal or that reluctance to engage in a new agreement and engage in a visual and open recognition of the relationship between state and local governments was a bit disappointing. I am glad that that has happened. There is an inconsistency there. At the same time as not putting out a media release about the two years down the track state local government agreement, the minister is putting out releases. He put out a release today on how the local government structural change process is playing out.

**Mr C.J. Barnett:** What's this got to do with iron ore royalties?

**Mr P. PAPALIA:** I will tell the Premier. The minister trumpeted, amongst other things, four local governments—Ashburton, East Pilbara, Port Hedland and Roebourne—that are forming a regional collaborative group in the Pilbara.

**Mr I.C. Blayney:** Good idea.

**Mr P. PAPALIA:** That is true; it is a good idea. Those councils currently do not benefit from being able to rate the companies that operate in their areas in accordance with the argument articulated by the former minister

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responsible, the member for Kalgoorlie. The government is saying how wonderful it is that these four councils in particular are leading the way in forming a regional collaborative group. We are trumpeting the fact that they are doing that and that they are engaging with the state government in a positive fashion. We finally have a state local government agreement signed. We do not have in this amendment to this state agreement recognition that those councils do not get the opportunity to raise revenue through rating those companies that operate in their areas and therefore provide the infrastructure that is required to support the operations of those companies. I think there is a disconnect. On the one hand, the Minister for Local Government is trumpeting the fact that these four councils have been very positive and cooperative and are moving forward into the future, as the minister would like to see occur, and on the other hand, we are ignoring their requirements. It is a longstanding acknowledgement by the local government sector that this is a failing, a flaw in the system that should be rectified at the first opportunity. Again, there is another inconsistency. I know that the minister says it frequently when he is speaking to the local government sector. Through the systemic sustainability study that was undertaken by WALGA under the previous government, local government acknowledged that it needed to undertake reform. It always says that. But one of the things that were found by the systemic sustainability study was that these state agreements contain clauses that limit the valuation and rating of agreement land to unimproved value, and thereby effectively rip off the councils. One of the key findings of that systemic sustainability study, to which the minister refers frequently when talking to local governments, imploring them to adopt his structural change process, was that there was a need for change. One of the other things that study found was that there was a need for change to this sort of agreement and that these companies should be compelled to pay their way, provide the revenue stream to the regional councils and therefore enable them to provide for their citizens and provide infrastructure for the companies to be able to continue to operate. That is one of the things I wanted to raise. That is one of the shadow portfolios I wanted to focus on.

The other one is corrective services. Clearly, as has been mentioned by other speakers tonight, there are people in the regions where these companies operate who are not receiving a fair share and who are not receiving a benefit as a result of that state agreement. Here is an opportunity. I am fearful that we may be witnessing a missed opportunity. It will be missed if we do not change the limits placed on the councils in rating the agreement land, but it will be further missed if we do not specify and dictate in very clear terms what we expect from these companies regarding local employment and local content. I suggest, because of the shadow portfolio that I hold, that there should be a real focus right down to specifically compelling those companies to get involved in trying to reduce the number of Aboriginal people who end up in the prison system by engaging in efforts to reduce that reoffending as they come out of the prison system. If members have not been to the Roebourne Regional Prison, they should go. We all know how starkly that stands, along with the town of Roebourne, in contrast with the surrounding area, the towns and the activity that is going on in that part of the world.

I know that there has been progress in the past couple of years regarding the number of Aboriginal people employed. However, I do not think that is good enough. We need to be quite specific about what we expect. We need to set targets for employment, but also set targets for engagement with authorities such as the Department of Corrective Services to ensure that these companies link up with that department, the state government authorities responsible such as the education department, the training department, local governments, the federal government, any non-government organisations and other businesses to ensure we have a joined-up response. I put the discussion paper on justice reinvestment out there because one of the things that it provides for is a framework to consider how we should go about trying to reduce reoffending. It calls for a joined-up response. In South Australia, a bloke there named Monsignor Cappo is the Commissioner for Social Inclusion for South Australia. He advises the South Australian government on the concept of social inclusion. He has garnered this concept from overseas. It has been utilised in a number of places in the United States. It refers to joined-up responses to this problem of achieving social inclusion. I have no doubt that there are lots of other different names for different processes that all seek to achieve the same thing, which is to ensure that instead of different levels of government, different agencies, different NGOs, different businesses and different communities all working at odds with each other, all the work is coordinated, and we all work with a combined approach that is developed as required to meet the needs of each specific community, because we cannot expect to roll out a blanket approach to achieve an outcome across such a diverse state as Western Australia. Even in the region that we are talking about in the North West, we have to get down to each specific community and look for a solution. I believe that this is an opportunity.

There has been a move in some US states to adopt a program that calls for a minimum percentage of workers to be employed by each company. The companies sign up to it, participate in it, and undertake that they will meet that requirement of a percentage of overall employment. We can see how those sorts of initiatives need to be coordinated across the board—across all levels of government, all businesses, NGOs and communities. That is

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why we need a more consolidated approach to how we deal with reducing recidivism when people leave our prison system. This is an opportunity to link in with the real world right now while we are changing a state agreement that dictates how these companies can and cannot operate and what we will expect from them. I do not think it is satisfactory any more to have them just make their best endeavours; that is, have them set a target which sounds enticing at the start but which, because it is not rigidly adhered to, over time eventually dissipates into a very disappointing outcome. I am not blaming those companies. I do not think we have asked enough of them. We have not been specific enough, and we have not provided them with a framework within which they can work. That is why I again ask the government to consider justice reinvestment as a framework, apply it in that region, and link any requirements we are placing on the companies for local content, local employment and, specifically, engagement with the people who are in the custodial system to whatever we do in this amendment bill. We should take the opportunity.

I believe we would find that the companies would be welcoming of it. I have not met any mining executives who have been negative about trying to employ more Aboriginal people and trying to get better outcomes. They all think positively in that regard. I believe that we, as the Parliament of Western Australia, have probably failed them, in that successive governments have not provided them with a framework within which they can work in an effective fashion so that we can overcome those barriers between federal, state and even local governments whereby everyone is working at odds with each other. We need to ensure that we try to target achieving a joined-up response to tackling the disadvantage. I am speaking specifically about the corrective services system in that area and trying to focus on those people who live in that area and end up in that prison and who then, sadly, go back into the community, do not change their lifestyle, fall back into the same behaviour and end up back in the prison system very quickly.

I urge the Premier and the government to do whatever they can to use this as an opportunity, particularly in that field, but also very much in the local government sector. I ask that whatever they do, we do not fail again to take advantage of what is going to be an almost unique opportunity.

**MR I.C. BLAYNEY (Geraldton)** [7.58 pm]: I will speak briefly on the Iron Ore Agreements Legislation Amendment Bill 2010. Of course, I support the changes to the royalties. Recently, the Minister for State Development—the Premier—visited Geraldton to mark the reopening of the Koolanooka mine and the export of hematite out of Geraldton. It had quite a lot of significance for me, because I can remember, when I was a child of about five, that my mother drove me up there in the old Holden HR station wagon and we parked next to the train unloader, as we could in those days; people could just drive onto the wharf and watch a train from Koolanooka unload. It was quite interesting to stand there next to the train unloader the other day when a group of backbenchers were up in Geraldton with me and to see that nothing had changed. It is exactly as it was 40 years ago. It was also interesting to speak to Sinosteel and to find out that under the Koolanooka deposit that it is mining at the moment are another 350 to 400 million tonnes of magnetite. That is quite exciting, because it says to me that there is another potential magnetite mine in my area.

If we go through them, we now have Gindalbie's Karara mine, the first stage of which will ship eight million tonnes a year through Geraldton port. However, there is enough there for 30 million tonnes a year to come out for 30 years. Sinosteel will move from Koolanooka to the Weld Range, where it has enough to bring out 15 million tonnes of hematite for about 15 years, and then it will move on to another deposit it has at Robinson Range. It also has deposits at Jack Hills. Asia Iron has a quite exciting project in that it will build a 300-kilometre slurry pipeline, and eight million tonnes a year of that will be dedicated to Geraldton port for forever. Jack Hills has upgraded its deposits to three billion tonnes, which is a mixture of hematite and magnetite, and other companies, such as Golden West Resources, Cashmere Iron, and numerous others I have lost track of also have projects. It is interesting to consider this, because a lot of members do not realise that the first iron ore that came out of Australia when the bans were lifted came out of Geraldton. Those exports ceased in the 1970s when the Pilbara came on stream, but it is quite exciting for me to see the iron ore industry again contributing to the Mid West economy and starting to make a big impression. We have been talking about concessions, but nobody has questioned that these concessions were put in place to help the development of the Pilbara industry.

I regard the government money that has been committed to Oakajee port as, in a way, a trade-off. We are not giving the mining companies a concession on the royalties they will pay, we are actually putting money in up-front, which gives those companies confidence to enter into big capital investments, because there is a lot more capital investment in magnetite than in hematite. We have been through a global financial crisis and yet none of those companies has questioned any of their plans; they are keener than ever to get on and build their projects. Of course, in the Mid West the new mines will be in addition to existing industries; we are not creating new towns, we are just adding another unit onto our existing economy. As these new projects take off, I am reminded of the development of the hematite mines in the Pilbara, which were followed by an almost explosion of the

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Japanese economy in the 1960s and 1970s, and as the magnetite mines are developed in my area, I think that will be followed by huge, vast, continuing growth in the Chinese economy. Most of the mines in my electorate either have a Chinese customer or are partially, or almost wholly, Chinese owned. They are already proving to be excellent corporate citizens in the region.

