

Division 7: State Development, \$58 643 000 —

Ms J.M. Freeman, Chairman.

Mr C.J. Barnett, Minister for State Development.

Mr S. Wood, Director General.

Mr J. Ostojich, Deputy Director General.

Mr S. Melville, Director, Corporate Services.

Ms M. Klobucar, Acting Deputy Director General.

[Witnesses introduced.]

The CHAIRMAN: I give the call to the member for Cannington.

Mr W.J. JOHNSTON: I refer to page 104 of volume 1 of the *Budget Statements*. The fourth dot point under “Significant Issues Impacting the Agency” states in part —

The Prelude project is using this technology, and Woodside and Shell expect to use FLNG to develop the Browse Basin. Where FLNG is used to develop the State’s gas reserves, the Department will work to secure economic benefits such as investment, employment and domestic gas supply.

I have a two-part question. Firstly, is this saying that the state accepts the use of floating liquefied natural gas for the Browse Basin development? Secondly, will that mean that the domestic gas supply will be LNG or gas swapped from another project or will there be a pipeline from the Browse field?

Mr C.J. BARNETT: From the point of view of the companies involved in the joint venture, it is widely known that they are determined to proceed with floating LNG. We have passed that point, so the negotiation with the government is around two principal matters for the state of Western Australia—the location of supply base operations both by sea and by air, and domestic gas. Proposals have been negotiated between the Department of State Development and the joint venture partners led by Woodside Energy. That proposal is now before government. It will go to cabinet in due course and we will see where we are from there, but the state is absolutely insistent that there be domestic supply of services and the like, and that there be a domestic gas obligation based on the 15 per cent rule. We are not quite there but we are getting close.

Mr W.J. JOHNSTON: I understand that the agreement is not complete and I take it that the Premier is confirming that it will be FLNG, so I am asking about the final element of that, which is the domestic supply. As the Premier says, it will be 15 per cent. Is it his expectation that it will be provided through LNG?

Mr C.J. BARNETT: The obligation on how that domestic gas will be supplied is not specific. What is specific is that it will be 15 per cent. The other relevant factor is that around 65 per cent of the Torosa field, the biggest field, is now accepted as being Western Australian gas as distinct from commonwealth gas. This will provide a royalty stream in excess of a billion dollars over the life of the project. I do not know whether that is supplied by delivering LNG, which is not out of the question, into the southern part of the state or into the pipeline. The pipeline option is probably initially unlikely. The third possibility is the use of replacement gas by developing a field that would otherwise not be developed. Either way, the joint venture partners will have to supply that 15 per cent and if we agree on the principle, which I suspect we will, then it will be up to them to negotiate with the department on exactly how that is done, but the obligation will be there. One way or another, it will be 15 per cent equivalent to the production of LNG from the Browse Basin.

Mr W.J. JOHNSTON: I appreciate those answers. In respect of the employment effects of this project—I understand that we could potentially have three floating facilities—has the department provided the Premier with advice about the relative employment intensity of that project for Western Australia compared with, say, Wheatstone?

Mr C.J. BARNETT: Hundreds of people will work on these floating vessels. Evacuation and redeployment will occur as cyclones go through the area and supply will be more tightly controlled in all sorts of areas. I do not have a particular number on employment effects—I do not know whether the director general does but I will ask him in a moment—but significant employment benefits will flow from that production. We are talking about a project of this scope; I will not go into the politics of that, but the Ichthys project run by the Japanese group Inpex mines gas off the Western Australian coast that is transported through 900 kilometres of pipeline to Darwin, and Inpex employs over 1 000 people in Perth. The project is largely run from Perth because it has other exploration and finds to make. I do not know whether Mr Wood can speculate on employment numbers at all.

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Mr S. Wood: At the moment we have not captured a full picture of each of the floating vessels, but clearly FLNG does not have the large construction workforce, which is the bit that is mostly missing. A decent operational workforce is based on the vessel, and a fairly large measure of supply goes into that vessel for various reasons. That is the balancing act. However, the precise numbers are not captured at the moment. This project has not even gone into FEED yet for Browse.

Mr S.K. L'ESTRANGE: I refer to page 104 of volume 1 of the *Budget Statements*. Further to the member for Cannington's question—this is not a follow-on question but relates to the same area—what progress has the government made in securing domestic gas supplies for Western Australia?

