

**PUBLIC ACCOUNTS COMMITTEE**

**INFRASTRUCTURE PROJECT FOLLOW-UP INQUIRY**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 24 OCTOBER 2012**

**Members**

**Mr J.C. Kobelke (Chairman)  
Mr A. Krsticevic (Deputy Chairman)  
Dr E. Constable  
Mr C.J. Tallentire  
Ms R. Saffioti**

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**Hearing commenced at 10.32 am**

**ROSAIR, MR PAUL BERNARD**

**Director General, Department of Regional Development and Lands,  
Level 11, 140 William Street,  
Perth 6000, examined:**

**STUBBS, MR PETER CHARLES**

**Director, Ord–East Kimberley Expansion Project, Department of Regional Development and  
Lands,  
PO Box 2311,  
Kununurra 6743, examined:**

**The CHAIRMAN:** Welcome. On behalf of the Public Accounts Committee, I thank you for your appearance before us today. The purpose of this hearing is to assist the committee as it examines the development of the Ord–East Kimberley expansion project. If I can introduce myself for the record, I am John Kobelke, the chairman. The deputy chair is Tony Krsticevic. Dr Elizabeth Constable, Chris Tallentire and Rita Saffioti.

The Public Accounts Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking the witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of Parliament. This is a public hearing and Hansard will be making a transcript of the proceedings for the public record. If you refer to any documents during this evidence, it will assist Hansard if you could provide the full title for the record. If during the course of today’s hearing you feel that information being requested by the committee may breach some commercial confidentiality requirement, please let us know, and that enables the committee to actually move into closed session.

Before we proceed to the questions we have for you today, I need to ask you a series of standard questions. Have you completed the “Details of Witness” form?

**The Witnesses:** Yes.

**The CHAIRMAN:** Thank you. Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

**The Witnesses:** Yes.

**The CHAIRMAN:** Did you receive and read the information for witnesses sheet provided with the “Details of Witness” form today?

**The Witnesses:** Yes.

**The CHAIRMAN:** Do you have any questions in relation to being a witness at today’s hearing?

**The Witnesses:** No.

**The CHAIRMAN:** Thank you very much. Clearly, this is a major project of state significance and, as you are aware, we have been following through on major infrastructure projects and the decision making around that. We appreciate your ability to actually give us a better understanding of how things are going with the Ord expansion project. Can you indicate what is the current estimated cost of the Ord expansion project?

**Mr Stubbs:** Three hundred and twenty-two million dollars is the current budget. We have one season to go on construction and we are anticipating being able to complete the project within that budget.

**The CHAIRMAN:** Now the budget has obviously changed, so can we get some understanding of what has driven those costs?

**Mr Stubbs:** The budget was increased by \$91 million in November 2011 through a cabinet decision. The main drivers of that were a number of needs that the project had that were not forecast at the front-end; namely, a workers' village to accommodate people, and the purpose of that was to avoid clashing with the main tourist season on some existing motel beds and displacing other sectors of the economy. The Aboriginal development package is, in the back-end, a \$10 million commitment, which was not part of the original \$220 million. A decision was made to build the irrigation channel at a scale sufficient to facilitate developments into the future, including across the Northern Territory, and to scale an irrigation channel accordingly was about a \$30 million impact. Federal environmental approvals: the conditions related to a federal environmental approval at the time of the original budget were unknown. Once they became known and could be costed, then the cost for that was \$4 million. There was a need identified in the detailed design phase during 2010, leading up to the 2011 budget decision. It was identified that a \$4 million modification to the existing M1 channel was required.

**The CHAIRMAN:** That was \$4 million?

**Mr Stubbs:** Four million dollars. There were escalation factors allowed for, given the budget was announced in, I think, the 2008–09 year, and that we were going to be completing in the 2012–13 year, and \$33 million was allowed for escalation factors related to that. I think if you add that up, it will come to \$91 million.

**The CHAIRMAN:** Can I just go through the changes that took place, because back in early 2010—I think it was around about March, because there was a media statement in May—the project then indicated that it was actually to provide 90 kilometres of irrigation channel, 14 kilometres of road extension, which was basically going to open up about 8 000 hectares of irrigated land. In terms of the changes, because you are now looking at more land as part of the RFP–EOI, what were the components that you have just mentioned that directly went to the change of scope of the project?

**Mr Stubbs:** The scaling of the new irrigation channel, at about \$30 million cost, facilitates the eventual development of the Knox Plain, which is part of the RFP process.

**The CHAIRMAN:** So that was the M1 or the M2?

**Mr Stubbs:** The M2.

**The CHAIRMAN:** So when you set out with the design of the project for M1 in early 2010, you were not allowing for it to carry the volume of water required for those added-on parts, such as Knox Plain?

[10.40 am]

**Mr Stubbs:** I think it is worth noting that when the \$220 million budget was announced, there was no detailed design work, at an engineering level, to accurately cost the delivery of infrastructure into the Weaber Plain or the Knox Plain. That detailed design work was part of the first tender, which the Miriuwung joint venture was awarded to complete, and that enabled costs to be refined. It was identified in the decisions made in that process by government that the M2 channel be scaled up so that it would accommodate the Knox Plain and eventually the Northern Territory. It was also identified in the design phase that \$4 million worth of work to the M1 irrigation channel would be necessary as the government wanted to include the Knox Plain in the RFP process, and a decision was made to do that to modify the M1 channel accordingly.

**The CHAIRMAN:** So back in early 2010, am I correct in understanding it was always the intention that the extended irrigation channel would have the capacity for Knox Plain and Weaber Plain but it was only when you did the more detailed technical work that you found that you did need further enhancements to do that, or is that not correct?

**Mr Stubbs** In 2010 when the design work was being done, it became apparent that modifications to the existing M1 channel would be required to deliver sufficient water to get the flow of water through so there was no bottleneck, so to speak, to deliver water to the Knox Plain and to the Goomig area. So some modification works were required, and it became clear through that detailed design work. Now, in 2010 we could have scaled the irrigation channel with sufficient scale only to service the Weaber Plain, and a decision was made not to do that but scale it up because it was becoming evident to government that scale was critically important to attracting investment and that the Knox Plain was potentially stranded. It also became clear to the government that the Knox Plain was a key part of the Ord final agreement with the Miriuwung–Gajerrong people and benefits packages were linked to its potential development, and if the government was going to unlock the potential of the Ord final agreement, then it needed to position the project so that the Knox Plain could be triggered. That was all part of the rationale leading to decisions to scale the infrastructure and ultimately feeding into the decision to escalate the budget.