The other point about Oakajee and its railway lines is that there is a large industrial estate next to it that is ready to go. That is another reason why it is very important for the government to be involved in that harbour, because reliable, efficient transport through that port will be critical for any industries that set up in that industrial estate. We already have a number of companies that have shown interest in setting up there.

I cannot say that a new federal resources tax that takes \$7 billion out of the Western Australian economy and gives us \$2 million back is a good deal. I cannot say that a deal on goods and services tax that will result in us getting half of our GST funds back is a fair deal either. When applying extra royalties to mines we have to be very careful because mining, to a point, is a bit like my old industry—farming. In the good times people think the good times will never end; unfortunately they always do. I read about the central African country of Zambia, which is basically a copper mine with a country attached to it. When the copper mines were doing quite well, the government upped the royalties, but about 19 months later it had taken them back to where they were before because it had completely knocked the confidence out of the entire industry. That government understood that to ensure future investment, companies had to have confidence in the present day—one flows from the other.

I would like to endorse the comments of the member for Kalgoorlie about the road from Wiluna to Meekatharra, although I understand the passion some people have for sports stadiums. I was talking about this road, which is 180 kilometres long, yesterday with someone from the Mid West Development Commission. My reading of it is that it would be better for that road to go most of the way to Meekatharra from Wiluna, and then to turn north, rather than just go directly —

**Mr J.J.M. Bowler:** It goes to the turn-off to the Magellan lead mine, just past there.

**Mr I.C. BLAYNEY:** We are going to have an argument about this, I think!

It is a critical road. I have not actually driven it, but I have been told numerous times that it is in an absolutely dreadful state, it is a shocker, and it would be a good thing to seal that road.

I will mention another road that I am slightly passionate about, which is the road to the Murchison shire. If the decision to seal roads goes on traffic flows and the like, this is one of those roads that will probably never be sealed, but they are endeavouring to seal it as much as they can. With the Square Kilometre Array project being about 80 kilometres east of the Murchison shire, it would be a very good thing if we could commit ourselves to seal that road as well.

**Mr V.A. Catania:** There's a great roadhouse there!

**Mr I.C. BLAYNEY:** It is very good!

Finally, I endorse, to whatever degree possible, making these companies pay local government rates. When we brought the state agreement act for Iluka into Parliament last year, at that point Iluka started paying rates to the City of Geraldton. I think that is a good thing. Iluka has always been a model corporate citizen in Geraldton, and it has employed a lot of people, has been very stable and contributes a lot to the community, but, as a ratepayer, I do not have a problem with Iluka also paying rates. I endorse whatever we can do to get rates back into local governments.

The other thing I would like to endorse is the state government's commitment, under royalties for regions, to develop the Pilbara Cities project. I think that is an absolutely fantastic program and it should have been done 10 years or 20 years ago, but this government has done it, and it will make a difference in those areas.

**MR J.C. KOBELKE (Balcatta) [8.07 pm]:** I rise to speak in support of the Iron Ore Agreements Legislation Amendment Bill 2010. I am full of goodwill tonight and very positive, and I want to congratulate the Premier and Minister for State Development for pulling off this deal. I do that knowing that often the Premier has said things that sometimes have a few stings in the tail, and we know that there are other matters consequent to this that he has not been able to lay out for us. Full of that goodwill, I accept that that is because they are negotiations that the Premier wants to conclude and it would not help to reveal them, and that he is not hiding something that might be negative and a problem. I will be very positive and accepting of the real achievement, and just deal with that and put aside the fact that there are other matters that will come to this place in the future. Hopefully, they will also be positive and not be negative, with this positive being used as the sales pitch for that negative.

As the Premier stated in the second reading speech, the removal of these concessional royalties has been the goal of successive governments since 1996, and it was certainly something that was pursued by the Gallop and

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Carpenter governments. The situation, which has already been mentioned and on which I will comment very briefly, was that when iron ore mining was established in the Pilbara in the 1960s, it really was a whole new industry and a fair level of risk was associated with large capital investment made at that time. That big investment was needed to build the towns, railways, ports and all the rest. There was recognition that the international market for iron ore at that time did not place the same value on iron ore fines as on the lump ore. Therefore, a concession was written into the agreement acts, which this bill amends, to allow a concession royalty rate for fines of 3.75 per cent, whereas the mining regulations in general required a royalty rate of 5.625 per cent, or five per cent for beneficiated ores that had obviously been processed or enriched in some way. This means that the companies that were able to get the concession on the iron ore fines under the agreement acts are now paying, from 1 July, the standard royalty rate of 5.625 per cent. That certainly should have happened, and is something this Premier, as Minister for State Development, brought to fruition. I congratulate him for that. As I indicated, in the early days of the industry, the value of iron ore fines in the international marketplace was less than the value of lump ore, and this was recognised in the lower rate. However, with the huge growth in the iron ore industry, fines have really become the standard product. Reflecting on the figures the Premier gave, fines made up 40 to 45 per cent of the iron ore export in the 1960s. That figure rose to over 55 per cent in the 1980s and now it is somewhere around 70 per cent. With the continued quite massive expansion of this industry, it is anticipated that the percentage of fines will grow even further. Now that there is not so much discrimination in price in the marketplace—it is still there but it is not so pronounced—it makes sense that the same rate of royalties should apply. As a member said in an earlier contribution to the debate, new iron ore companies such as Fortescue Metals Group Ltd do not receive the concession. There is an issue of equity in the marketplace. New companies that are making large capital investments and trying to establish a new market niche should not have to pay a higher royalty rate than that of the well established companies with which they have to compete. This equity issue highlights why it makes good sense to remove the concessional royalty rate for iron ore fines. I have not heard any debate about the federal tax that will apply to iron ore. This issue has become so political that people have been grandstanding and making wild statements instead of dealing with the real issues.

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

**Mr J.C. KOBELKE:** I am happy to take an interjection, but I will just make this point. There is an issue of balance. We need to make sure that there is a good level of profitability for the companies and that we do not create situations of sovereign risk. However, we also need to recognise that the huge profitability of and growth in this industry is really selling the people of this state short. We really should be able to get a better return from this industry, because it is no longer a fledgling industry; it is a very vibrant, profitable industry that uses this state's resources. There is the balance between recognising and respecting the rights of companies that have made massive investments, while recognising that the whole market has changed and that the people of this state deserve a better return on their resource. The Premier has recognised that in part through this bill and the increase to royalties by getting rid of the concession. There are potential issues of sovereign risk, but he has gotten around those, which is good. The fundamental issue that has to be addressed, and to which there is no simple answer, is that of how to find a better balance between the birthright of the people of Western Australia—that is, the resource—while respecting and recognising the very real interests of the mining companies and their right to make a good profit. We need to find the balance between the two. I do not think anyone, other than a few billionaires, would think that the current situation is a fair and equitable balance. Most people would agree that a better share of that asset, which is owned by the people of Western Australia, should flow to the people of Western Australia. That is the critical issue, but how to achieve it is not easy. I will go on to say a few things about that.

We also have to recognise that while the iron ore industry is currently making mega profits, that has not always been the case and I do not assume that it will always be the case in the future. Our resources and the international marketplace will, over time, go on rollercoaster rides. There will be good times when the product is in high demand. All the forecasters are telling us that the demand from China and India will last for a few years. We hope they are right, because this state is a great beneficiary of that, but I do not think anyone out there thinks it will go on forever. As new supplies are found and as the world economy goes up and down there will be times when the iron ore industry in this state will find that the cost of production will move closer to the price it gets for its product in the marketplace. It will then shift its corporate structure and style of operation to cut costs, as it did just a few years ago, because the industry will be much more competitive and there will be much smaller profit margins. However, that is not the situation now.

If we seek to provide a greater share of the profits to the people of Western Australia by way of royalties, that mechanism will bring with it a whole lot of problems. It is a very blunt instrument. It is hard to charge different royalties for different companies based on their profitability. In fact, I do not think it can be done. It might be able to be done in some small ways with different minerals, but even that is fraught with difficulties. It will be

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very difficult to say that some minerals have a much higher rate of return and therefore a different royalty rate should apply. I personally do not think that road is worth travelling along, but some people might come up with a scheme to try to deal with that. Another fundamental problem with trying to get a greater return on royalties for the people of this state is that some companies will be very profitable while other mining operations will be more marginal, yet the same royalty rate will apply. The benefits of the mining industry to Western Australia do not come primarily from royalties; they come in the form of the jobs, wealth and knowledge the industry creates, and the industries that flow from it. A marginal mining operation may return almost as much to Western Australia as a very profitable mining operation, because the profitable mining operations are often not owned by Western Australians and the profits do not stay here. What stays here is the payroll tax, the money that is paid in servicing the mine and all the support industries that make the mine work. That is the benefit to Western Australia. The profits, in most cases, do not come to Western Australia—they go to Melbourne, Sydney, New York, London or wherever. That is part of the international marketplace, and I do not decry that. However, we need to be honest about where the benefits are to Western Australia. I return to why increasing royalties to give a better share to Western Australians will not work, because it will knock over a number of those marginal mining operations that are good for the state. Even though their profitability is small, they create jobs and industry and they drive the Western Australian economy. Does the Premier disagree?