Mr C.J. BARNETT: I guess that question has partly been answered, but, as I said, the 15 per cent policy has been applied across all projects. Gorgon and Wheatstone under construction will together supply 500 terajoules a day, which is about half the current consumption—a very significant amount. The North West Shelf gas project wishes to increase exports by 86 million tonnes over a 20-year period; legislation went through Parliament on this. As a result, a further 100 terajoules from that project will go into the domestic market. Depending on the timing of Browse, further gas will go in there, plus no doubt there will be some smaller projects. Although gas supply is tight, it will materially be a lot better in the early 2020s, particularly with Browse coming on—and we are getting more producers. For 20 years, we have essentially been totally dependent on the North West Shelf. Now we have a range of producers and more coming on, which is important because our greatest natural advantage is our natural gas resources, so we want to see them used within Western Australia—or at least that 15 per cent figure.

Mr B.S. WYATT: My question probably relates to the issue just raised by the Premier with the member for Cannington around jobs, not specifically on whether something is floating or onshore but a more general question. For example, any Liberal government in Parliament will talk about jobs creation through government spend. Does the Department of State Development have an assumed multiplier that for every billion dollars spent on a DSD project it assumes that X number of jobs are created? I want to understand how government gets to its figures. There must be an assumption behind them.

Mr C.J. BARNETT: In reality, employment figures are supplied by the companies. Barrow Island today has over 6 000 people working on the site; it is a bit like watching the pyramids being built. Wheatstone is about halfway through its construction and still ramping up. What is the multiplier? Various figures have been bandied around. Certainly we tend to get a high multiplier on mining as distinct from petroleum projects. I do not know whether the department has a favoured figure, but I will hand over to the director general; I do not know what he used in his work.

Mr S. Wood: No, we calculate it project by project on components with no multiplier. The multipliers are usually used as additional benefit on project; that is typically the way they are expressed. We would calculate this according to workforce and components of the project, and in answer to the earlier question, that is the way we would calculate it for FLNG.

[5.20 pm]

Mr C.J. BARNETT: My own observation is that multipliers are often exaggerated

Mr B.S. WYATT: I agree, but it is always difficult to work it out. I am not being facetious, but a statistic that would be referred from Parliament would be different from a statistic in a publication put out by a government department about the number of jobs created.

Mr C.J. BARNETT: My guess is that the multiplier for manpower, or employment, would be two to three, or in that range. Sometimes people quote four and half or five, and I do not think that that is realistic.

Mr W.J. JOHNSTON: I refer again to the third dot point on page 104, particularly the last sentence, which states —

Acquisition of land, surveys and design work for the Anketell Port is well underway and includes the drafting of a State Agreement for a railway to connect the Anketell Port with mining areas.

Pilbara rail lines have been a sorry story for three decades. Is the implication here that there will be a state agreement for a party to build the rail line and that that party will be separate from the parties building potential mines? Am I to take from this that there will be a port infrastructure agreement and a railway infrastructure agreement and then mining companies will use that infrastructure?

Mr C.J. BARNETT: A state agreement is being negotiated, and it still has some way to go. I think it is still known as the West Pilbara Iron Ore Project, although the name of the project often changes. That does not matter, but it is still part of the old Poli project. I imagine—in fact, I think it is almost certain—that the infrastructure provider, certainly rail, will be separate from mining. Aurizon is one of the parties. The port may

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be provided by Aurizon or someone else. The infrastructure is likely to be separated but it would also come under the agreement. Work is progressing. The state has acquired the site in terms of its native title rights and planning is now going on. It is problematic whether BHP Billiton ever builds its outer harbour in Port Hedland. If it does not, Anketell will be the future growth area for both the west Pilbara and maybe even parts of the east Pilbara. Ultimately, it has a theoretical capacity of around 360 million tonnes. That is a long way into the future, but I suspect Anketell will become the major port expansion, albeit starting at around a 40-million tonnes capacity.

Mr W.J. JOHNSTON: I appreciate what the Premier says, and that is why I did not mention a particular company. But I will now use Aurizon because that is the one that the Premier has mentioned.

Mr C.J. BARNETT: It is part of the joint venture.

Mr W.J. JOHNSTON: Aurizon might end up owning the rail, and that will mean that it has a very valuable piece of infrastructure that other companies will have to pay to use. Is there any intention to value capture for the state that very valuable right that will go to that company, or will we have what we have at Port Hedland whereby potentially five rail lines go into one port, which does not make sense from a state development point of view?

Mr C.J. BARNETT: My understanding with the rail line is that if it is Aurizon, which is the most likely outcome, there would be open third-party access. That would be part of the business model to attract more tonnage to it. Again, that is part of what is being discussed. The project has a little way to go.