**The CHAIRMAN:** But back in March–April 2010, was the project simply about providing the channel and the road, or approximately 8 000 hectares, and then when you got into doing that, because of some of the factors you just mentioned about scale, about the MG agreement et cetera, that led to the project evolving into providing infrastructure to actually irrigate the extra pieces of land? Is that what you are saying?

**Mr Stubbs:** Yes. In the period around probably March to September 2010, there were two parts to the original contract for the project to get underway. One was the construction of phase 1, which was essentially infrastructure built inside the existing Ord irrigation area that people referred to as Ord stage 1. The second part of that contract was the detailed design work around —

**The CHAIRMAN:** The second part of phase 1?

**Mr Stubbs:** The second part of the phase 1 contract was a detailed design component in that contract to identify a detailed engineering specification to enable accurate costing of the phase 2 construction works, and during that process decisions were made, based on the technical advice available, to escalate the budget, ultimately being ratified by cabinet, to increase the budget by \$91 million. That process was also recognising those things I mentioned earlier about the need for a workers' village, the need for an Aboriginal development package, which were not seen to be part of the original \$220 million budget that was a budget ostensibly for infrastructure of channel and roads. It became evident in the project that there were these other the costs that needed to be met to drive the project in the way it needed to occur.

**The CHAIRMAN:** I am appreciating there are many steps in these processes in such a large, complex project, but I am just making sure I have got it clear before I open up to other members to ask questions in this area. So only in 2010, around March–April, the project was really about 19 kilometres of irrigation channel, 13 kilometres of road and opening up 18 000 hectares. As you just explained, the design work et cetera led, for various reasons, to expanding that. The decision then to actually tick off on the extra \$91 million was in November 2011. That was the next sort of major decision point where government ticked off. Is that right?

**Mr Stubbs** Yes, that is correct. Government ticked off on the additional \$91 million before the phase 2 contract was executed. Pricing had been done in 2011 based on the detailed design work produced in 2010, and that led to a point where government was advised that “here are some recommendations”. At that point, no contract had been executed for the construction of infrastructure in phase 2. That contract was executed subsequent to the cabinet decision and that led

to ultimately Leighton Holdings as the contractor commencing phase 2 works, which commenced in 2012.

**The CHAIRMAN:** Could you give us a brief description of phase 2 works and what that involves?

**Mr Stubbs:** Phase 2 works involves an extension of the M2 channel that was built in 2010 and 2011. So this year in 2012, that channel is being extended and an extension of the road network as well.

**The CHAIRMAN:** The M2 was 19 kilometres in phase 1, was it?

**Mr Stubbs:** Correct.

**The CHAIRMAN:** And, therefore, how much was added as phase 2?

**Mr Stubbs:** An extra 12 kilometres has been added. The total distance is about 31 kilometres of the new M2 channel.

**The CHAIRMAN:** What about other major infrastructure, such as the road et cetera, as part of phase 2?

**Mr Stubbs:** The road has been extended as well in 2012.

**The CHAIRMAN:** What distance?

**Mr Stubbs:** It is about the same distance.

**The CHAIRMAN:** About another 12 kilometres?

**Mr Stubbs:** Yes.

**The CHAIRMAN:** Any other connecting roads or other infrastructure as part of that, or is that still going to be up to whoever the proponent is?

**Mr Stubbs:** There is still an additional road to be built in 2013 as part of the project. There is a major flood protection levy around the western and northern boundaries of the project and secondary irrigation channels and drains—70 kilometres of drains, for example—in the phase 2 contract. I would just add, if I can, Chair, that one of the reasons it was broken into two parts, phase 1 and phase 2, was that Australian government environmental approval was required for the phase 2 works. It was not required for the phase 1 works. That is one key reason it was broken into two parts.

**Mr Rosair:** I think it is probably also worth adding, and Peter will probably elaborate, that the timing of the project was increased by an additional year, and that achieved some additional Aboriginal benefits for employment over an additional year as a result, and so that was weighed up about the costs associated with an additional year of construction with the expanded stage 2 and the benefits of Aboriginal employment extending to a third year of training.

**The CHAIRMAN:** We may come back to Aboriginal training later. We are just trying to cover one area at a time so maybe looking at the changed scope and costs.

**Mr Rosair:** But I think that actually meant a slightly increased cost in the extension over the third year. Is that right, Peter?

**Mr Stubbs:** That is correct. I mentioned a figure of \$33 million for escalation factors earlier on. That includes escalation factors related to simply construction cost escalation but also escalation in terms of supporting the Indigenous outcomes that we are after.

**Dr E. CONSTABLE:** I got lost right at the beginning, I have to say. The cost of \$220 million was increased by \$91 million.

**Mr Stubbs:** Yes.

**Dr E. CONSTABLE:** Which brings it up to \$311 million, right?

**Mr Stubbs:** Correct.

**Dr E. CONSTABLE:** The number you gave us was \$322 million, so there is \$11 million, and your website has got the number \$311 million, so perhaps that needs to be corrected if it is \$322 million.

**Mr Stubbs:** Yes. For clarity I am glad that you asked that question, because I think it confuses a lot of people. The \$11 million of consolidated funds was provided from the Department of State Development to be added to the project, particularly around the area of approvals and legal work. That was residual money that the Department of State Development then carried forward in their budget related to Ord from prior to the budget commencing. So, the global figure is \$322 million: \$311 million of that is royalties for regions money and \$11 million is consolidated.

**Dr E. CONSTABLE:** And that stays in the Department of State Development's budget, does it—that \$11 million?

**Mr Stubbs:** It has been in the Department of State Development budget but in recent times disbursed to Regional Development and Lands in terms of the environmental approvals.