**Mr C.J. Barnett:** Give me an example of where royalties has prevented a mining operation from going ahead. I can't think of one in 20 years around this industry.

**Mr J.C. KOBELKE:** The Premier was not listening. I said that if the royalty rate were increased, it would impact on marginal operations and not on profitable ones. The Premier came in halfway through what I was saying.

**Mr C.J. Barnett:** It is the same point.

**Mr J.C. KOBELKE:** Does the Premier not agree with that? If the royalty rate were doubled to 10 per cent or so, would that not affect any mining operations?

**Mr C.J. Barnett:** If you trebled royalties.

**Mr J.C. KOBELKE:** I am not talking about iron ore. I am talking about all minerals.

**Mr C.J. Barnett:** I am just saying that royalties are a relatively minor operational expense.

**Mr J.C. KOBELKE:** In general, but they will impact in certain areas. For instance, when the market fell away in the diamond industry, there was a question of whether Rio Tinto would invest \$1 billion or so to go underground. The company came to the then government about royalties because it saw them as a cost factor. Most ministers will do what they can to help mining operations get off the ground, as the Premier did when he was previously minister, because they really benefit this state. The point I was making while the Premier was outside the chamber is that I think the people of Western Australia deserve a better share, but the difficulty if we seek to get that through royalties is that the impact will not fall equally on every mine. Some mines are very profitable and it is not a problem. As the Premier said, it is insignificant to them. But there will be some, perhaps a very small number of mines, for which that increase in royalties will be a factor that might mean they do not proceed. I do not want that to happen. I want every mine that can produce wealth and produce jobs to have an opportunity of being developed.

[Member's time extended.]

**Mr J.C. KOBELKE:** The point I am coming to is the history of this legislation and the real impact of this royalty increase on this state and the effect the new federal mining tax may or may not have on it. As I indicated, and as the Premier has recognised, this has been going on for some time. Alan Carpenter was able to do a deal that enabled the concession to be done away with but he could apply it only to new mines because of the sovereign risk.

**Mr C.J. Barnett:** Alan Carpenter did some good work; I am not denying that. But if there was a deal, I thought it would have been put in place.

**Mr J.C. KOBELKE:** It was in the budget papers.

**Mr C.J. Barnett:** I listened to all that you talked about. When I came into government I asked if there was a signed deal, but there wasn't. No-one could produce it for me.

**Mr J.C. KOBELKE:** It was in the budget papers, but the Premier was able to take it a lot further because Rio and BHP Billiton were seeking to form a joint venture, and they needed government approval to make it work. This new Premier coming in had a bargaining chip that Premier Carpenter did not have. This Premier used it

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effectively, and I congratulated him for it. Using that bargaining chip the Premier was able to have the concession done away with on all iron ore fines mining not just new mines. That makes a big difference to the amount of money coming through. In addition, he was able to get the \$350 million one-off payment. That too was very much to our benefit, and I congratulate him on it.

However, how does that benefit Western Australia? It does benefit Western Australia. But we must recognise that WA is part of the federation. In this year's budget the biggest contributing component to revenue for 2010–11 for the state of Western Australia is commonwealth grants of 41 per cent or \$9.4 billion. The next biggest contributor is taxation, 29 per cent or \$6.6 billion. Royalty income is 14 per cent or \$3.3 billion. The commonwealth grants system, which works to a very complex formula, redistributes the commonwealth funds between the states on the basis of their ability to earn their own revenue. It used to be calculated on a five-yearly cycle. But I understand that this government suggested it would be in WA's interest for it to be a three-yearly cycle. When this state earns extra revenue through royalties, as this bill will allow, in three or four years' time, after three years' worth of royalties have been calculated, the commonwealth will reduce its contribution to WA because we have raised more money. This is shown in the budget papers based on the government projections when it set this budget. Clearly, volumes will change and international pricing will change. That will move around, but these figures are indicative of what happens. Across the forward estimates, GST revenue for the current year, 2010–11, is \$3.4 billion; in four years, in 2013–14, it will be down to \$3.27 billion—it is dropping. It is anticipated that total collections across Australia will go up, but we will get a lesser share. Other commonwealth grants range from \$4.8 billion in the current year down to \$4.5 billion. We are getting less of a bigger cake.

**Mr C.J. Barnett:** That shows you why we need a change of government in Canberra, doesn't it?

**Mr J.C. KOBELKE:** I thank the Premier for his interjection. They are the sorts of mistruths that this Premier spreads. We are getting done over by Canberra because this Premier, as Deputy Leader of the Liberal Party in the Court government, signed up for the GST. I debated in this place day after day what a bad deal it was for this state. The GST screwed WA and Premier Barnett signed up to it. He made sure that WA got done, as we saw last week when he threw WA's money down the drain with a High Court challenge. Prior to 2000, when he was in the Court government, he wanted to do a deal to support the Howard government and he sold out this state. This Premier, with Richard Court, sold out this state. The Labor Party then in opposition moved motion after motion in this place to say, "This is a deal that does WA down." This Premier voted for it. He made sure that when we agreed to the GST, because we represented only 10 per cent of the vote, we would get done over like a dinner, and that is happening. It is no good for this state and we opposed it. We opposed it when members opposite agreed to the GST. We still oppose that dud deal that Colin Barnett did as the then Deputy Leader of the Liberal Party. We need to make sure we look after this state. The difference between Labor and Liberal governments is that we look after this state's interest whether we are in opposition or in government. Whether the party in Canberra is Labor or Liberal, we have stood up for this state. But not the Liberals; they did deals to look after their mates in Canberra; they do not look after WA. That is the problem we have here. We see it time after time. We need to understand that, despite the Premier's misleading statements, which he makes time after time, we are caught in a very difficult situation.

It requires the agreement of the commonwealth and the other states to change the commonwealth grants or the GST arrangement. Do members opposite really think the other states will give up receiving Western Australian money and give it back to us? We are caught, because the Court–Barnett government sold us down the drain. That is our problem. It is not a matter of whether Labor or Liberal is in Canberra; the federal government has to get the other states to agree to any change. Regardless of what political complexion they are, does the Premier really think South Australia, Victoria, New South Wales or Queensland will give money back to WA because we deserve it?

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

**Mr J.C. KOBELKE:** We do. The Premier said yes. He actually thinks that the other states will put our interest before their own. That is cuckoo land stuff. It reflects why he cannot run a budget; why he is running such a feeble government and hitting the pockets of ordinary working pensioners. He cannot manage the budget or the financial affairs of this state. The people of this state are paying for it; they are shivering at night because they cannot afford to turn on their heaters or have hot showers. They are eating dog food because we have a Premier who cannot manage the finances of this state. It has always been a problem, but the facts are that it has been made far worse. When Bob Hawke was the Prime Minister —

Several members interjected.

Mr Eric Ripper; Mr Mark McGowan; Mr Tom Stephens; Mr Peter Watson; Deputy Speaker; Mr Vincent Catania; Mr Chris Tallentire; Mr John Bowler; Mr Paul Papalia; Mr Ian Blayney; Mr John Kobelke; Acting Speaker; Mr Bill Johnston; Dr Mike Nahan; Mr Colin Barnett

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**The ACTING SPEAKER (Mrs L.M. Harvey):** Order! Members should stop their conversations across the chamber. I have given the call to the member for Balcatta.

**Mr P.B. Watson** interjected.

**The ACTING SPEAKER:** Member for Albany!

**Mr J.C. KOBELKE:** During the Hawke government, Prime Minister Hawke set about trying to deal with the problem between the states and what was called the vertical financial imbalance. The problem was that it got mixed up in internal Labor Party politics. Keating used that as one of the issues to undermine Hawke, and Keating became Prime Minister, so it went out the window. Who knows when the next opportunity will enable a better balance to be achieved between commonwealth and state financial relations? If the Premier thinks the other states will give us money for nothing, he is in cloud-cuckoo land. We are being screwed by the Court-Barnett government arrangements with the Howard government. Now, it does not matter who is in politics, it will be very difficult to undo and we are suffering because of it.

The measures in this bill amount to almost \$1.2 billion over the forward estimates, plus the \$350 million up front, which I assume will not be factored into the grants commission figures, but the \$1.2 billion will be. That is not necessarily even, but for the sake of the argument, hypothetically, that will spread at \$300 million a year, and in four years we will be left with about \$30 million of the \$300 million extra we get this year. We end up with about 10 per cent. While we get that money from the royalties, there is a commensurate reduction in the commonwealth funding to us. The net result is that of the \$300 million, as an indicative figure, we will get \$30 million or so left over as a net increase. The situation again points out that royalties are not the instrument by which the people of Western Australia can get a fair share of the wealth that is generated from our mining industry. That is where the federal government's Henry tax review came in. I am not going into all the detail, and, honestly, I am not across it, but the proposal was that we have a profits tax on the mining companies so that those who are making big profits will pay a bigger share and those who are marginal do not have an increased tax hit at all; we then use the extra money that is collected to pay back the royalties. In that way it removes the disincentive that it might have had on a very small number of mines, and more mines will go ahead. We will have more mining because the federal government will take it as a tax on the more profitable companies. In theory, that is good. The problem is that it further removes from WA control of our assets. But when we look at the reality, the Court-Barnett government gave those up anyway! After four years, Western Australia is left with roughly only 10 per cent of what it collects in extra revenue; it is missing out anyway!

