



# MINERALS COUNCIL OF AUSTRALIA

## SUBMISSION ON THE NATIONAL FREIGHT STRATEGY DISCUSSION PAPER

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APRIL 2011

**The Minerals Council of Australia** is the peak industry organisation representing Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. The MCA's strategic objective is to advocate public policy and operational practice for a world-class industry that is safe, profitable, innovative, and environmentally and socially responsible attuned to its communities' needs and expectations.

MCA member companies produce more than 85 per cent of Australia's annual minerals output, and will account for about 60 per cent of Australia's merchandise exports in the year to June 2009.

The minerals industry recognises that its past success and future prosperity is dependent on a sound and expanding national economy, an educated and cohesive society and a sustainable natural environment.

For this reason, the minerals sector supports public policy settings aimed at the following objectives:

- sustainable economic growth characterised by low inflation, low interest rates, fiscal prudence, and a skilled and productive workforce;
- a sound, fair and stable society, where effort is encouraged and rewarded and a helping hand extended to those in need; and
- a sustainable natural environment, reflecting national consistency and balance in policy settings.

The MCA recognises that the future of the Australian minerals industry is inseparable from the global pursuit of sustainable development. Through the integration of economic progress, responsible social development and effective environmental management, the industry is committed to contributing to the sustained growth and prosperity of current and future generations.

The Australian minerals industry is an industry of considerable size and economic and social significance, benefiting all Australians both directly and indirectly.

The mining and minerals processing sector:

- underpins vitally important supply and demand relationships with the Australian manufacturing, construction, banking and financial, process engineering, property and transport sectors;
- has contributed more than \$600 billion directly to Australia's wealth over the past 20 years;
- is in the top five producers of most of the world's key minerals commodities, including:
  - the world's leading producer of bauxite, alumina, rutile, ilmenite, zircon and tantalum;
  - the second largest producer of, uranium, lead, zinc and lithium;
  - the third largest producer of gold, diamonds, iron ore, manganese, nickel and niobium;
  - the fourth largest producer of black coal and silver; and
  - the fifth largest producer of aluminium, brown coal and copper.
- directly and indirectly employs some 320,000 Australians, many of whom are in sparsely populated, remote and regional Australia; and
- is responsible for significant infrastructure development – since 1967, the industry has built 26 towns, 12 ports and additional port bulk handling infrastructure at many existing ports, 25 airfields and more than 2,000 kilometres of railway line.

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## Executive Summary

The potential of the Australian minerals industry and the freight task it requires has long been underestimated. As such there have been systemic and opportunistic deficiencies in the minerals transportation sector which have held back the contribution of the minerals sector to the Australian economy.

Fragmented, overlapping and inconsistent regulations, a lack of clarity over the appropriate roles of different levels of government and a lack of accountability have exacerbated this situation and need to be resolved.

Australia and the Australian minerals industry stand in a unique historical position. There has been a structural lift in demand for minerals resources through the rapid industrialisation and urbanisation of China and India in particular. This is a significant opportunity. Yet Australia is not alone in its abundance of resources. There is thus an immediate window of opportunity to maintain or grow market share against aggressive competitors. Sustained effort is required to realise Australia's resource potential. The freight system is a critical component.

In this context, the development of a National Land Freight Strategy (NLFS), complementing the National Ports Strategy, is welcome. The minerals industry sees the merit in what NLFS describes as its "novel" proposal for a cross-modal freight policy.

A dedicated approach to freight is essential to realising economic potential. This means focussing on the supply chain as a whole, planning for growth, and creating the regulatory environment to maximise private sector involvement.

This is also a crucial part of the productivity challenge that Australia as a whole faces, as there is mounting evidence that after the gains of recent decades productivity has stagnated.

The current economic regulatory framework is adversarial, cumbersome and complex, leading to inefficient and sub-optimal outcomes. Regulatory systems fail to adequately take into account the consequences of regulatory decisions on the market. In some instances, regulations fail to be justified in the material consideration of "market failure" and that government intervention, *prima facie*, will be demonstrably effective in remedying market failure.