[10.50 am]

**Dr E. CONSTABLE:** Okay. Then all those other figures you gave us of \$10 million, \$30 million, \$4 million and \$4 million, and then escalation, that is all accounted for in in the \$322 million?

**Mr Stubbs:** Yes, it does. All that sits inside the \$322 million.

**Mr C.J. TALLENTIRE:** The extra 12 kilometres of M2 channel, how many hectares of land does that open up?

**Mr Stubbs:** Immediately, 7 400.

**Mr C.J. TALLENTIRE:** It is an additional 7 000?

**Mr Stubbs:** Additional to Ord stage 1. That is immediately because there is an Australian government environmental approval for that. However —

**The CHAIRMAN:** What do you call the area that it is in; is that Goomig?

**Mr Stubbs:** Goomig. The Indigenous name for it is Goomig, and that is the name that has been adopted by the project.

**Mr C.J. TALLENTIRE:** Previously it was being called Weaber Plains.

**Mr Stubbs:** Yes, correct. However, we need to realise here that the infrastructure is scaled to suit ultimately development of the Knox Plain and the Northern Territory, and collectively, those two parcels of land equal about 20 000 hectares of potential arable land.

**Mr C.J. TALLENTIRE:** Can you say roughly what soil types we are dealing with?

**Mr Stubbs:** On the Goomig land it is likely core black soil plain. About 30 per cent of it is known as Cununurra clays, which are typical of what is in the soil type in Ord stage 1, and about 70 per cent of it is known as Aquitaine clays, which is heavier clay than what you would typically find in most of Ord stage 1. In the Knox Plain and in the Northern Territory it is all the reverse: most of the land is classified as Cununurra clays, which are very similar to most of the soil type in Ord stage 1.

**Mr C.J. TALLENTIRE:** Just looking at that big glossy document that came out early on, it says that with Aquitaine soils they are known to have high salt content at depth and irrigation must be carefully planned. So, I guess there are certain limitations on the type of horticultural—agricultural activity that can go on on the Aquitaine soils. Has that been factored in?

**Mr Stubbs:** Yes, it has. The work around gaining the commonwealth environmental approval particularly required extensive drilling, ground-truthing of the aerial electromagnetic work that had been done to determine the conductivity of soils. That was backed up by on-the-ground drilling, and then backed up by a groundwater modelling plan that was peer reviewed by experts across the

country. As a result of that, the footprint for the agricultural land was reduced from 8 000 hectares potentially down to 7 400 hectares. That was firstly done because in the very north-west corner of the proposed new farming area, there was some high conductivity and had the potential for salinisation in that area—localised salinisation. So, that was taken out of the development as a precautionary measure. Secondly, lots—I think 8 and 9—in the proposed layout are being offered as 10-year leases, so that the government can closely monitor and control in that area whether there is any increase in salinity or salinisation effects and can condition the future operation of the land in ways that manage that. So all of that fit into, in a detailed way, the commonwealth environmental approval for the project.

**Mr C.J. TALLENTIRE:** Just a final point on this, though. Are we limited in the types of crops that can grow on Aquitaine soils; and, if so, which ones and what crops?

**Mr Stubbs:** The short answer is no, that all the crops that are typically grown in the valley can grow on Aquitaine soil. However, the performance of some crops will not be as good. Sandalwood is an obvious example, where the sandalwood industry would not preferentially choose to plant a crop like that, for example, on Aquitaine soils, because although it will grow, you would not get the growth rates and the potential that you are after in an economic sense.

**The CHAIRMAN:** Just while we are on soils and that, one of the problems is the Sorby creek mine, or potential mine. How is that fitting into the development of this land if the proponents actually go and take it up?

**Mr Rosair:** Well, there are a couple of elements in relation to Sorby creek lead mine or silver mine; one I would like to reference from the productivity point of view and then the other on taking up the land. It is important to note that in your report, if I can refer to your report, chapter 2, page 7, about the economic benefits of the Ord irrigation expansion, it focuses very much on the economic benefits of the agricultural side of the equation and Indigenous benefits of the project as well. However, we believe the economic benefits, as you have just mentioned, really open up a common-user infrastructure for places like the Sorby Hills silver and lead mine, and additionally open up an opportunity for Advent Energy, who have a gas reserve up there that has been identified as some 300 trillion cubic feet of gas. We are providing road access and potential water access to possibly those two developments, which could be factored into the economic regional benefits of this project. So, we see the entire infrastructure being a common-user infrastructure for those. To put it in context, 30 trillion cubic feet of gas would support Kununurra's total energy supplies for 25 years, and this is a 300 trillion cubic feet reserve. I have had discussions with the Director General of the Department of Mines and Petroleum, and he is very keen and energised about the fact that these infrastructure investments will support both of those two ventures.

**The CHAIRMAN:** Paul, my question was —

**Mr Rosair:** About the impacts. I did want to do a prelim on that and then pass that —

**The CHAIRMAN:** The economic opportunities from that would be great. My question, though, was that we were dealing with the opening up of the land and the soils, and, clearly, if you have to set aside land which is part of the mining tenement, then that may be an obstacle to opening up the land for irrigation. What I want to know is: What is the position with the Sorby creek mine? Is it going to be a stopper? Do they have a time line as to when that will be actually opened up and is no longer, you know, in the way, and to what extent is it in the way of the infrastructure and the irrigated agriculture?

**Mr Rosair:** Just on time lines, they are going through the EPBC process at the moment, and the expectation is that they potentially make a final investment decision in July next year. But I will hand over to Peter for further commentary about the impact of their operations on the expansion.

**Mr Stubbs:** No, it is not perceived that there will be—certainly not a block-up to expansion. So, the project works closely with the owners of the Sorby Hills mine project in gaining environmental

approvals and in designing potentially future expansion of the Ord irrigation scheme, through the mineral lease. There are documents that outline how those things occur, and they are part of the conditions precedent that we are looking to establish with the potential people who take up farming this new land, and the mine, to close that outlet in a legal sense. So what that means is that there is provision for extension of the road and irrigation channel through that lease, and to farm the Knox Plain and the Northern Territory on the other side of that lease. We are working with the mine, for example, on things like mine dewatering. They will have a substantial volume of water to dewater, and so there are investigations occurring as to the extent to which that groundwater may be able to be put into the irrigation system, depending on its quality parameters. There is a variety of interaction between the Ord irrigation expansion project and the Sorby Hills mining project. It is not a block-up to continued expansion or farming in that precinct.