The political reality that I referred to earlier is how we make sure we have a system that supports and encourages mining and makes it profitable but returns a better share for the people of the state. The Premier gave us these glib political answers and half-truths that misled people, but if he were interested in the people of Western Australia and in benefiting them, it is a problem worth solving. The Premier should be able to come up with some means by which the people of Western Australia get a better share. Given the limitations on royalties, any realistic assessment says that a commonwealth tax properly set and with a commitment back to WA is most probably the way to go.

**Mr C.J. Barnett:** So you support it?

**Mr J.C. KOBELKE:** It is fraught with difficulties.

**Mr C.J. Barnett:** You are supporting, basically, the commonwealth takeover of our natural resources, because that is what it is all about.

**Mr J.C. KOBELKE:** That proves what I said: the Premier's glib half-truths do him a disservice. The Premier does not want to deal with the issue. The Premier does not want to make sure that, rather than the money going into the pockets of billionaires and shareholders in London and New York, the people of Western Australia get a better share, so that he does not have to slug them for electricity and water and hit them so that pensioners cannot afford to live a decent life. That is what the Premier is offering those people, because he does not have the foresight and the ability to deal with this difficult issue. The Premier pulled off a nice little coup with this because he had Rio Tinto and BHP Billiton over a barrel, but the issue is bigger than that; the issue is about making sure that the people of Western Australia get a better share of Western Australia's resources while we are in boom times. Those boom times may last for a while, but they will not last forever, so we should be getting a better percentage now. If the Premier can do a deal with the commonwealth that gives the greatest possible certainty to the state's interest, he should do it. It is a slippery slope, because it does not matter whether it is a Liberal or Labor government in Canberra, it will not look primarily to WA's interests. That is the problem. We are only 10 per cent of the nation in terms of voting power. We might produce nearly 40 per cent of the exports, but at the end of the day the voting power in Canberra and the other states leaves us the loser.

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The Premier made sure Western Australia was the loser when he was in the Court government. The Premier now has the opportunity to try to rescue something of it—as difficult as it will be. I will give the Premier an example of where it did happen. It was back in the 1980s with the gas pipeline from the north, which was a great venture, now producing huge results. If the then Premier, Sir Charles Court, had not done that deal, we would not have had the North West Shelf gas, and the development we now see might not have happened until 20 or 30 years later than was the case. Premier Court did a great deal to get things going. The problem was that the deal committed the state to paying money it did not have. People have probably forgotten. We were paying the company money to put gas back in the ground. People have forgotten that! The state of Western Australia was paying companies to put gas back underground. If that had continued, the state would have gone bankrupt. What happened was that Premier Burke and Prime Minister Hawke did a deal so that a part of the huge value that was coming to the commonwealth was paid back to this state. We are still getting that special revenue today. That bailed us out. The point that the Premier should be driving home with the Prime Minister—whoever it is—is that it is in the interests of Australia to strengthen Western Australia and that to do a deal that gives a real and better share of the wealth created here is not only in our interests, but also in the national interest. I think that the Premier has said things to that effect, but if he does not sit down and talk turkey and do a deal, it does not go anywhere.

The deal that the Premier can potentially do relates to the Gillard government's resource tax and ensuring that a guaranteed percentage comes to Western Australia. The Gillard government is offering it, but if another government gets into Canberra, it can take it away. The Premier needs to lock down a deal, because the Gillard deal is a good one for Western Australia.

Can I ask the member for Geraldton to explain his suggestion that that tax is taking money from Western Australia? How does it do that?

**Mr I.C. Blayney:** It is an outflow.

**Mr J.C. KOBELKE:** No, it is a tax on profits. The profits are paid to Sydney, Melbourne, New York, London and Paris. That is where most of the profits go, so we will get money back from them, not from WA. If the government designed the tax so that it was a really destructive tax, then, yes, it would affect WA; but when it is a tax based only on profits over \$50 million a year, that will not hurt WA. It is absolute nonsense to say that it will take money out of Western Australia. It will take money from the overseas shareholders and bring it back to Western Australia in capital grants. The problem is that while I have confidence that the Gillard government will provide those capital grants, I do not have confidence that a future government will do so. This state government needs to ensure that it ties down a deal to protect the interests of Western Australia.

The problem we have is that this Premier has a track record. In this house, we pointed out many times that the GST was going to be a huge loss for Western Australia; however, this Premier, as deputy leader of the Court government, signed up for it. In that way, the now Premier left Western Australia as the loser, and it is costing us very dearly now because of the action that he and Premier Richard Court took. Hopefully, the Premier can see the error of his ways and finally fight for Western Australia and do a deal with the commonwealth government—whichever party it may be—to ensure that we get a guaranteed better percentage of the royalties in our state, because under the GST we get that money and four years later 90 per cent of it is gone.

**MR W.J. JOHNSTON (Cannington)** [8.37 pm]: I also congratulate the Minister for State Development, the Premier, on finalising the deal so that after many years we have an increase in the royalty rates. I must say that I was very excited earlier this year when I heard the Premier talking about royalty rates in the chamber. On 25 February 2010, the Premier said —

The mining companies are aware of it, —

That is in respect of increasing royalty rates —

and some of them have expressed their views. I have to say that a few people who work around the mining industry came up to me over summer and said, “By the way, Colin, the mining companies are getting away with murder; they're not paying enough.” A number of people working in the mining industry have said that.

I must say that I agree with the Premier. I think that what he said is right, and there needs to be an increase in the share of the resources of this country that are kept by the people of this country. A discussion took place when my friend the member for Balcatta was speaking. If we look at Rio Tinto as an example, 42 per cent of its shareholders live in the United Kingdom, 18 per cent in the United States of America, 16 per cent in Australia, 14 per cent in Asia and 10 per cent in continental Europe. It is a clear demonstration of what is a great thing about the world economy now, and that is its internationalisation. That is something that I support very strongly.

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Australia is enriched because we are an open global country. However, the facts remain that the profits of Rio Tinto do not come to Perth; they go around the world. That is not a bad thing; it is simply a statement of fact. Therefore, it is no surprise that Rio Tinto has agreed to the federal government's minerals resource rent tax because it understands that it is appropriate that Australia shares in the profits that Rio makes and returns more resources to the people of Australia.

There are differing estimates, but 24 billion tonnes is, as I understand it, the easily recoverable quantity of iron ore in the Pilbara. I understand that the inferred total iron ore in Australia—the lower grades and all those different things—is about 158 billion tonnes. Let us just think about that 24 billion tonnes for a minute. About 23 million to 50 million tonnes a year is now being extracted from these mines in the Pilbara. That means we have basically 30 to 50 years of this resource, because the companies are of course increasing production.

**Mr C.J. Barnett:** If you go to a lower grade, you probably have several thousands of years —

**Mr W.J. JOHNSTON:** Yes, we probably have hundreds of years after that.

**Mr C.J. Barnett:** It used to be 30 000 years.

**Mr W.J. JOHNSTON:** Hundreds of years most probably, Premier, when we think about the increase in production.

However, the point I am getting to is that my 18-year-old daughter, who is doing a geology degree right now, will see these easily recoverable reserves gone in her lifetime. The resources will be used. I think it is great that the Premier has increased the royalty rates on that production because it needs to be done. These companies, as the Premier said, have been getting away with murder, and we need to deal with that.

I also encourage the Premier to think about a few other things. We now have what has become only a political slogan but may have been able to be created as a genuine policy in royalties for regions. I encourage the Premier to start thinking about royalties for our future generations. It is not right that we use 100 per cent of the royalty income that we get from a non-renewable resource to operate the functions of government on an annual basis. That means that 100 per cent of a non-renewable resource every year is being used to fund the operations of this state each year. What are we leaving for the future? The former government ran large budget surpluses, which was building for the future. For example, the Mandurah train line was delivered without any debt. That is one way of investing in the future, but there might be other ways. I draw the minister's attention to Norway, which has built up a very large fund that is now delivering enormous annual income because it has converted royalties from its oil and gas reserves into an asset that continues to produce and will continue to produce into the future. We cannot continue to allow future generations of Western Australia to be mortgaged to the vagaries of future ore prices. We cannot let future generations be mortgaged to the potential elimination of easily recoverable iron ore resources. That is not sensible. We need to think more broadly than the old-fashioned approach that we have taken to the resource industry in this state. We need to start thinking about how we can actually capture that value for not only today but also the future.

The reason we had these concessional rates in the 1960s was that there was a dream of downstream processing. That dream has proved illusory and there is a range of reasons for that, not the least being energy prices. We might think about that issue. There has also been globalisation. No company will build a steelworks in Western Australia and pay people Australian wages—decent fair-dinkum wages—when it can go to somewhere else in the world and pay lower wages for the same work. Given that the cost of shipping ore around the world is so low now because of the efficiency in bulk commodity transportation—the reason that we can have such a huge volume of mineral resources being shipped from all sorts of countries to all sorts of end consumers constantly—the idea that we have some magic bullet to create some downstream processing in this state, such as a steel mill, is impractical to achieve in the short term. Therefore, we need to think more broadly about how we can capture that value.

