

Esperance Port Authority —

Mr P.B. Watson, Chairman.

Mr T.R. Buswell, Minister for Transport.

Mr M. Frydrych, Chief Executive Officer.

Mr K. Fernance, Chief Financial Officer.

Ms S.J. McCarrey, Deputy Director General, Policy, Planning and Investment, Department of Transport.

[Witnesses introduced.]

The CHAIRMAN: I call the member for Midland.

Mrs M.H. ROBERTS: I again refer the minister to budget paper No 3. Can the minister advise whether he is confident that the revenues listed there are accurate?

Mr T.R. BUSWELL: It might just take me a minute or two.

Mrs M.H. ROBERTS: If they are not, what is the difference between the port authority's view and what is in the published Treasury papers?

Mr T.R. BUSWELL: I will get some of that detail. What page were we on?

Mr C.J. TALLENTIRE: Page 290.

Mr T.R. BUSWELL: I have relocated it. I am pretty sure I have got that and I can now compare it, which will be interesting. In 2010–11, the dividend that is anticipated to be paid is nil. The document I am quoting from is the Treasury development plan of the port. When this was developed, the dividend and tax payment from the port for the 2010–11 year was expected to be nil. Without an exemption, on a \$1.5 million profit, the dividend would be about \$800 000. There will be a flow by dividends in 2010–11 of about \$800 000, which is higher than the forecast of \$96 000 in budget paper No 3, although the composition is a tad different. I will just refer to the 2011–12 year for the purposes of comparison. I have to work through this fairly carefully because it is on a fairly detailed spreadsheet.

Mrs M.H. ROBERTS: Further to that, the dividend for 2011–12 in budget paper No 3 is \$429 000, which seems very different from the \$96 000 that is listed in all the forward years and the previous year.

Mr T.R. BUSWELL: This is the problem when we go off the budget papers. I ask the member to listen and I will explain again. The anticipated dividend for 2010–11, which in the budget papers is \$96 000, will now, on the balance of probabilities, potentially be up to \$800 000.

Mrs M.H. ROBERTS: I understand the minister was just advised that an exemption was being sought.

Mr T.R. BUSWELL: Port authorities seek exemptions from dividends all the time. Whether the government grants them is a subsequent matter for government decision. I can assure the member that at the time the budget was handed down, no exemption had been granted to any port authority for a non-payment of dividends for the last financial year. I might have to check that, but that is my understanding.

Mrs M.H. ROBERTS: Can I just clarify through you, Mr Chairman?

Mr T.R. BUSWELL: I just want to work through this. Just so the member is clear about this, the anticipated Esperance Port Authority profit position in 2010–11, which is the current financial year, is about \$1.5 million. The anticipated dividend on that is around 65 per cent, so that is actually about \$900 000. That is for this financial year. I will work through the others to explain what is in the development plan versus what is reported in the estimates on page 290 of budget paper No 3, in answer to the member's question. I am not being verbose, Mr Chairman; I am just trying to get the information on the table. It is hard, because the Treasury document is a quite complicated spreadsheet. Anticipated income tax in 2011–12 for the Esperance Port Authority is \$350 000. The anticipated dividend is \$531 000. That compares with figures of nil and \$429 000 in budget paper No 3. The port's estimate is above the budget estimate. In the following year, which is 2012–13, the anticipated income tax expense for the port is \$545 000, and the budget figure is \$96 000. The anticipated dividend is \$826 000, and the budget figure is \$96 000.

Mrs M.H. ROBERTS: That is a huge difference.

Mr T.R. BUSWELL: Let me finish them first. I have got my finger on the line here and I do not want to deviate, because it would take me ages to find it again. In 2013–14 the anticipated income tax expense is \$485 000 versus \$785 000, and the anticipated dividend is \$735 000 versus \$96 000. In the last year, which is 2014–15, the anticipated income tax expense is \$791 000 versus \$785 000, and the anticipated dividend is

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\$1.2 million versus \$96 000. I just want to make some adjustments. In 2011–12, the anticipated income tax expense is \$350 000 versus nil, and the dividend is \$531 000 versus \$429 000. This year, the expected dividend is \$900 000 versus \$96 000. That, by way of process, is a comparison of the strategic development plan, which I believe was updated in December 2010, with the data that appears line by line in budget paper No 3 for the Esperance Port Authority for income tax and dividends. There is some disparity in some of them. Fortuitously, for the greater good of the state's finances, Treasury seems to have adopted a conservative underestimate of the capacity of the port to generate profits, which then drives the dividend payment and the income tax.