**The CHAIRMAN:** If we could move on then to the issue of the proponents and where we are at. If I can start specifically with the matters you just canvassed, Peter; that is, clearly the proponent wants the greatest degree of certainty possible if they are going to come in and commit fairly large amounts of money, both in terms of access to the land and the further development they have to do on it. So what are some of the risks and uncertainties relating to the Sorby Hills mining area which they have to take into account? You have already indicated these matters are being progressed and clarified to the extent they can, but what are the risks and uncertainties that obviously are involved with a proponent who may then run into their rights against rights under the Mining Act for the proponents of the mine?

[11.00 am]

**Mr Stubbs:** I think you are absolutely correct that the level of certainty is important to potentially attracting and locking down private sector investment. The proponents that we have met with and have been working with have not expressed any concern about the ability to extend infrastructure through the mineral lease, and nor has the Sorby Hills mine. They all have draft documentation around how that matter is closed out in a legal sense. That documentation cannot be progressed until the state moves forward and determines which proponents will indeed take up that farming land. So, it is in the draft stage and cannot be moved forward until the government makes a decision on who will farm that land.

**The CHAIRMAN:** Just as a side issue, the owners of the mining lease, have they done the work to determine where the ore body is, so that they can be fairly clear that certain areas, if the channel went through it, would not be directly related to their mining operation, or is that still to be determined?

**Mr Stubbs:** No, that has been determined.

**The CHAIRMAN:** If we could come then to the current proponents, I think there has been a public release that you have three proponents. Is that correct? The current state of negotiations —

**Mr Stubbs:** There were tendered ones, and the state has been working with three proponents in an interactive process.

**The CHAIRMAN:** And when will the process be concluded?

**Mr Stubbs:** An advisory panel was appointed by the Minister for Lands to receive expressions of interest, request for proposals —

**The CHAIRMAN:** When was that panel appointed?

**Mr Stubbs:** That was appointed in February–March this year. That advisory panel completed its report at the end of August, and there have been some final due diligence occurring and cabinet processes underway around that. I think the minister commented on radio a week ago that he was hopeful that the government would make an announcement about that before the end of the year.



**The CHAIRMAN:** Obviously, while that matter is before cabinet, I do not expect you can give us any details on it, but what about the general thrust of it? Looking at the freehold lease, what sorts of conditions are likely to be in that agreement?

**Mr Rosair:** If I may, before I get Peter to talk specifically about the project, I think it is important to put some context around land ownership in Western Australia, particularly of the sensitivity and contentiousness of common-owned land and the discussion in the eastern states about land ownership. It is important to note that in Western Australia, 92 per cent of the state's land is in government control in various forms of crown estate and only eight per cent is freehold land. It is a different kettle of fish in comparison to other states. In Victoria, 68 per cent of their state land is freehold; in New South Wales, it is 51 per cent; in Tasmania, 40 per cent; in Queensland, 36 per cent. So our freehold ownership in Western Australia is seven to eight per cent. So, the government's management and release of land statewide—not just the Ord, but Pilbara and other areas—has a larger ownership and control of the release of that land. As another example, it is difficult to do estimations on foreign ownership of land in the state. The ABS has done some, and it is probably the only published figure we have here in Western Australia, which is suggesting 8.5 per cent of agricultural land in Western Australia is in some degree in foreign ownership, but the ABS cannot even say whether that is just the freehold component they are talking about or pastoral leases. We have 454 pastoral leases in the state, of which only 11 stations have what we believe is more than 50 per cent foreign ownership. So Western Australia is very well placed to release land and maintain a degree of government control and ownership. When you hear commentary about buying the farm, in the eastern states, literally, where you have got places like New South Wales with 51 per cent freehold land, the capability of buying the farm is far greater than the capability of buying seven per cent of the freehold in this state. So as a bit of context, I think it is important to note. Having said that, I will pass to Peter now to talk about the actual tenure arrangements that are likely for the Ord. But to put it in perspective, if the entire Ord expansion was to be added to the freehold of the state, which I am not suggesting it is, the percentage of freehold we go from is basically seven per cent to 7.006 per cent. So there is a bit of context before Peter answers.

**The CHAIRMAN:** Just before we come to Peter to answer the specifics, I take it, Paul, from your response then that it is really confirming that the proponent who has the front running is a Chinese interest, and clearly we need to be guided in terms of the implications that might have.

**Mr Rosair:** No, I would not say that at all. I would say, as you are probably aware, there are three proponents left in the situation. I am talking more broadly across the state because we are doing land development in the Pilbara. We are doing land development in our SuperTowns down in Manjimup. I think it is important that this entire question about land ownership, freehold ownership and foreign ownership needs to have some perspective, because a lot of debate about all this is contained within the eastern states' models. When you are talking about 51 per cent of New South Wales being freehold owned and only seven per cent in Western Australia, I think you have got to have a bit of context.

**The CHAIRMAN:** Sure; thank you for that. Peter?

**Mr Stubbs:** I will break the question up, if I can, Chair, a bit. First, I will deal with the smaller portions, namely the Miriuwung–Gajerrong land entitlements and options. Under the Ord final agreement, the Miriuwung–Gajerrong, as traditional owners, have both entitlements—as-of-right entitlements and also options to exercise, if they choose to, and they are choosing to do that in terms of land. So the Miriuwung–Gajerrong will receive about nine per cent of the land. The title for that will be strata freehold. The reason that I am talking now about the strata title is the reason that strata title is being used is for a couple of reasons. One is that there is common infrastructure—drains, secondary channels. In Ord stage 1, they were historically built and owned by the state, and then in the early-2000 period they were transferred to the Ord Irrigation Cooperative. We are building

again secondary irrigation channels and drains and the like. We need to think through how they will be managed, owned and maintained, and so the Strata Titles Act enables a strata corporate body to be created of landowners and for the corporate body to take carriage and ownership of common infrastructure and to manage the environmental requirements of the project going into the future. So the land has been taken to the market in the request for proposal stage with those things being clear to the market.