These large companies, such as Rio Tinto and BHP Billiton, that are exploiting our resources are not based in this state. The serious decision-making in those companies is done elsewhere in the world. I know that the minister, like me, knows many of the executives of these companies and talks to them. When they need to make investment decisions, they need to refer to their headquarters—BHP Billiton to Melbourne and Rio Tinto to the United Kingdom. That is where the brainwork is done for those companies. If we could find ways to capture more of that brainwork in Western Australia, it would be a good thing and it would be a way of improving the benefits that we get from the exploitation of our mineral resources. The member for Balcatta made the point in his own contribution a moment ago that these are decisions and these are benefits that flow away from us. The profits do not come back to Western Australia, apart from the small number of shareholders who are here in Western Australia. It is a small number compared with the total number of shareholders that each of those

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massive global companies have. Therefore, this is the opportunity we have through the minister's work as Premier of this state. If we can do better than we have been doing and have a bit of vision and thought about the future of the state, not just how we look today, that would be a great thing.

It is interesting that there is always a debate about the GST deal that was done when the Liberal Party was last in power and that we were duded by the GST deal. It is interesting when we refer to page 70 of this year's budget paper, *Economic and Fiscal Outlook*, and the graph that Treasury has kindly provided of the difference from population share of funding that is coming to this state. Members can see that basically up until the GST deal was done, we got a higher revenue share than our population share. In fact, at the start of that chart, the share was more than 1.2; in other words, we had 20 per cent more revenue from the commonwealth coming to us than our population share. Since the GST deal, there have been only two years when we got greater than our population share of revenue. Of course, the deal that the government did now sees those revenues collapse to an alarming extent, whereby there is a prediction of only 70 per cent—0.7 of the chart—share of GST funding compared with population. That was a dud deal so if we could do something about renegotiating that, all the better. That would require a good relationship with the commonwealth government, a realistic examination of what we are doing in this state and a proper understanding of the appropriate way that states share the god-given resources that we all have in each of the different states, just as it would not be right for people in other states to have said that was not reasonable, for the 90 years until 2000 when we were a mendicant state, for WA to be funded. We are an important part of the commonwealth and there have been investments, such as in Garden Island by the Whitlam Labor government and the decision by the Hawke government to move elements of the fleet to Western Australia, from the commonwealth that we as a state benefited from. Equally, we need to make our own contribution to the commonwealth.

It will be interesting to see the various elements of the deal that the Minister for State Development has made. I am not trying to put words in the minister's mouth but I understand that what he was saying is that this is the first element of an agreement that he believes will occur. We just hope, as the member for Rockingham said, that the other elements of the deal are not to the disadvantage of Western Australians. It will be interesting to see what happens with the various downstream processing obligations that are put into these agreements. What obligations are being set aside, implemented or delayed for a future date?

The other thing we need to think about is the best method of extracting this value. We are removing the concession that was given in the 1960s when there was a plan for the mineral processing industry. That plan never came off. Now that we have reached 2010 and we are looking to the future, what is the best method to capture that value for the future? I note that in its submission to the Henry tax review, the Minerals Council of Australia urged a profits-based resources tax or rental arrangement on future mineral deposits. I note that the Northern Territory already has a profits-based tax. I know that the commonwealth is looking at its profits-based tax. I wonder whether we serve the future generations of this state better by looking for a more flexible approach to royalties. I will explain exactly what I am getting at. For example, we could have a mine that is operating and the value of its resource is \$100, a nice round figure, and it is spending \$50 on expenses and costs of operating the mine. If the government is charging it \$10 for the resource that it is using, it has a profit of \$40. Suddenly the price of the product doubles. Its profit does not go from \$40 to \$80; it goes from \$40 to \$130. That is not right. It is not right that it is suddenly getting this huge windfall that is not being reflected in the benefit paid to this state. The government is only charging it a percentage of the value of the product and its profit is not dependent —

**Mr C.J. Barnett:** Plus company tax.

**Mr W.J. JOHNSTON:** Company tax goes to the commonwealth. We know that. The point I am making is that we are missing out, my children are missing out and the children in 50 years will be missing out. We have had this 1960s approach to the resource industry and we all know it did not work. These mineral processing ideas never worked out. I credit former Premier Sir Charles Court for his vision. He did deliver. He delivered a large minerals industry in this state. He was part of the process that delivered the North West Shelf joint venture. There is no question about that. He delivered the pipeline from the Pilbara to Perth. He did not deliver what he wanted to deliver; that is, these steel mills and minerals processing—that additional value going down the value chain. That is why there was a low rate of royalties in this state. This is a great step.

We heard from the member for Kalgoorlie and others about the need to have these large companies pay rates to local councils, which is an important issue. The other thing about that is that in the 1960s these companies built the towns themselves. They had a resident workforce. They were making a direct contribution to the situation and life of the people in those areas of the state. Now they have fly in, fly out workers. I was very interested to see—I know it is in the gas industry—Don Voelte saying about the James Price Point proposal that he intended to have 100 per cent of his workforce fly in and fly out. There are not the same drivers now in the resource

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industry for growing these northern cities as there were in the 1960s where there was a resident workforce. We need to think about how we will capture that additional benefit to this state.

With my Labor colleagues, I happily say that we will support these increased royalties on these companies to overcome the 1960s approach to the royalties arrangements. It is now time for us to start having a genuine debate about how we can capture more of the value that these companies are taking out of the ground in this state because we are not currently capturing enough of that value. We are allowing too much of that value to flow. I do not have a problem with foreign investment. This is not a xenophobic rant or anything like that. I am very happy for Chinese, Japanese, English or American investment in Western Australia because foreign investment benefits not only the source of the investment but also the country that receives the investment. That is not an argument. This is an argument about how we capture more value and more future opportunities from the resources that we have in this state.

**DR M.D. NAHAN (Riverton)** [8.55 pm]: I would like to make a few comments on the Iron Ore Agreements Legislation Amendment Bill 2010 and refer to some of the comments made on this bill today. First, as have most members, I congratulate the Premier and Minister for State Development for negotiating this. I remember maybe a year ago when the other side was lambasting him for not following through on the so-called Carpenter initiative. Quite clearly, there was a doubt about the initiative and whether it was formalised. More importantly, through his perseverance and by using the situation as it unfolded, the state got substantially more money both from the lump sum and through ongoing royalty payments. The shift to normalising the tax on royalties has been longstanding. We even discussed it when I was in the former department of resources development in the eighties. It was a longstanding initiative and to be supported.

I would like to make some comments on an assortment of issues that were raised today. It is quite clear that the Henry tax review and the subsequent mineral tax, super tax marks I and II, have raised an important issue in Western Australia and one that is not new; that is, does the state get a fair share from its assets—the iron ore and other minerals—that it owns? The starting point, which was raised by the member for Kalgoorlie, is that the royalties are a payment, not a tax, for access to minerals that are owned by the states. They are a state right under the Australian Constitution. Any effort or action, whether it is no action or action or support that allows the commonwealth to come and take over those minerals, is a serious issue. It does address the issue of whether we are getting a fair share and how.

The member for Balcatta made a very important point. Like me, he has been around for a while. We can often remember when the value of iron ore or the mineral industry went up and up. When I became involved in the mining sector in the late 1970s, the gold sector was about ready to close. Mt Charlotte goldmine was about to close but somebody gave it a bunch of money and it stayed up. When I first came in, I remember helping to renegotiate the North West Shelf contract when the take-or-pay option was almost bankrupting the state. Then again in the 1990s, iron ore was not profitable at all. In the early part of the 2000s, the gas price was \$US11 to \$US12 a barrel and the North West Shelf was not going to expand. We look forward and we see a booming China and India, where there are great prospects and the prices are high. We should not rely on it.

The member for Balcatta also confused a couple of things. The royalties that we levy now are largely ad valorem royalties; they are added on the value of the tax. Royalties can take many shapes. When I first came into the bureaucracy, my task was to look at a profit-based royalty under the Burke government. We spent two years looking at that. At that time the issue was whether we were getting a fair share—in other words, revisiting an old issue. Should we consider putting a profit-based tax or royalty —

**Mr J.C. Kobelke:** Did you at the time believe that was constitutionally possible?

**Dr M.D. NAHAN:** No. The state was to levy it.

**Mr J.C. Kobelke:** That is what I am asking. Is it constitutionally possible for the state to levy a profit-based royalty?

**Dr M.D. NAHAN:** Absolutely. The question is: can the commonwealth constitutionally levy a profit-based royalty? That is what we will end up testing in the future if Gillard wins the election in a couple of weeks. The member for Balcatta asked whether we should use the ad valorem rates to grab a larger share of the pie. It would be highly destructive if we went up to 15 or 20 per cent of minerals, particularly on marginal projects in the Mid West that require a lot of capital expenditure and new investment. If members opposite strongly believe that the state is not getting its fair share of the royalties and that we have to be careful about volatility and profits, they should revisit what the Burke government visited back in the 1980s, which was a profit-based royalty proposal. The alternative is the commonwealth proposal. The commonwealth's super tax mark I was one of the sloppiest and most potentially destructive pieces of public policy that I have ever seen. As members know, the

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commonwealth budget reflected that the super tax would raise about \$12.5 billion. However, there was a leak that the super tax was going to raise double that. The result would have been \$24 billion and high levels of uncertainty. It would have been highly destructive. The Gillard government renegotiated the super tax. It is my view that the new tax will not result in any revenue from Rio Tinto and BHP Billiton for five to 10 years. The way that the tax is structured and the way that it was negotiated by Rio and BHP means that they will have plenty of deductions. They will be allowed to fully deduct all their assets at market prices before they pay any royalties. They will not pay any tax for five to 10 years and the totality of the profit-based royalty will be levied on new marginal projects, including Fortescue. That process is highly discriminatory and flawed. The question is whether Western Australia is being dudded. The member for Cannington asked whether we are being murdered by the mining firms. Again, we have to put in a regime that can sustain ups and downs in the sector. Even though Rio has made a large amount of money out of Hamersley over the years, up until the past four or five years one would have to say that we got a fair share, particularly given, as the member for Balcatta stated, it made other contributions to the state, such as employment, asset formation and other things. Will we get our fair share moving forward? Rio and BHP have publicly stated that most of the profit that they have earned from their iron ore resources over the past 20 years has been more than reinvested in new assets. It is true that they are multinational firms and that their profits go around the world. However, they have invested very heavily in Western Australia to the totality of the profits they have earned from their assets. They might not do that in the future, but indications are that they intend to do so. The profits from the mines owned by the majors have flowed back into Western Australia, probably in the most productive way, which are from new productive assets that employ people. As for the smaller companies, such as Fortescue and Atlas, they are largely local firms and their funding base comes from around the world.