[10.40 am]

Mrs M.H. ROBERTS: Further on that, can the minister provide me with any explanation for why Treasury's figures and the port's figures differ so markedly? Whether the figures are in the port's favour or in the government's favour is of no consequence; two sets of published figures vary quite markedly.

Mr T.R. BUSWELL: No.

Mrs M.H. ROBERTS: Can the minister explain why? The second part of my question is about the income tax expense; it goes up markedly, according to Treasury figures, to \$785 000 in those out years of 2013–14 and 2014–15 from a much lower base.

Mr T.R. BUSWELL: Yes.

Mrs M.H. ROBERTS: Can the minister provide any explanation for that?

Mr T.R. BUSWELL: I can. The reason income tax expense goes up is that profit goes up, which is the reason the port is paying more in income tax.

Mrs M.H. ROBERTS: That is obvious. Why will that profit go up significantly?

Mr T.R. BUSWELL: Profit rises significantly at the port, in particular as we transition to 2013–14 and 2014–15, mainly driven by some shifts in income relative to the rate of growth of expenditure. Obviously there is an anticipation that income will increase. If we look across the board, the line item generally referred to as cargo handling revenue is the main driver of the growth in income. I might ask the CEO, Mr Frydrych, whether he wants to make any comment about that.

Mr M. Frydrych: The member's question is basically how we are achieving the better profits and what they are based on. If we look at the shifting of cargo from environmentally non-friendly and high-cost handling to containerised cargo, just for that alone in one year we pay \$500 000 for cleaning and \$700 000 for environmental conditions. So, those are really the big-ticket items in operational costs. We are also looking to review the carrying-cost structure and we are ready to approach the clients that have been using the port at a certain rate for a number of years.

Mrs M.H. ROBERTS: Through the minister, is that a type of code for putting up the rates?

Mr T.R. BUSWELL: It is. As I said in relation to Port Hedland—I am happy for the CEO to make a couple of comments—I expect the ports to make a fair rate of return for Western Australian taxpayers based on their assets. Esperance port, by way of example, has a very significant piece of infrastructure that cost the state something like \$23 million, for which Esperance port had to borrow and now carries on its books. It had to borrow that because of the woeful handling of the lead situation at Esperance prior to us coming to government, and that has had a big impact on the profitability of that port. It is an asset. It is not generating return because of a range of factors, and there are a lot of legacy challenges—I think that is the term we are using—at Esperance.

Mr M. Frydrych: Correct.

Mr T.R. BUSWELL: I do not think I need to go into those; perhaps Mr Frydrych wants to make some other comments.

Mr M. Frydrych: Through the minister—100 per cent. We have sort of been in the chair for 11 months. We have reviewed the situation and all the cost structure. Some of the costs have not been updated for up to 10 years, specifically shipping costs and everything. So, it is not like we are looking for a cheap way to cover our losses, but we are looking further across the business and trying to be competitive in the market.

Mr T.R. BUSWELL: Further to that, the port authority has done a fairly large job of work in understanding where its cost centres sit in and around the port. It is not just going to lob up to its customers and say, "Here's your new price." It is going to conduct a proper analysis of the cost structures to justify any decision it makes. But, again, I have been pretty blunt in my conversations with the port authorities. We need to help them address some of these balance-sheet issues, and Esperance again is another case in point.

Mrs M.H. ROBERTS: Mr Chairman, I am satisfied with my answer. I defer to my colleagues as I know we have limited time.

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Mr T.R. BUSWELL: I was just warming up there!

The CHAIRMAN: I think you just got cold water poured over you, minister!

Dr G.G. JACOBS: I thank Michal and Kevin for coming to Perth from Esperance. In reference to the nickel concentrate circuit upgrade, which is the big-ticket item of \$23.829 million —

Mr J.J.M. BOWLER: It is a waste of money!

Dr G.G. JACOBS: — could the minister very quickly basically say what was delivered with that money for the new upgrade of the infrastructure? Did it actually deliver reduced dust emissions and reduced monitored nickel levels? Can the upgraded loading infrastructure be used for other products; that is, is it a multi-user facility? Would it be possible, for instance, to use the upgraded circuit for spodumene? Is there any other product that this circuit potentially could be used for, thereby amortising some of this cost over time?