I move on now to the remainder of the land. It is being offered, for anyone who wants more than 50 per cent of the land, as lease only—as a lease—and it would be a lease under the Strata Titles Act. So if we end up with a single or a couple of large sorts of proponents out there, then they will be leasing the land. Lots 8 and 9, I mentioned earlier, are initially a 10-year lease. The remainder of the land is being offered at a 50-year lease, for the reasons that the Chair mentioned earlier, to give the market some confidence that tenure links to their ability to invest with confidence.

**The CHAIRMAN:** Even on the 50-year lease, is there a condition that a certain amount of money has to go into developing and making the land productive? So, is there a conditional issue before you get the 50 years?

[11.10 am]

**Mr Stubbs:** Yes, I was just going to move to that, Chair. The intent is that by June–July next year, people taking up the land will have a development lease, and the development lease will have milestones and contractual obligations in it to develop the land. The purpose of that is to avoid land banking if they are sitting on land and not developing. This is a project being done to have a stimulatory effect in the East Kimberley economy and to grow the economy. The development lease is a common tool used. It was used in the creation of the Mantinea farm—a 1 000 hectare property, which bolted on and extended Ord stage 1—and it will be used in this case to ensure development moves forward and there will be contractual obligations in that.

**Mr Rosair:** Here is another aside, but I think it is important. We are doing some pastoral reform across the state in the pastoral estate. Essentially, the Ord is a major pastoral diversification. It used to be Carlton Hill and Ivanhoe pastoral estates. Given the tenure reform that is happening, we have been testing some of the tenure reform options with the bankers who have been reluctant, since the cattle suspension, to invest in agricultural development in the pastoral estate. The bankers are looking at a longer term certainty in leasing, and freehold is not necessarily a requirement for their investment strategies. We have been testing that with the business community and the bankers. These 50-year lease options, even the perpetual leases that are being considered, are forms of tenure that will provide certainty to banking without having to go through it all.

**The CHAIRMAN:** With the development lease, will you be a bit more specific in terms of what conditions they will have to meet to extend that? Do they actually have to have the land being productive or do they simply have to level or provide certain infrastructure? What are the sorts of conditions that would be required?

**Mr Stubbs:** Those conditions are outlined to the proponents in draft commercial terms documents. For example, they outline that in year one of taking up the lease, 50 per cent of the land must be cleared; in year two, 90 per cent of the land must be cleared; in year three, 90 per cent of the land must be cropped to crops approved by the Minister for Lands. So, that gives some idea of the contractual obligations in relation to that. Being a lease, the government remains the owner and can exercise control should those contractual obligations not be met.

**The CHAIRMAN:** Sure. With respect to, say, cropping within three years, is that all of it or a certain percentage of it?

**Mr Stubbs:** Ninety per cent.

**The CHAIRMAN:** What are the indicative costs for taking that current land and getting to a stage where it actually would be levelled and be serviced with channels and drains to actually be used for irrigated agriculture?

**Mr Stubbs:** Private proponents will need to invest about \$5 000 per hectare to move the land from its current rangeland condition to fully productive, irrigated, agricultural land.

**The CHAIRMAN:** Across the various three areas that are part of this proposal, is that \$5 000 an average and does it vary greatly in different parts?

**Mr Stubbs:** I think it is a fairly standard budgeting estimate used by agencies in the private sector.

**Ms R. SAFFIOTI:** If I can just interrupt, what is the current valuation that you have got and the department have in relation to land per hectare?

**Mr Stubbs:** I would rather not disclose that, because coming up, the government has commercial negotiations with a proponent or more than one proponent, and that might not be in the government's interest to have that on the public record.

**The CHAIRMAN:** In terms of the existing Ord irrigation area, have there been any recent sales of land? What sort of values per hectare have people been getting from recent sales?

**Mr Stubbs:** There was a recent sale. Probably the most significant recent sale was a property known as the Rewards Group assets—large mango and grapefruit properties. That property was recently sold in the last fortnight. I am not aware of what the sale price might have been. It was a receivership-type sale, so I am not across the details and sale price on that. But typically the estimates, depending on the location of a property, sort of range between about \$8 000 and up to \$12 000, depending on location and what people intend to grow, per hectare. The sandalwood industry historically, in the last probably 10 years, has been prepared to pay a bit more than other growers might be. So, they are in that range.

**Mr C.J. TALLENTIRE:** But the investment per hectare on the part of the state so far, that is getting up to around \$25 000 per hectare.

**Mr Stubbs:** We do not really commute that out at a hectare cost because, as Paul mentioned, the project takes the view that they are building infrastructure that has other purposes—common-user infrastructure. There are a variety of other infrastructures, such as workers' camps and Indigenous outcomes and support and investment in those areas, so we do not really commute it out to a per hectare basis. We have never done that.

**Ms R. SAFFIOTI:** Just in relation to the three proponents, the minister stated that the three base crops that are being put forward are sandalwood, sugar and cotton. They are the three crops that have been put forward?

**Mr Stubbs:** Yes. The three proponents that have been working in the interactive process have those three crops as their main intention.

**Ms R. SAFFIOTI:** Can I ask what capacity of scope is there for more horticulture as part of this arrangement, or is it that basically it will be left up to the buyer or to the lessee what crops are put in? Is there any requirement for a certain percentage to be horticulture—mangoes, grapefruit or that type of food?

**Mr Stubbs:** We did not set a requirement on crop types in the request for proposal, so it was open to the market to indicate what the market thought was commercial and sustainable and best suited to that environment, and what we have got from the market is those three crop indicators that you mentioned. That said, in crops like sugar and cotton, if either of the industries develop and mature, then at any given point about 20 per cent of the land is typically rotated with rotational crops, and that represents opportunities for a whole variety of crops, such as chia, pumpkins, sorghum et cetera, depending on market conditions. So, if you think forward to an Ord project that includes

Knox Plain and potentially the Northern Territory, even with the base crop, there could be 5 000 or 6 000 hectares out there in any one year in a diverse range of other crops in rotation. That is more than twice the high-value horticultural crops in Ord stage 1 today. So, that is one issue.