One of the issues that has been raised repeatedly in this debate is whether or not we should use the windfall of the China boom to set up a large sovereign fund. Alberta did it effectively from oil and gas in the 1970s. At the commonwealth level, Peter Costello set up two sovereign funds. One was for higher education and one was to fund the superannuation of public servants. Both of those funds have been largely raided and dissipated by the Rudd–Gillard government. One of the problems with sovereign funds is that they are not sovereign and they get raided by sovereigns. They simply do not work in most places. Norway is a strange place and its funds are different from ours.

The members for Balcatta and Cannington also referred to the so-called dudding of Western Australia by the goods and services tax. We have not been dudded by that at all. The state of Western Australia has received more money because of the GST than it would have otherwise received. Members opposite are confusing two issues; that is, the GST and the Commonwealth Grants Commission process. The GST gives the states some kind of predictability and natural growth in their revenue flows and their general-purpose grants from the commonwealth. Before the GST, the commonwealth could cook up a sum of money that it would hand over to the states in general revenue. The states receive from the GST the totality of the GST; if it grows, the states get the totality of the growth. The commonwealth decided to allocate the GST through the grants commission process that has existed since the 1930s. The grants commission process is what has dudded Western Australia, not the goods and services tax. Members are confusing the two. That might be politically clever; but they are different issues. When the GST was first introduced, we received more than our population share. I think it was 11 or 12 per cent. It varied from time to time and it has gone down steadily since, aiming towards 5.5 per cent, which is shocking for the state. That is because under the Commonwealth Grants Commission process, which is largely a welfare organisation system, Western Australia has become richer. It receives more income and people are on higher wages. Further, our costs have gone down, largely because more people live in Perth.

**Mr J.C. Kobelke:** I think you are saying that it isn't the executor who killed him; it was the rope.

**Dr M.D. NAHAN:** That is the truth. Until recently, the grants commission process had bipartisan support in this house. For most of that time, we were what is called a claimant state; we received more than we paid. The member for Balcatta raised a good point when he asked where we go from here. He suggested that we accede the rights to our resources to the commonwealth in a commonwealth royalty and do a deal with the commonwealth to get the proceeds back.

**Mr J.C. Kobelke:** On the basis that it will take it anyway. We can't stop it.

**Dr M.D. NAHAN:** That is a cop-out. First, we would be giving away a fundamental resource. We would be giving the commonwealth a fundamental asset of the state for no predictable gain. We could do a deal with the commonwealth and say that we want a share of that and it might agree to it during an election, particularly when it is not polling well in Western Australia. However, as the member indicated, we would not be able to trust the commonwealth government after a federal election. More importantly, the deal would come back with

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commonwealth strings attached. The commonwealth would say that it would pay that money, but only if the state spent that money where the commonwealth wanted it to spend that money; moreover, the state would have to take money away from its higher priority projects to match the commonwealth. In other words, slowly the state would be tied to the cartwheels of the commonwealth. Not only would it control the money, but it would control policy and we might as well turn off the lights. Better yet, if members opposite believe strongly that we are not getting an adequate share and they recognise that the royalties would distort the small mines, the opposition should work up—it would keep it busy for a while—a profit-based royalty levied by the state. It would work. Some of it would get wound back in the grants commission process, but that is life. We have to fix the grants commission process, because that is what is dudding us.

**Mr J.C. Kobelke:** How would you apply that to companies with which you have a state agreement act?

**Dr M.D. NAHAN:** The Premier showed the way. We can renegotiate agreement acts. The Mining Act has determined the royalty rate for most of the recent agreement acts. If there is a profit-based royalty, there is no reason for discriminating against the petroleum industry and the iron ore industry and not the other very profitable sectors of the mining industry. That was Gillard's furphy. This is a fundamental issue; it is about our heritage and our future. We have huge infrastructure demands to facilitate the development of the mineral sector, to make sure that the towns affected are redressed and to ensure that we achieve a better distribution of people around the state. However, despite our royalties, we are continually losing the financial capacity to carry that out. This is one of the fundamental, crucial issues we must address. But the mining tax put forward by Gillard will harm that, not help it.

The member for Cannington raised a couple of other issues. I put it out there, I guess, for speculation and discussion. There are many other ways to add value to the mining sector. The member raised the point that we have tried with mineral processing, particularly specific to the fines. One of the ideas was that lower taxation of fines would lead to local steel mills, but it did not happen. We are getting quite a few steel mills as a result of the magnetite, so nothing is unpredictable. However, I would urge the Premier to undertake a few other lobbying issues. First, he should make sure that even more of Rio Tinto's and BHP Billiton's headquarters are located in Western Australia. There is no reason why—most of them are moving here naturally—BHP Billiton's headquarters holus-bolus should not be in Western Australia rather than in Melbourne. Also, one of the major issues in debates going forward, particularly if Gillard wins in two weeks, God forbid, is that the mining sector will simply have to pick up more of its infrastructure costs. Therefore, one of the tasks is to ensure that before the Gillard super tax mark II is put in place, there is a deduction for all infrastructure investment by mines. If there is not, we should expect people opposite, particularly after the election, to rigorously support the formation of what is deductible and ensure that infrastructure on the mine site and in the towns and contributions to local government and social assets are fully deducted before the super tax is put in place; otherwise, we will have even less investment by the mining sector in Western Australia.

I congratulate the Premier on his initiative. He has shown perseverance. He just fluffed off the flak from the people opposite about following Carpenter nowhere and started dealing in a minor, but substantial, way to ensure that we get adequate revenue from the mining sector and that we treat mines on a like-with-like basis. However, it is still out there, and I look forward to the people opposite not just succumbing to the need to support their friends in Canberra, but actually coming up with practical ideas. If they believe we are not getting a fair share, they should suggest how we can do so. In other words, let us get on with the big picture.

**MR C.J. BARNETT (Cottesloe — Minister for State Development)** [9.12 pm] — in reply: I thank the many members who have spoken for their contributions to this debate on the Iron Ore Agreements Legislation Amendment Bill 2010, which ended up as a very wide-ranging discussion about the iron ore, the Pilbara, the roads, local government rating and the goods and services tax. It went on and on. However, there were some good comments and some good points were made. I will make a few brief comments in response.

First, I will quickly restate, perhaps more clearly than I did before, some of the history of what has happened to the royalty rates applied to iron ore. The royalty is the price at which the state sells the mineral to the company. It is the selling price; it is not a tax as such. In the case of the iron ore industry, when it was developed in the 1960s during the Charles Court era, the royalties were set. There were two decisions, as was mentioned by members opposite. The first one was to give a concession below the standard Mining Act royalty in recognition of two factors. The first was that the companies themselves built the infrastructure—both the economic infrastructure and the social infrastructure, such as housing, roads, schools, hospitals and the like. So that was part recognition of that. It was also the case that at that stage the fines iron ore—the smaller particle material—had a limited market. It required extensive and expensive further processing by the steelmakers to use, and they simply did not want it. They preferred lump ore, and lump ore was readily available. Lump ore was the dominant

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supply from the industry. That made sense, and it helped to sponsor the growth of the iron ore industry in the Pilbara, which now supplies about a third of the world's international seagoing trade in iron ore. It is a great industry; it is the largest industry basically in this state.

Time marched on. Fifty years have gone by, and the argument for those concessions has gone. Much of the infrastructure that was built—certainly the social infrastructure—is now aged, old-fashioned and in need of replacement, and progressively the townships and services are becoming normalised. Therefore, that argument is progressively disappearing. The other argument is also disappearing, because the fines iron ore, as members opposite observed, is now accounting for about 70 per cent of iron ore production. In fact, for many steel mills, fines iron ore is becoming the preferred product. Therefore, what was seen as the not preferred product is now the largest product, and in many cases the preferred product. In that scenario, and given the passage of time, it was sensible that the concession that was granted back in the 1960s and 1970s should be gotten rid of.

Previous governments—the government of the 1990s and the previous Labor government—looked at this issue and had various discussions and made various attempts. I recognise and acknowledge that the previous Labor government did start a genuine debate with the major iron ore companies, BHP Billiton and Rio Tinto, on these concessions on iron ore. The previous government had discussions, and it got to the point of probably getting some understanding, maybe in-principle agreement, that the concession would be removed for future production—future production meaning not production from this day forward, but the production of new mines. Therefore, all the existing mines—all the major resources—would continue into the indefinite future at the concessional rate. It would be only new mines that would pay the full or the normal Mining Act royalty. That deal—I do not decry or denigrate the effort—did not get to a conclusion. When this Liberal-National government came into power, members opposite said that we had thrown away that deal. Therefore, I did what I thought was a fairly obvious thing. I asked the state bureaucracy, “Is there a deal? Can you show me a document? Can you show me a signed document”, because if there was a deal, I was not going to ignore it. There was no concluded deal. To this day, there is no document that I have seen that was agreed between the Labor government and BHP Billiton and Rio Tinto. The former government tried, but it did not get there. It is all very well for members opposite to be self-righteous about what they did in government. They tried, but they did not get there.