Mr T.R. BUSWELL: I will lead in and then get the CEO to make a couple of comments. The new \$23 million nickel concentrate facility is the cause of some concern to us from a purely financial point of view. It is a good piece of infrastructure. The CEO will talk in more detail about it. It will certainly address a lot of the issues that have arisen historically around the quality of that infrastructure as a loading mechanism, but it is a very valuable asset which at the moment has a very low level of use. The fact is that the port is having to carry the debt payment and the depreciation payments on that asset. I understand that the maintenance costs are significant because of the corrosive nature of the product. It is, therefore, an asset that is very costly to maintain. It has a significant interest bill that the port is nowhere near covering with the returns, given the current tonnages; and, looking into the future, may be nowhere near covering with the anticipated revenues from anticipated tonnages. It is therefore an issue to which we are currently giving some thought. I will get the CEO to provide some more advice.

Mr J.J.M. BOWLER: As I said, minister, it is a waste of money!

Mr T.R. BUSWELL: I will get the CEO to provide some more advice around the prospect of it being multi-user and some other comments about how it has impacted on environmental conditions at the port.

Mr M. Frydrych: Through the minister, I think I will answer Dr Jacobs' last question first, if he does not mind. Whether the circuit can be used for other products, I think, has been a question that has been around for a number of months. At the moment the other products have never been defined and their tonnages do not justify the high-cost usage of the circuit. There is a high cost of cleaning the circuits between nickel and spodumene, or any other product, that none of the exporters would be willing to pick up, and we would once again be in a losing situation. There is a certain section of the circuit, the ship-loader and so on, that could be used for certain products. But the whole system, as such, is designed for containerised cargo, first of all. So, the cargo has to come in containers to be actually discharged into the system; unless spodumene comes in containers into the port, as the member said, which means we could happily take about 120 000 tonnes a year. We have suggested to those companies a number of times that if they put it into bags or containers all the way, it would be an efficient and good thing for everybody concerned.

Mr T.R. BUSWELL: I just add that the nickel concentrate loader is better than the one it replaced, obviously.

Mr M. Frydrych: No doubt. There is no doubt that the function of it regarding the dust—I believe that was the question—is much better, hence some of our savings on that \$500 000 figure mentioned before.

[10.50 am]

Mr W.J. JOHNSTON: I am interested in the expansion of the port. I read the Australian Stock Exchange announcement about Golden West Resources having an agreement to put three million tonnes per annum through the port. Could the minister explain that in the context of the answer provided by the minister representing the Minister for Transport on 18 May, that there was not an agreement?

Mr T.R. BUSWELL: The situation is that the port authority is currently working through a process to expand capacity; it is currently at about 10 million tonnes per annum, or a bit under.

Mr M. Frydrych: The first stage.

Mr T.R. BUSWELL: The expansion will be in two stages, each of 10 million tonnes, so the port will go to about 30 million tonnes. The port is currently in discussions with a variety of potential users about how that capacity will be utilised and how it will be funded. Those conversations are ongoing. The port has entered into what it is calling a memorandum of understanding with a variety of operators. The memorandum of understanding, as I have been advised, does not specifically guarantee access to tonnage in each of those two stages. It is a framework within which discussions are occurring, but there is no guarantee of the capacity that will result from those conversations because those discussions are many parted and a variety of different factors will come into play. My advice is that the port is not yet in the position to be able to guarantee the

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tonnage; the MOU is about establishing a framework for those discussions. Some of the people involved have formed a view that their participation in the MOU process is an absolute guarantee of tonnage; that is not the case. That is still very much a live matter. Quite literally, discussions are underway as we speak.

Mr W.J. JOHNSTON: When does the authority expect that MOU will move to some more formal arrangements? What is the prospective time line for us to know what is going to happen?

Mr T.R. BUSWELL: I will ask the chief executive officer for some further advice. The project schedule has a line item called “mutually binding agreement”; I am assuming that is what the member is referring to. The time line I have, which we are now working on with the port—which is the method by which the port reports back us to on the project—has mutually binding agreements being completed by the end of 2011. The estimated time line for the start-up of the project is mid-2013. It would be fair to say that some people have indicated that they may get access to additional tonnage through Esperance before mid-2013; that is just not going to happen. They are not going to get access through the port prior to mid-2013, because that is how long the project will take to pull together. There is also a related job of work being done that is partially funded by both the commonwealth and the state in relation to road and rail access to the ports. As I understand it, to get to another 20 million tonnes that job of work has to happen. Quite simply, Esperance as a town will effectively cease to be able to operate without it. The situation at the moment is untenable; there is a significant upgrade program in place for the road and rail linkages into the port so that we can try to separate the rail from the road with overs and unders and the like.