There is also the work that the department of agriculture is doing on cockatoo sands at the moment, where they are doing land and water capability assessment on some additional lands which are sandier soils—much better sandier soils than typically we find for horticulture in the south west. There is about 5 000 hectares of that that they have identified so far. That represents a really terrific opportunity for high-value horticultural crops going forward.

**The CHAIRMAN:** Can I just come back? Assuming that someone is coming in with the investment required to actually take up this land, whether it is one or two major proponents, then I think it would just be a natural assumption that they are going to go for a major crop, whether it is cotton or sugar, allowing, as you said, for some rotation just in terms of good horticulture. In terms of what is the general market expectation on both cotton and sugar; that is, what would be the minimum number of hectares to actually support a sugar mill, a cotton gin, to be able to process?

**Mr Stubbs:** I think you are right, Chair, that if corporate proponents take up a large part of this land and seek to grow either of those two base crops, then that is what they will focus on. The minimum land required for a commercially sustainable cotton industry is probably in the order of 10 000 hectares and for the sugar industry probably in the order of 15 000 hectares, being clear that that is the minimum land and not the optimal land.

**The CHAIRMAN:** And that creates problems. I assume that is part of the reason that you moved from the 8 000 hectares initially to extend the RFP to add in the EOI to get it up to that amount. It might assume that a major proponent could buy into some of the existing Ord stage 1, but it seems like unless you get a single proponent, you are going to be pushing to actually get that required area to make the processing economic as part of the overall project.

[11.20 am]

**Mr Stubbs:** They were considerations, as you mentioned, in terms of including the Knox Plain in the expression of interest and request for proposal process; not the only consideration, though. The obligations of the Ord final agreement and potential benefits to the Miriuwung–Gajerrong people and the state's ability to execute the Ord final agreement were also a big consideration in the decision.

**The CHAIRMAN:** Okay. Now, clearly the company willing to put in large amounts of money, which would be required to develop the land as part of the lease—it is all going to come down to the economics. Have any further economic assessments been done by government, given that there have been two over the last 10 to 20 years, which have been pretty marginal in terms of the economics of agriculture in the Ord? So, has any further economic assessment been done by government?

**Mr Stubbs:** Yes, there has as part of the request for proposal process. Those proponents that we have been discussing have been required to produce economic models for their proposed investments, and those models have been reviewed by Ernst and Young and scored a scorecard independently to give government advice as to their veracity and the assumptions behind any models, because clearly when you are producing economic models 30 years out, a variety of assumptions need to be made in different scenarios. So, we have been using independent advice on those models, leading up to a potential government decision.

**The CHAIRMAN:** And that work was done under the auspices of the advisory panel doing the assessments?

**Mr Stubbs:** Yes, it was.

**The CHAIRMAN:** What level of certainty is that giving that a proponent is actually going to be viable and sustainable?

**Mr Stubbs:** It is giving the advisory panel confidence in their final recommendations to government to proceed.

**Mr C.J. TALLENTIRE:** Just on this assessment and economic analysis, turning to the technical competency of the proponents, how are you going about assessing that?

**Mr Stubbs:** We are going about it largely by requiring them to detail organisational charts including key personnel and staff. Clearly, with anyone who is articulating key personnel and staff into the future, that can well change, of course, but we are looking at the level of experience of the people that they are able to assemble in making their submissions and in demonstrating their capability; so, doing checks on people's experience and competency in construction and in those issues that we have been talking about.

**Mr C.J. TALLENTIRE:** And what about the organisation's past experience of doing massive horticultural projects? Are you assessing for that at all?

**Mr Stubbs:** Yes, that is certainly part of the consideration, but also construction because, as we talked about earlier, clearly for a proponent to go forward and develop land like Knox Plain, there will be substantial infrastructure that that proponent needs to build. So it is not just about agricultural production or processing; it is also about construction capability and experience.

**The CHAIRMAN:** Just while we are still on costs, within the proposal what are seen as the conditions for the supply of water and the cost of water? The cost of water is the key issue. I assume that is part of the negotiation?

**Mr Stubbs:** Yes, it is. The government, through cabinet, made a decision to select SunWater as a potential water service provider, and the government will sell bulk water to SunWater at the same price that it does to the Ord Irrigation Cooperative, which at the moment is \$1.32 a megalitre, I think. I need to just check on that to be sure of that figure. SunWater will set its price with the customer. SunWater has customer service contracts in draft, and it will negotiate a price with the land lessees and with the Miriuwung-Gajerrong.

**The CHAIRMAN:** As part of that cost, is SunWater responsible for the maintenance of the channel or is that separate?

**Mr Stubbs:** The corporate body is responsible for the maintenance of the common infrastructure. The M2 channel will be transferred to the Water Corporation, so the arterial channel is owned by the state by the Water Corporation and it will have contracts and arrangements in place for maintaining the channel.

**The CHAIRMAN:** So the Water Corporation will charge SunWater for the maintenance of the channel, which they will then pass on as a cost or not?

**Mr Stubbs:** Yes, they will pass it on as a cost to users.

**The CHAIRMAN:** And there is no proposal that the proponents should actually get water below the cost that currently goes to Ord stage 1?

**Mr Stubbs:** No; there is no suggestion that the proponent here would have any cost cheaper than Ord stage 1. We should note that SunWater, in very recent times, has advised the government that it is reassessing its ability to engage in this project, linked to restructuring arrangements that are going on in Queensland.

**The CHAIRMAN:** Because the whole push from the National Water Commission and national water, over the last five or so years to 10 years, has been about charging the real cost of water.

**Mr Stubbs:** Yes.

**The CHAIRMAN:** Clearly, we do not do that in the Ord.

**Mr Stubbs:** No.

**The CHAIRMAN:** And I assume there is no possibility of really doing that, given the economics of agriculture in the area.

**Mr Stubbs:** We do not do that in the Ord. You are correct.

**Mr Rosair:** We do not do that elsewhere in the state.

**Ms R. SAFFIOTI:** That is money through a CSO, though, when you are pricing below cost recovery.

**The CHAIRMAN:** They do not do it as a CSO; maybe it is just subsidised. It is not a direct CSO.

**Ms R. SAFFIOTI:** Yes, so what I am leading to is: is it an ongoing subsidy, an ongoing payment, from the consolidated fund as part of the Ord agreement?