The announcement by BHP Billiton and Rio Tinto a little over a year ago that they proposed to have a production sharing arrangement for their Pilbara iron ore operations was a new dimension. It was the third time that they had proposed some sort of merger, and they are yet to get that in place. That obviously restarted the issue. At the time the announcement was made, my immediate off-the-cuff comment was that the industry had changed. In the 1990s when they tried that, I was the Minister for Resources Development, and the then government refused to allow it. It was interesting, because the companies were running around the world making all sorts of announcements to stock exchanges. However, they forgot the one essential ingredient; they forgot to ask the owner of the resource whether the owner of the resource—that is, the state government of the day—agreed, and I said we did not agree, and it collapsed, with the companies having spent millions of dollars on it. However, that is history. The issue reappeared in 2009, with their now third attempt at some merger operation. My response was that there are three obvious issues. One is the royalties concession; the second is the stamp duty on the transaction; and the third is third-party access to the rail infrastructure. They are the three big issues. Tonight members might say that local government rates are also an issue, and that has been raised in this place.

We had discussions with BHP Billiton and Rio Tinto. I made the point to the heads of both BHP and Rio that there would have to be movement on the royalty rates, the removal of the concession, otherwise their merger proposal was going to go nowhere. I have a lot of time for Marius Kloppers, and recall very clearly saying to him, “Marius, you need to understand that the state of Western Australia is not particularly interested in selling to you and to Rio Tinto ever-increasing amounts of iron ore at half price.” That was the bottom line. So we agreed on two things and we signed a heads of agreement to that effect from June of this year. The two things that were agreed were, firstly, that BHP and Rio would pay the Mining Act royalty. That meant that the concessional rate on fines of 3.75 per cent would increase to the Mining Act rate of 5.625 per cent. That was agreed and, to the credit of both BHP and Rio, they accepted all the logic, that time had moved on, the concession was no longer valid, and that there was no sort of moral basis to that any more, and they voluntarily agreed to forgo that concession from 1 July. That is what the Iron Ore Agreements Legislation Amendment Bill 2010 does. The only thing this bill does is change the various state agreement acts—there are about 12 of them—to remove the fines concession of 3.75 per cent and raise it to the Mining Act rate, which happens to be 5.625 per cent. That is all this bill does; it simply changes the royalty. Therefore, I think members will agree with that, because that simple change means, at today's prices, about \$340 million a year extra for this financial year, and obviously into the future years, presumably increasing if prices hold up and tonnages increase. That applies to all production, existing and future mines. In terms of the forward estimates, it means about over

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\$1 billion. I think that is a pretty good achievement for the state of Western Australia. That is what this bill is about; this bill stands by itself. It will apply whether or not BHP Billiton and Rio Tinto ever put their merger in place. It is agreed. This is a standalone piece of legislation. Even if the European Commission rules it out or they change their minds at the board level, this bill will go through when it receives royal assent, and BHP and Rio will pay the full Mining Act royalty whether or not they merge their operations. The only condition on this is that it goes through the Parliament and it gets royal assent.

The second issue in the heads of agreement relates to allowing the companies to integrate their iron ore operations by sharing each other's railways, blending ore from BHP and Rio mines to produce a suite of different mixtures of, or recipes for, iron ore, and the ability to share port facilities—whatever. There is a certain economic logic in allowing it to be as efficient as possible. Under the heads of agreement, we have agreed that we will bring in a second piece of legislation, which is yet to be drafted. That second piece of legislation will amend all these same agreement acts to allow them to share infrastructure, to integrate, to blend iron ore, and the like. In recognition of that, they have agreed that when that legislation is in the Parliament and passed and receives royal assent, they will pay a lump sum of \$350 million to the state. We are not, in a sense, giving away everything. For example, obligations for the further processing of iron ore will remain, but we will, by mutual agreement, modernise those obligations so that they relate to the twenty-first century, not the 1960s. A lot of redundant, superfluous reporting requirements and processes will be done away with. As the minister responsible for those state agreements, I find myself signing pieces of paper that allow the companies to build sheds on their leases; they are not necessary and there a huge number of them. That was all there for, probably, valid reasons in the 1960s; they are not valid today. But the companies will still have the normal environmental approvals processes and the like in place.

Those negotiations are taking place, literally, as we debate this bill. They are not concluded. They will look at the changes in sharing infrastructure, they will look at the processing obligations, and we will have a discussion about local government rating. I will not make any commitment on that, as that is not something that was in the heads of agreement, but there will be factors that come up. When those negotiations are completed—I hope they can be completed over the coming weeks—I will bring into the Parliament the second bill, which will deal with the integration of the iron ore operations and will make very clear exactly what the government and the companies are proposing. The Parliament will be able to look at the legislation and, contingent on that legislation passing, there is the obligation on the companies to pay \$350 million to the state. I have indicated publicly that that will be paid into some sort of trust fund within Treasury, and it will be dedicated entirely to the construction of a new children's hospital. That is the deal we have done. I believe it is a good deal, and the questions asked—particularly those asked by the member for Rockingham—are quite valid. I cannot tell members the exact nature of the detail because we have not concluded the negotiations on that yet. It will go to cabinet, and if cabinet agrees, the bill will come in and be there for everyone to see. We simply have not got to that point.

While these two pieces of legislation, in a sense, relate to the same issue, they are independent. Again I emphasise that if BHP and Rio do not merge their operations, they have, in any case, as individual companies, agreed to pay the full Mining Act royalty. That stands regardless.

**Mr T.G. Stephens:** Any progress on local government rates?

**Mr C.J. BARNETT:** We have had some discussion about that, albeit limited. I do not know that local government rates will be dealt with in this context, but I do undertake to take the issue up with the companies. I do not necessarily favour some of the suggestions that have been made. My view is that I have always preferred an arrangement along the lines of some sort of rate equivalent, but I will come back to the issue of local government rating.

Please understand what this bill is about. All this bill does is remove the concession on the fines royalty and put it in line with the Mining Act, which is the higher rate of 5.625 per cent. Another argument might be run at some stage in the future—certainly not in this term of government and on our horizon—which is whether the fines rate should be raised to the lump rate. If that were to happen, it would apply to all mining companies, including the juniors. We are not proposing to do that. That was discussed, and we agreed we would not pursue that, we would pursue removing the concession.

The other major area of debate related to federal–state relations. I could not compete with the member for Riverton's very learned exposition of the history of it and the peculiar role of the grants commission, but I will make a couple of points. I agree totally with what the member for Riverton said. The goods and services tax was introduced to replace the income tax sharing arrangements on company and income tax under the old commonwealth–state revenue sharing arrangements that followed when income taxes were transferred from the states to the commonwealth in the 1940s to help fund the war. That is all history. The GST was introduced as a

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tax, as the member for Riverton pointed out, the totality of which would go to the states. It was a new tax; it was a source of revenue that replaced states' entitlement to share in income tax and company tax collections. A deal was done and it was put in place. The problem has not been the GST revenue source in total; GST has proved to be a successful tax, in the sense that as retail spending has grown, GST revenues have grown appreciably. There is no doubt that the commonwealth Treasury is observing that and wishes to get its hands on the GST revenue base. That is what this is all about.

From the state of Western Australia's point of view, I am arguing and putting the case—I have put it to both the Prime Minister and the Leader of the Opposition—that this is grossly unfair to Western Australia, and will inhibit the growth not only of this state, but of this nation. Former Prime Minister Kevin Rudd, I think, was reasonably accepting of that argument; I am not so sure about the current Prime Minister. Tony Abbott, as opposition leader, at least acknowledges it. There is some way to go. The policy position—I guess the fine point I have argued—is that we have been a net beneficiary over most of our history, and we are now a net contributor to the commonwealth. I accept that; this is a prosperous, growing state. My argument is that there should be a floor of 75c in the dollar. If we get back only 68c in the dollar, that will be a poor return given the big states of New South Wales, Victoria and Queensland each get back more than 90c in the dollar. In many respects, Queensland is a state comparable with Western Australia. It is indefensible. I have yet to meet a federal politician who will argue that we should be treated in a way that is somehow less than the way Queensland is treated.

**Mr M. McGowan:** I agree. I would have said an 80c floor. But the deal requires every state to sign up, so why would another state sign up to it?

**Mr C.J. BARNETT:** We live in wonderful times. The member for Rockingham basically said a year ago that I would never get an agreement out of BHP Billiton and Rio Tinto. We have one; it is on the table and it is in the hands of the Parliament to pass it. It was done.

**Mr M. McGowan:** There is no joint venture between New South Wales and Victoria.

**Mr C.J. BARNETT:** The member for Rockingham is being negative. He does not accept that we can get things done.

**Mr M. McGowan:** The original deal was flawed.

**Mr C.J. BARNETT:** I listened to the member for Rockingham. He seems to have no optimism about the future.

**Mr M.P. Whitely** interjected.

**Mr C.J. BARNETT:** The Labor Party in Western Australia very easily gives up. We do not; that is the difference. I think 75c in the dollar is a quite reasonable proposition. I have discussed this with other state Premiers.