Mr W.J. JOHNSTON: Is that not essential before a deal is done with a third-party rail company, because is the government not effectively putting it in a position to be able to toll value capture out of those future projects because they are the only ones with a rail line? Is that not an essential piece of control for the government, because it does not want to let go of a valuable right into the future?

Mr C.J. BARNETT: As the member says, there are railway lines all over the Pilbara, including the one being built by Hancock Prospecting. We are not about doing that. The agreement act would provide for the structure that the company decides upon and the transport infrastructure would be somewhat separate from the mining operations, so third party access would apply. We are not going to try to capture some future rental income at all. I ask the director general whether he wants to comment about Anketell. While the price of iron ore is low, I am satisfied with the way in which the Anketell negotiations are proceeding.

Mr S. Wood: The state agreement is over the rail, because a statutory base is needed for the rail component. The whole design of that particular project at port is for multiuser agents, and all the corridors in there are multiuser corridors and fit more than one rail. For the economics of that project, however, the issue is to get a rail line built to the coastline to liberate the ore. By its very nature, Aurizon is geared toward being a multicarrier if it can in fact be. The connection of the state agreement is not to the mine per se. It is not mine, rail and port; it is for rail only. However, the connections for the JV will need to have some contractual base for going across into port and into mine to make the whole project work. The entities that might carry those responsibilities are being worked out by the JV, and we will need to see that they are relatively seamless to the production of this project so that there are no interruptions to the whole of the project.

Mr M. McGOWAN: I refer to the total appropriations on page 103. Eight months ago, or perhaps more, there was a strong prospect evinced by Clive Palmer that he was going to pursue the state government over what he thought was a breach of contract or a breach of agreement in the Balmoral South deposit. Has there been any legal action or any advancement of that claim against the state by Mr Palmer or any of his associated entities?

Mr C.J. BARNETT: When the agreement act for the development of the Sino Iron project was brought into Parliament, it was premature, and that has contributed to the problems between Mineralogy Pty Ltd, or Clive Palmer, and CITIC Pacific Mining. I can say that because much of the agreement act was negotiated during the time of the Court government. There has been ongoing litigation for a long time between Mineralogy and Clive Palmer and CITIC, and it is still going on. The state has basically been given the right to intervene in that situation to present the state's position on agreement acts, and it will do that in the interests of Western Australia. With respect to the Balmoral deposit, which is separate from Sino Iron, I am not aware of any further action taken by Clive Palmer. If he does take further action, we will act in the interests of the state. He is highly litigious and a very difficult person to deal with.

Mr B.S. WYATT: Was there not a time by which he would have had to pursue the state, and has that not expired, or have I misunderstood?

Mr C.J. BARNETT: Mr Wood may be able to add to that, but a number of actions are taking place around his operations or his position, so we are limited.

Mr S. Wood: The litigation was in relation to how the proposal was treated. The proposal was said to be a proposal, in effect. That proposal has now been approved subject to quite a few conditions. The claim from Mineralogy is that somehow the state owes compensation out of that initial illegal action, but nothing has been presented to the state by way of claim or by way of additional litigation, or anything of the sort. In terms of the time period, it arose out of arbitration. The arbitration is finished. The arbitration has not been appealed by either side. There are obiter comments in the arbitrator's decision in relation to compensation. We have nothing further from Mineralogy in pursuit of any issue of compensation and the proposal, as I say, has been approved subject to conditions, so that project can proceed under that approved proposal, subject to those conditions.

Mr M.H. TAYLOR: I refer to the heading "Delivery of Services" on page 103 at the top of the first table. Can the Premier outline what progress is being made by the department's overseas offices in promoting the Western Australian agricultural sector?

[5.30 pm]

Mr C.J. BARNETT: I will get the director general to add some comments about the appointment of people heading up the overseas offices. We are very well established, obviously, in the Agent General in London for all of Europe, and in Tokyo, Beijing and Shanghai—Japan and China. They are mature, well-functioning offices. The state government opened an office in Singapore a couple of years ago. That is going well. We are about to reopen a larger office in Jakarta. We are looking at expanding the operation in India, which particularly might revolve around a sister-state relationship, and in Africa. I think it is very important. The role of the offices is changing. A few years ago it was all about mining and petroleum. That is still important but increasingly inquiries and discussions relate to agriculture. The offices are being supplemented with specialist agricultural and tourism staff. While it does not diminish from north east Asia, there is more focus now on increasing in South-East Asia and southern Asia, and perhaps into Africa. I will get the director general to update on some appointments of key people.