**Mr Stubbs:** Already in Ord stage 1 there is a gap in terms of recovery of water charges vis-a-vis the cost of asset maintenance, which effectively the government carries, so if the pricing structures stay the same, there will be a gap as well. The government, of course, reviews the price of water at five-year intervals, and the government may well choose at some time in the future to escalate the price of bulk water, which ultimately translates into the users of the water paying more. Whether or not the government chooses to do that, I do not think anyone can say, into the future.

**The CHAIRMAN:** What is the current gap?

**Mr Stubbs:** In Ord stage 1, it is in the order of \$500 000 per year.

**The CHAIRMAN:** What would that be across the whole project if it was all developed?

**Mr Stubbs:** Certainly, the Weaber Plain or the Goomig area is roughly half the size of Ord stage 1, so I think you can approximate that. If you add in the Knox Plain ultimately, then it is about equivalent to the size of Ord stage 1.

**The CHAIRMAN:** So you just said pro rata, going up by the area.

**Mr Stubbs:** I think pro rata is a reasonable estimate.

**Mr C.J. TALLENTIRE:** You think at the moment a million litres of water from the Ord costs you \$1.32. That is your rough recollection?

**Mr Stubbs:** It is \$1.32 per megalitre —

**Mr C.J. TALLENTIRE:** That is a million litres.

**Mr Stubbs:** Yes. I had better check but I think that is the current price.

**The CHAIRMAN:** What about the sustainability of supply? Two years ago you had a record wet and there was plenty, but just prior to that there was a little bit of concern that you may not have enough water for the existing demand, given the pull by the hydro. There was a stage there were those assessments were being done. Paul was involved in that in the Department of Water. So can you give some understanding of what is the level of certainty that you can give to the proponent that they will have water every year, nine years out of 10, in terms of their pool licence.

**Mr Stubbs:** The current water allocation plan for the Ord is based around a 95 per cent confidence level of supply to the irrigators. Going forward, the lands that are in the request for proposal process can easily be accommodated within the current water allocation, and so the same confidence level as Ord stage 1 can be applied to these lands. So it is not until potentially subsequent expansions occur into the outer years that we would approach the allocation limit and have to revise the water allocation process and plan.

**The CHAIRMAN:** Will the contracting arrangement mean that the government will guarantee that 95 per cent confidence limit, and how do you share the pain if it cannot be met?

**Mr Stubbs:** No, it will not guarantee it. The same rules as Ord stage 1 apply, where if we got into a situation of prolonged drought and water deficiency, in Ord stage 1 allocations to irrigation can be reduced.

[11.30 am]

**The CHAIRMAN:** I know they can be reduced. The point my question goes to is who actually carries the financial cost? Is it shared in some way or does the proponent, who is by that stage the actual agricultural company—do they cop the full cost of not being able to put their crop in or only put a part of it in because there is a shortage of water?

**Mr Stubbs:** The growers wear the risk, in that respect.

**Mr Rosair:** I think, under the legislation, as you know the state can declare a water shortage at any time. It has happened in the south of the state, and the onus is on the proponent to wear the cost.

**The CHAIRMAN:** The point I am getting at is that the contracts currently being considered just sit with the current regime.

**Mr Rosair:** I do not think there is any additional provision for the state holding some of that risk, but we would have to check on that with the Department of Water.

**Mr Stubbs:** The risk right now is to growers in Ord stage 1. If we are in a prolonged period of drought and water allocations need to be reduced to maintain hydro supply et cetera, then water to irrigators can be reduced. That can happen in Ord stage 1 today. Those same rules will apply in these new stages.

Chair, can I go back to the \$1.32, because I want to be clear that \$1.32 per megalitre is the bulk charge of water that the state charges a water service provider; it is not the price an irrigator pays. I just want that on the record.

**Ms R. SAFFIOTI:** Sorry; say that again.

**Mr Stubbs:** The \$1.32 per megalitre is not the price an irrigator pays; it is the price a water service provider buys water off the state. The water service provider on-sells the water and charges margins, one, to cover their operating costs; two, to cover the asset maintenance costs; and three, to make some profit.

**Ms R. SAFFIOTI:** Just to clarify, because I am still a little bit confused, so the Water Corporation can control the M2. They sell the bulk water to SunWater currently—but we are not sure about the longer term—at \$1.32, and \$1.32 is less than what we believe the price of the water is.

**Mr Stubbs:** Yes.

**Ms R. SAFFIOTI:** And that gap currently is \$500 000 for Ord stage 1.

**Mr Stubbs:** That is because when you look at the price to get total recovery on assets, it includes dam assets, and when you put the dams in the equation in the financial models, then if you wanted to have a breakeven price, the bulk price of water would be higher. That is a policy decision for government.

**The CHAIRMAN:** Just being clear, I thought there was very little capital cost in that costing and more just administration. For instance, the capital cost of this \$322 million, that is not going to be factored into the cost passed on to the growers, is it?

**Mr Stubbs:** No.

**The CHAIRMAN:** It will just be the ongoing maintenance and running costs.

**Mr Stubbs:** Yes.

**Ms R. SAFFIOTI:** With SunWater, you are saying that you are unsure about their future. If they do pull out, will the Water Corporation take on the next role as the provider as well?

**Mr Stubbs:** No, that is unlikely. We have a number of options. Firstly, we need to enter a period of commercial negotiations with a proponent or multiple proponents. That will happen once the government makes a decision on who we need to negotiate with. It is possible, if we end up with a single, large corporate entity over most of that land, that that corporate entity may well internalise the water-service provision itself. It is possible that the Ord Irrigation Co-operative, which is established and has been operating a service for 10 years, might extend its operation. We want to keep that space open in the commercial negotiation period in the months ahead to close that out.

**Mr Rosair:** They were one of the tenderers in the first round of water service providers up against SunWater.

**Ms R. SAFFIOTI:** Yes, I remember that. Just a last question in relation to this: in relation to one of the three proponents, there are no guarantees on the water price to them as part of the negotiations?