**Mr M. McGowan:** Of course; who disagrees with it?

**Mr M.P. Whitely:** We're not disagreeing with you, but how will you get them to agree?

**Mr C.J. BARNETT:** If we do not have an objective, we have no chance of working out how to get there.

**Mr M. McGowan:** It would have been far better in 1999 if we hadn't done it.

**Mr C.J. BARNETT:** The negativity from the mob opposite is overwhelming.

**Mr M.P. Whitely:** We are asking the question; it's not negativity.

A government member: It's too hard.

**Mr C.J. BARNETT:** It is too hard for members opposite.

**Mr M.P. Whitely:** Just share your wisdom with us. That's all I'm asking.

**Mr C.J. BARNETT:** Please! Let me give members opposite a scenario. Seventy-five cents in the dollar is a somewhat arbitrary amount, but I think it is reasonable. Members opposite might argue that it should be 80c and someone else might argue that it should be 70c. Let us for the moment accept the figure. That means that we will continue long term as a net contributor. If the decision to move on that is made within the next couple of years, the effect on the other states will be basically zero. Our share is 68c in the dollar now. If it were returned from 68c to 75c over, say, a three or four-year phase-in period, not another state in the country would notice it. It would have no impact at all. The other states would not see any loss of revenue; they might see just a slightly slower growth. They would see this state continue to grow and see the total collections of all commonwealth

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taxes, plus the GST, grow in relationship. If we leave the problem and do not act early, and the gap widens, it will become harder and harder to solve.

The state has a lot to trade; we have a lot of power. We should not underestimate the power of the state of Western Australia in commonwealth–state relations today. In a sense, we have never had as much clout as we have now, even though the state’s GST share is going down. I will give members a scenario. Typically in the past decade or so, 50 per cent of Western Australia’s expenditure has been in the form of commonwealth payments—GST share, specific-purpose payments and the like. In the past year, it was down to about 45c. On state Treasury estimates, it is tracking down to 35 per cent. What does that tell us? That tells us that Western Australia is 65 per cent independent. That changes the dynamics of Council of Australian Governments and commonwealth–state relations. We are no longer the Sir Charles Court mendicant state; suddenly we are the most financially independent and strongest economy in the commonwealth. That is the change in the balance of power in both economic and political negotiations. That is our card. We should not play it in a ruthless way, but that is how we can negotiate change.

We also have the benefit of our closeness with and integration into Asia. The member for Riverton is working with me on the relationship we are developing with Singapore, which offers all sorts of potential ways outside the narrow box that most of us may traditionally think in. That is our future—big international plays and a role for this state that perhaps Sir Charles Court could see back in the 1960s, but since then few have seen that potential. I remain optimistic; I think we can make a deal. The commonwealth needs the state of Western Australia to grow. When I first met former Prime Minister Kevin Rudd, who showed a genuine interest in Western Australia and an understanding of the issues, I commented to him that there is only one way he could solve the country’s budget deficit, and that would be with the growth of the Western Australian economy, particularly the offshore petroleum industry. He understood that. That is what will happen and what will pay off the deficit. We will continue that issue, but we will not throw in the towel.

I am not wishing to be political, although it is hard not to be. I ask members opposite to think carefully about some of the propositions that are coming out of Canberra. They can argue for taxing minerals and for ad valorem royalties, profit-based regimes and all the rest of it. There is a logical economic argument in all of that. Maybe there should be a two-part tariff—a production charge, an ad valorem charge and a profits component on top, which would be a company tax component. One of the problems with a resource rent tax is that the companies in the petroleum industry, including LNG projects, will pay almost nothing for the gas they extract for up to 10 years. One project in commonwealth waters, which has been subject to resource rent tax, ended up paying nothing because of the way in which the various tax levels cut in. It developed a resource in commonwealth waters and did not pay a dollar to either the commonwealth or the state. It is a relatively small project, but an example of how the resource profits–based system also has lots of deficiencies. Perhaps there is no perfect taxation. If we simply say let us go profit based and therefore let the commonwealth manage it, we will give control of the industry to the commonwealth. Do not for a moment ever think this resource rent tax proposal is about raising \$10 billion. It is about the commonwealth assuming complete control of the mining and petroleum industries of Australia. That is the agenda—nothing more, nothing less. It is not about the \$10 billion. In the context of a federal budget, \$10 billion is not a particularly large amount of money. This is all about control of the biggest industry in Australia and the industry with the greatest growth potential, which happens to be domiciled predominantly in Western Australia. Western Australia has 70 per cent of the nation’s petroleum and more than 50 per cent of the nation’s minerals. It is all about Western Australia and the resource base onshore and offshore. Do not just hand it away based on some short-term view about a profits-based tax.

Members opposite criticised the GST and the like. I do not want to start this debate, but I take it that the Labor Party in Western Australia thinks we should hand over to the commonwealth one-third of the remaining GST we get, which would work out for us at 60 per cent of what we get. If we hand that over, what is that about? There are two agendas: firstly, it is control of the health system—namely, the hospitals in this state built, owned, operated and funded by the people of Western Australia. It would be a takeover of the complete control of our health system. Secondly, it is to get the commonwealth into sharing the growth revenues of the GST. State Labor governments and this Labor opposition quickly jumped in and said, “Yes; hand over a third of the GST.” They should not come in here and lecture us on standing up for Western Australia when they would give in so easily. When this mining tax was first mooted at a COAG meeting, some of the Labor Premiers said, “Yes, we’ll go along with that.” I went up to them quietly afterwards and asked them whether they had actually thought about it. The development of the oil shale gas projects in Queensland gives that state a massive economic opportunity that may be comparable with the wealth this state has got from the Pilbara. Why hand over our economic future to the commonwealth? That is crazy stuff. As long as there is a Liberal–National government, Western Australia will not go down that path. We are willing to pay into a joint fund for health, but we will only pay in, and we will keep control of our revenues from minerals and petroleum where we have jurisdiction and the GST. If we

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give that away, we might as well put the “For Sale” sign up on this Parliament because we will lose the sovereignty of Western Australia—nothing more, nothing less. Maybe some members opposite do not care about that, but that will be the consequence.

A number of members spoke about the rating issue. It is a valid issue that was raised quite properly. There is history there also. The mining companies in the Pilbara and in other state agreement projects that built the infrastructure were given a further concession that they would not pay local government rates. My understanding of the situation is that it is not straightforward. When one looks at it, those concessions are not given on new agreement acts, and, as a number of them have been renegotiated, that concession has been removed or, in some cases, replaced with a negotiated rate equivalent payment. The first one of those, to my knowledge, was for the hot briquetted iron project in Port Hedland—I had a bit to do with that. Rating was not approved on the HBI plant, but an amount, from memory, of \$50 000 a year was paid by BHP in lieu of rates. That, to me, was one way of progressing. There is sympathetic feeling towards that. While the companies on the state agreements do not generally pay local government royalties on their infrastructure—their mines, power stations, various crushing plants and whatever else—they do pay local government rates on company housing within the town and the sort of services that local government actually meets. They do pay that. Also, there are government assets, both commonwealth and state, that do not pay local government rates. The City of Nedlands does not collect local government rates on the QEII Medical Centre. The City of Fremantle does not collect local government rates on the port of the Fremantle. It is the same situation in both the public and private sector. There is some way to go, and I am prepared to take on that issue. I do not give a commitment that it will be resolved in the context of this negotiation. This negotiation is basically about \$1.4 billion and allowing the companies to integrate. However, I hope that we can progress in some way the rate issue and we can get to a fairer outcome. I do not believe a fairer outcome is to give local government an unlimited right, basically, to rate huge capital expenditures. For example, if local government were to impose rates on the \$20 billion of the North West Shelf project, that would not be an equitable outcome.

Some reference was made to partnership agreements and the like. I will again digress and make a little observation, as I remarked at the local government conference. It may not have impressed people, but I made the observation that there are three tiers of government—federal, state and local. The Australian Constitution was a sharing of powers between the then British colonies to become the states with the newly to be created commonwealth government. That was sharing of powers. Local government is created by the state governments. It is not a sharing of powers; it is a delegation of powers to local government. It is quite a different relationship. We have a partnership agreement and we want to recognise and deal with local government. But, again, it relates to this rating issue over assets. It is not a sharing of powers; it is a delegation of responsibilities to local government. Let us keep the balance right. Let us understand the constitutional and legal relationship, and get it right.

I thank members. It was a long debate and a lot of interesting points were made. I thank all members for their comments and for their support of this bill. Again, the real debate on the detail of the changes is not in this bill. This bill does one thing: it removes the concession on fines ore royalties and therefore changes the royalty rate on that from 3.75 per cent to 5.625 per cent across these various agreement acts. It stands alone whether BHP and Rio merge. If the Parliament passes this, the state of Western Australia will pick up from those companies another \$340 million a year. Hopefully, in about two months I will introduce the second bill, which makes the more substantive adjustments to the structure of the agreement act. If that is passed, there will be a lump sum payment of \$350 million to the state that will be dedicated to the children’s hospital.

Question put and passed.

Bill read a second time.

Leave granted to proceed forthwith to third reading.

*Third Reading*

Bill read a third time, on motion by **Mr C.J. Barnett (Minister for State Development)**, and transmitted to the Council.