Mr W.J. JOHNSTON: The minister likes those words.

Mr T.R. BUSWELL: Sorry?

Mr W.J. JOHNSTON: They are the minister’s favourite words.

Mr T.R. BUSWELL: I thought my favourite word was—what was the other one I used to use—de-cashflowed or re-cashflowed? Anyway, it does not matter. I think the speculation that the expansion of Exmouth will enable access to the Yilgarn iron ore project through Esperance before mid-2013 is not realistic or reflective of the position the port is currently in.

Dr G.G. JACOBS: Minister, there is a time line that has to be followed before Esperance will be ready to be used by the Yilgarn iron ore producers. Is there any possibility of some access for the smaller juniors in iron ore in the Yilgarn, such as Cazaly Resources, out of the Western Australian ports?

Mr T.R. BUSWELL: Yes, there is. As I outlined earlier, I have now instructed Fremantle Port Authority to move as quickly—it was probably doing it anyway. I did not instruct it; we had a conversation and that was the outcome. Maybe that is what it wanted me to say! I have to be careful.

Mr W.J. JOHNSTON: The minister is going to get himself in trouble again!

Mr T.R. BUSWELL: The port wanted to do this. There is the capacity to move more bulk iron ore through Kwinana. As I outlined earlier, the limit to that capacity will be reached in two stages. It can be accommodated with the current rail regime through the metropolitan area, because that railway line runs out through Canning Vale and then up into the hills, but there is a stage at which capacity will be reached. To access additional capacity, we will need to upgrade the railway line. The Department of Transport is currently finalising some modelling around that rail capacity. At the moment about five million tonnes of that capacity is absorbed; I suspect we can add additional capacity through Kwinana without having to upgrade the railway line, but I do not think it will be too much. It is a very important question.

The CHAIRMAN: Yes, minister, but we are doing budget estimates, and this is just a dorothy dixer for the member for Eyre.

Dr G.G. JACOBS: It is not a dorothy dixer at all; it is a very important issue!

The CHAIRMAN: We have five minutes left and we are talking about budgets here, and I have given you a bit of leeway, member for Eyre. Minister, could you just finish the answer?

Mr T.R. BUSWELL: There will be capacity in the port of Fremantle through Kwinana. There are two options: the Kwinana bulk jetty, which is a Fremantle Port Authority facility which already has some environmental approvals for low tonnages; or, potentially, the private James Point bulk facility. I think that facility is a lot further off getting access to capacity than Fremantle Port Authority because Fremantle Port Authority is already up and running.

Mr C.J. TALLENTIRE: Is the port negotiating with any third parties for the stage 1 or stage 2 expansions?

Mr T.R. BUSWELL: The port is negotiating with a range of third parties, and the member for Cannington outlined some of them. As I have been advised, Esperance port has this memorandum of understanding—this framework document—that includes, but may not be limited to, Cashmere Iron, Golden West Resources,

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Macarthur Minerals, and Cazaly Resources. I am not sure whether it includes any more, but I will ask the chief executive officer to add to that list if that is the case. I am sure the port is talking to other people as well.

Mr M. Frydrych: We have about nine proponents, if members like, of usage. They are all in a different stage of repair, or disrepair, at the moment—sorry, I will rephrase: they are at a different stage of readiness, I think is a better way of putting it. At the moment we are going through discussions with them to actually provide us with proper justified claims that they are basing their future tonnages on. We broke it into stage 1 and stage 2, with stage 1 being 10 million tonnes and stage 2 being 22 million tonnes, depending on the guaranteed tonnages throughput. Once they provide us with that, we will be able to ascertain what it means for us in the future.

Mr C.J. TALLENTIRE: Who is actually going to fund these expansions?

Mr T.R. BUSWELL: At the moment the port is talking with the different private potential private users in and around a funding model. But it is anticipated that funding would be provided either by potential future users, or by funding entities associated with potential future users, to help fund the upgrades. The anticipation is that the funding would be by a private sector mechanism, which happens in ports right up and down the state, as opposed to a public sector mechanism.

Mrs M.H. ROBERTS: What is the status of woodchip exports by Elders Forestry? I understand there are building works associated with it and that land was earmarked for a woodchip receival facility and so forth. How many hundreds of thousands of tonnes of woodchips will be exported?

The CHAIRMAN: We have to cease it there. That completes the examination of the Esperance Port Authority.

Meeting suspended from 11.00 to 11.10 am