**Mr Stubbs:** The water price is not fixed, but in the documents that went to the market there is a range of potential water prices that was put into the market in consultation between our government and SunWater. And we clearly said to SunWater, "We need to go to market; we need to disclose to potential buyers what we think is the water price they will have to pay. Can we have a price or can we have a range that you as a provider are comfortable with and that you will negotiate within that range?" That has happened and been disclosed to the market.

**Ms R. SAFFIOTI:** Does that last for 50 years?

**Mr Stubbs:** No. Usually these contracts are for five years or a 10-year period and then they are reviewed and the contract possibly goes on.

**Ms R. SAFFIOTI:** So, there is no guaranteed price after that five years on the water price?

**Mr Stubbs:** No, there is no fixing of pricing for 50 years.

**The CHAIRMAN:** To move to Aboriginal employment, personally I think the committee was also very impressed with the efforts being made by the joint venture, but clearly it is a difficult area, getting people off welfare into skilled jobs where people have to work long hours. I mean, how is that going, because the Miriuwung-Gajerrong report that came out, I think in June, indicated that there had been 29 actuals out of a target of 70 in Ord stage 2. So if we can get a bit of an update on how Indigenous employment is going as a key part of the whole project?

**Mr Stubbs:** I think this 2012 has been a very good year in terms of indigenous employment. We peaked this year at 96 Indigenous employees onsite on construction activity out of about 280, so we were around about the 30 per cent mark at the peak. That is 26 per cent above our target. Miriuwung-Gajerrong did a terrific job in also placing 34 or 35 indigenous people into jobs in the town of Kununurra in addition to those numbers.

**The CHAIRMAN:** So their numbers are separate to the joint venture construction needs in doing the project.

**Mr Stubbs:** No, sometimes they are interchangeable in the newsletters and documents like that, but on the Ord construction site there have been 96 Indigenous staff working until very recently. Rain started to appear in the last fortnight, so staffing numbers are starting to be reduced, but certainly throughout the month of September and early October there were 96 indigenous staff out there. In town, Miriuwung-Gajerrong, since January of this year, have put an extra 34 indigenous people into jobs through their efforts and through the efforts of the government's investment by the aboriginal development package.

**The CHAIRMAN:** We were made very much aware of the fact that because the construction is seasonal, because you cannot do it in the wet, that the big commitment that has been made and the training of indigenous people to get them into employment means they then do not have a job, and attempts were being made to find work over the wet season for them. Can you give us any idea as to how that is going this wet season, what sort of jobs and what numbers there may be for those



people? You said it went up to 70 or something during this dry season just gone. What is happening to those people now that we are into the wet season?

**Mr Stubbs:** The seasonal nature of industries in the Kimberley, with the wet and dry seasons, is certainly a challenging factor for continuity of employment. There are a couple of issues related to it. One is the capability of people, what skill sets they have and how willing they are to move to where work may be, because a number of industries contract at that time of the year—agriculture, tourism, construction, they all sort of contract over the wet season. So people either need to take leave or, in some cases, do work outside of the region if they want to maintain the sort of income they have been earning. So this year a lot of effort has been put into upskilling people; namely, getting heavy rigid driving tickets and national accreditation on plant. The Ord project is largely about driving plant and doing —

**The CHAIRMAN:** Peter, this is through the whole thing —

**Mr Stubbs:** The whole thing.

**The CHAIRMAN:** — or is it specific to the wet season?

**Mr Stubbs:** If they have been through the whole year, so that as we go into the wet season we have got a group of people there who actually have some portable skills. You cannot go and work in the Pilbara without an HR licence or national accreditation on plant, for example. So getting them upskilled in getting those accreditations in place is crucial to people's ability. Even if you want to go and work elsewhere, you will not have the skill sets to do it. So upskilling them has been an important part. In the order of 25 to 30 people have achieved an HR ticket and in the order of 46 to 50 people have achieved a variety of national accreditation for driving plant. Twenty-eight of those people have expressed interest in FIFOing out of Kununurra this year. Workshops are being held involving the Argyle diamond mine and the Gorgon project over the last month with those Indigenous people, where what it means to FIFO has been explained and workshopped with people. Out of that process there are 28 applications being assessed by the Gorgon project et cetera for the suitability of those people to go into that scheme. The Miriung-Gajerrong Corporation, through its ADP package, is prepared to support financially the FIFO model, which they see as a game changer for their people in terms of opportunities and expectations that people have in the future. That is where it currently sits. The human resource teams on the Gorgon project et cetera are working through those CVs and applications for suitable candidates.

[11.40 am]

**Dr E. CONSTABLE:** Can I just briefly ask, the in-town jobs, what sort of jobs are we talking about?

**Mr Stubbs:** The full spectrum really, from sort of business administration to hospitality, building construction on building sites, environmental-type work.

**Dr E. CONSTABLE:** Can you break it down to the male–female component, especially in town?

**Mr Stubbs:** I would be guessing a bit without the figures in front of me, but it would sort of be a 60–40 split, where probably 60 per cent would be male and 40 per cent female.

**The CHAIRMAN:** My final question comes back to the sorts of conditions that are with the proponents being currently considered. In addition to obviously developing the land to be able to get the longer term lease and getting actual farming underway, is there a requirement that they commit to building plant, whether it is a cotton gin or a sugar mill? Are those sorts of issues part of the consideration as well?

**Mr Stubbs:** Yes.

**Mr C.J. TALLENTIRE:** Just a final one. The difference between a perpetual lease and freehold, does it really come down to anything significant?

**Mr Rosair:** It is different. Certainly freehold is freehold and complete private ownership forever. Perpetual leases in the pastoral estate would still be similar in some effect but they would be subject to conditions of the Pastoral Lands Board, and those pastoral leases could still be forfeited if those conditions were not met and directions were not met. They will essentially be the equivalent of freehold if the conditions were being met. That is the only difference. You do not have any conditions on freehold.

**The CHAIRMAN:** There are just some formalities to close. I thank you very much for your time and the valuable evidence that you have given to the committee today. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence.

Again, thank you very much for your evidence and for appearing before us today.

**Hearing concluded at 11.43 am**