Mr S. Wood: A new regional director for Indonesia commenced this week. He is receiving his induction over this week and next week through the Department of State Development. His name is Chris Barnes. The contract for the new regional director in India was signed off yesterday. That regional director is already in the department—Peter Baldwin—and he is receiving his induction as well.

Mr B.S. WYATT: Following on from that, has the new regional director for India been appointed?

Mr S. Wood: The contract was signed yesterday.

Mr B.S. WYATT: Is the director general able to tell us who that is?

The CHAIRMAN: He just said it.

Mr S. Wood: Peter Baldwin.

Mr B.S. WYATT: Sorry, I cannot hear half of what is being said.

The CHAIRMAN: Speak up, please, Mr Wood.

Mr W.J. JOHNSTON: I refer to page 107. Below the table are the headings "Financial Statements", "Income Statement" and "Expenses". The second dot point of specific issues is —

- the Bunbury to Albany Gas Pipeline has no expenditure profiled in 2014–15 and \$7 million in 2015–16.

I wonder whether the Premier could tell us what that \$7 million is for and when the people of Albany will see the construction of the Bunbury to Albany pipeline commence and/or finish.

Mr C.J. BARNETT: That is an important project for the state. It has been difficult to get it into a commercial place where it can proceed. It will provide much-needed gas for Albany. The current situation is not ideal for the longer term and will also bring on a number of gas customers and hopefully agricultural processing projects along its route. The state has determined the broad route. The money the member is referring to is money that is allocated for use in finalising the route. That may include some compensation going across private land, and that is for that purpose. That is continuing. Meanwhile, the government is in discussion with private sector proponents of that, and that is what we are working on. I am not going to try to put a date on the project. The state is quite determined to achieve the pipeline project.

Mr W.J. JOHNSTON: Thank you very much. I appreciate that the Premier does not want to put a date on the completion of the project. I understand that the Premier is looking at a physical pipeline. Has the department done a cost-benefit analysis against a virtual pipeline—for example, using trucked liquefied natural gas—or have other LNG alternatives been looked at as well?

Mr C.J. BARNETT: Trucked LNG is very common in the United States. It certainly is viable. It prospectively will be viable for some mine sites in the Pilbara and perhaps the Kimberley. To me, it does not meet the purpose of the Albany or the great southern pipeline, and that is to bring on economic development on a broader front. A permanent structure is the way to go. We are working on viability. We hope that any state contribution to it would be at a minimum, but we are not at that point yet.

Mr W.J. JOHNSTON: If I can clarify that answer: the Premier is saying that the department has not done an investigation of a virtual pipeline.

Mr C.J. BARNETT: No, because it is not the government's objective to have LNG by road.

Mr W.J. JOHNSTON: At the time of the last election, the Premier indicated that there would be a government-owned power station built in Albany. Is that still the government's intention?

Mr C.J. BARNETT: It was something that came forward from the energy sector. There are issues of limited power supplies into the southern part of the state. There is also the issue that there is significant wind farm investment in that area. Wind farms are nice things to have, but the supply of energy from them is unstable. Therefore, something like a baseload station is required to equalise the power flow and keep the system in stability. For two reasons I would imagine, if not maybe initially, if and when the pipeline is built, I would expect at some stage there would be a gas-fired power station built, if not in Albany itself, to the southern end of that pipeline; it will probably not be particularly large, maybe 20 to 40 megawatts, for both supply and stability reasons. We have a rapidly growing population there along the way.

Mr W.J. JOHNSTON: What is the Premier going to do? Is he going to disconnect the electric connector? At the moment the reason that no backup is needed to stabilise the system down there is that it is connected to the entire south west interconnected system so those wind farms are in fact backed up for stability by every other power station in the south west interconnected system.

Mr C.J. BARNETT: No. If the member knows anything about the history of the powerline to Kalgoorlie, the longer the powerline, the greater the loss of energy and the less the stability.

Mr W.J. JOHNSTON: Does the Premier realise that Collie is quite close to Albany?

Mr C.J. BARNETT: No, Collie is not close to Albany at all. The member needs to go for a drive and have a look!

Mr W.J. JOHNSTON: Is the Premier saying that because they will not continue to use the electric interconnector as the stabilisation, a separate gas-fired power station needs to be built to provide stability?