Australia's multi-user, multi-owner export supply chains in particular are characterised by:

- lack of timely investment in rail and port system capacity;
- poorly coordinated and disparate interests in the utilisation of existing and planned capacity;
- suboptimal alignment of track, train and port system capacity and economic interests;
- regulatory induced delays to new investment and delays to the introduction of new technologies and work practices; and
- ineffectual contractual arrangements that result in the misalignment of system capacity with performance, leading to poor accountability for performance, no differentiation in pricing, and inequitable sharing of risk and reward.

Access regimes for private infrastructure have run their course. While there will always be scope for some regulation to ensure there is competition in contestable markets, the specific Part IIIA provisions governing third party access were born of an economic time and designed for a specific purpose now largely passed. With a few exceptions the tasks envisaged by the legislators have been completed. Instead, there is a real danger that policy will fall victim to "mission creep" – increased regulatory intervention driven by the institutions charged with its administration.

The access regime in its present form represents a potential “chill” on investment. The uncertainty created by the ability of a competitor to seek access to a developer’s infrastructure in the future hinders decisions made today.

Work commissioned by the Minerals Council of Australia (MCA) for its Vision 2020 project has highlighted the importance of all the components of the supply chain in 21 minerals regions around the country. That work has shown the huge increase in effort required just for Australia to maintain its market share in major commodities and the gaps and impediments to achieving that growth.

The minerals industry has proven its willingness to invest, with total investment approved and under consideration as of October 2010 of \$45.2 billion. This is only the beginning of the task with a further \$131.2 billion of potential projects on the books. And while the expansion of production has been large over the past decade, growth rates will have to increase in most commodities in order for Australia to maintain market share by 2020. Realising this will require a concerted response from Commonwealth and State government to together embrace reforms:

- Long-term whole of supply chain forecasts, planning, corridor preservation and supporting infrastructure provision.
  - While the focus of the National Freight Strategy is on transport infrastructure, this planning must be cognisant of crucial related issues of energy, water, telecommunications and social infrastructure (such as health, education, community services).
- Market arrangements and pricing arrangement that reflect commercial risk and reward such as:
  - adoption of the MCA Strategic Principles for Multi-user, Multi-Owner Infrastructure; namely
    - the primacy of the market in the provision and operation of export infrastructure;
    - where government intervention is only justified in cases of market failure and the demonstrable capacity to remedy;
    - minimum effective, nationally consistent regulation implemented in a timely fashion;
    - whole of system coordinated planning; and
    - commercial arrangements that deliver capacity and efficiency, and provide certainty of access to export infrastructure.
- Access regimes that encourage private sector investment and minimise the need for regulatory intervention.
  - At a Commonwealth level, further reform of Part IIIA access regimes, namely that:
    - competition be promoted in a market that is substantial and of national significance, other than the market in which the service is being provided, before the service is declared;
    - the declared service be truly essential to competition in the market in which competition will be promoted, where ‘essential’ means indispensable as a practical matter for participation in that market;
    - the production process exemption prohibit or strictly limit access where doing so would disrupt a vertically integrated production process; and
    - the decision-maker be satisfied that granting access is in the public interest and in so doing, that the decision-maker takes account of the costs and risk of regulatory error.
- Environmental and development approvals regimes that take a broader supply chain/regional approach
  - The MCA supports an overhaul of the EPBC Act as part of streamlining and simplifying national project approval processes. The Commonwealth should have a strategic role based

on full implementation of bilateral agreements for assessment and approvals processes, endorsement of regional planning instruments that meet EPBC requirements and strategic investment and planning support through, for example, monitoring and auditing compliance.

- The National Ports Strategy proposal to adopt a **regional** approach is a good guide for the NLFS and should be extended.

The NLFS should aim for greater consistency and a willingness to develop complementary and co-operative Commonwealth and State regulations rather than duplicating approaches. A national regulator or expansion of the role of the Australian Competition and Consumer Commission is not required, rather Federal and State roles, responsibilities and practices should be clarified and reformed.