Mr C.J. BARNETT: A gas power station will produce electrons that are fed into the grid, but it will give stability at the southern end of the grid. That is important. There are power supply problems in Albany—go and ask people who live in Albany. I am no electrical engineer but the ability to stabilise a grid from a long way away is difficult. A small power station would help in grid stability and reliability.

Ms L. METTAM: I refer the Premier to the seventh dot point on page 104 in volume 1 of budget paper No 2. Can the Premier provide an update on the Western Australia–Korea Energy and Resources Forum recently held in Korea?

Mr C.J. BARNETT: This is an example of a good initiative that the Department of State Development has been involved with for a long time—that is, having seminars, forums and the like with our major trading partners. The member's question relates to the Western Australia–Korea Energy and Resources Forum, but there have also been forums held both here and in China with SASAC. I will ask the director general to tell me what SASAC is. I know what it does, but its correct name.

Mr S. Wood: A good question, Premier! I think it is called the state administration supervisory advisory council or something to that effect.

Mr C.J. BARNETT: Its work is on mining law and environmental approvals processes. There are a lot of those forums. This particular one has been going for a little while. Bill Marmion, as Minister for Mines and Petroleum, attended this year and spoke at it. I think it is maintaining a relationship particularly with Korea. Korea sometimes feels a little overwhelmed with its nearby neighbours in Japan and China and is always worrying that Korea will be forgotten. They are highly dependent or totally dependent on imported energy and totally dependent on imported food. I think we always make a special effort to make sure we keep those close ties with Korea. This is an example of one of the many relationships that exist. It is good, and members should go along and attend some time.

Mr B.S. WYATT: I refer to page 104 of budget paper No 2. My question follows some comments the Premier made relating to Anketell. Last year's budget had an assumed growth in volume of iron ore exports across the

forward estimates of 30 per cent for the budget year to the end of the forward estimates, based on DSD advice. What is the assumed growth in volume of iron ore exports in the budget across the forward estimates?

Mr C.J. BARNETT: I think the assumption is still showing some growth in volume, albeit at a much lower pace of growth. Western Australia now produces 30 per cent of the world's total iron ore production—not just trade, total production. Our volumes have gone up dramatically. It will probably be the case at the end of this decade that iron ore production would have doubled. I do not know off the top of my head what the rate of assumption is by Treasury, but I would imagine it is for growing volumes at a slower rate and certainly at a lesser price.

[5.40 pm]

Mr B.S. WYATT: The *Economic and Fiscal Outlook* makes the point that it is based on advice from the Department of State Development about volume assumptions. I thought I asked the department what that —

Mr C.J. BARNETT: The director general might be able to add more, but DSD has its advice. It gets information from China, from its offices overseas and the like. It is a potpourri of opinion.

Mr B.S. WYATT: I get all that, but there is an assumption around volume growth, I just want to know what that is.

Mr C.J. BARNETT: I will ask whether the director general has got any idea. I am sure he has got an idea about what that assumption is.

Mr S. Wood: I do not have the figure with me, sorry.

Mr M.H. TAYLOR: Regarding the last point on page 104 of the *Budget Statements*, can the Premier please outline progress of preparations for the 18th International LNG Conference—LNG18?

Mr C.J. BARNETT: Yes; I think it is quite a coup for Perth and for the Department of State Development, which has led this process. We hosted LNG12 in the late 1990s—1998 sounds about right to me. I was the resources minister at the time, so I had a fair bit to do with that. It is an enormous event with a lot of benefit for the local economy that is estimated at about \$48 million worth of expenditure in the state around that event. It is anticipated there will be 5 000 delegates from 70 countries, and 200 oil and gas companies represented. It is a good time to be having it in Western Australia. Obviously, the North West Shelf project is probably the most respected liquefied natural gas project in the world. Gorgon will be completed and producing by then. Wheatstone LNG will be pretty close to that point. We will have the first floating LNG in *Prelude* underway, and I expect construction will be underway on floating LNG for Browse Basin. Around that time, Western Australia will be by itself close to the number one LNG producer in the world. Australia as a whole will be number one, so there will no doubt be a lot of attention also on the coal seam gas projects and also, I guess, the shale gas deposits in the Kimberley region. It is a huge event, and despite low oil prices, members will observe the companies' lavish events, spectacular displays and the quality of speakers will be world leading. I think when LNG12 was here, it was clearly the biggest conference Western Australia had ever hosted—I think I am right in saying that—and LNG18 will be bigger.

The appropriation was recommended.