Any additional rules for disclosure of long-term planning should be “light-handed”. Bulk commodity terminals are different to container terminals in operation, particular as they tend to operate under contractual arrangements with a limited number of land-side suppliers. As the MCA has argued in its previous submission on the National Ports Strategy, the NLFS should not seek to interfere with these arrangements within the terminals themselves.

Road use pricing reform, flagged in the NLFS is an example of where these principles may be pursued. There is much work to be done to implement what is a dramatic overhaul of road pricing policy. To this end the MCA remains concerned about two elements:

- first, while the approach commissioned by the Council of Australian Governments has sought a wide range of views on the charging mechanisms it has restricted debate about funding models. For the minerals sectors, local government is a key player in the provision of infrastructure. A market-model that denies the providers of infrastructure direct access to revenue may be flawed; and
- second, market models should avoid manipulation that seeks to have large users pay a disproportional cost for infrastructure, such as heavier load roads and bridges.

This submission outlines the minerals industry's views on the scope of the development and freight task before dealing with key policy issues in more depth.

**Minerals Council of Australia**  
**April, 2011**

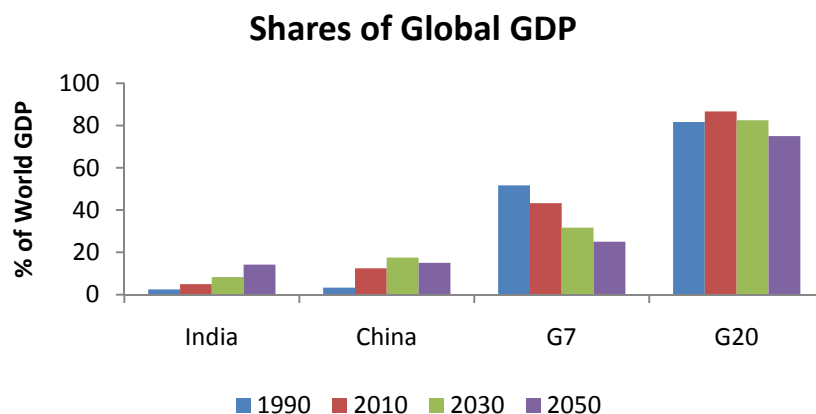
## Economic Outlook

Australia requires a bolder and better integrated economic reform agenda if it is to convert current strong demand for mineral commodities into lasting prosperity. Policy settings need to take full account of the mining industry's globalised nature, where companies have a range of investment and production options and where Australia has no monopoly on resource endowment.

Shaping the long-term outlook for commodities is the steady shift in the weight of global economic activity towards emerging Asia and away from the North Atlantic economies. The re-emergence of China and India has already altered the balance of global growth and is expected to further transform the pattern of global output over coming decades (Chart 1).

Growth in per capita incomes in China, and to a lesser extent India, continues to be the key driver of growth in commodity demand. This process of 'catch-up' with developed economies has been the major source of growth in demand for Australia's mineral exports in the last decade and it seems clear that this process has a long way to run. China and India remain at early stages of economic development. For example, their standards of living relative to that of the developed world are currently lower than was Japan's in the early 1950s relative to the developed world average at the time.

Chart 1:



Sources: IMF, Treasury

The twin drivers of industrialisation and urbanisation are at the heart of the steady rebalancing of global economic power and of growing demand for mineral commodities. China remains very much at the epicentre of this process.

In 1990, China accounted for just 2 per cent of global industrial production, whereas today the figure is about 15 per cent. China is already the world's largest consumer of iron ore, coal, aluminium, copper and nickel. The dramatic rise in China's share of global steel production highlights the shift in the world economy. Compared with only 15 per cent a decade ago, China now accounts for almost 50 per cent of global output of steel. Already, half of the world's new building construction occurs in China with estimates suggesting between 20,000 and 50,000 new skyscrapers will be constructed in coming decades.<sup>1</sup>

<sup>1</sup> Elizabeth C. Economy, 'The Game Changer', *Foreign Affairs*, November/December, 2010, pp. 142-152.

With rapid economic development comes rising urban population shares. In 1990, just 25 per cent of China's population lived in cities; today that figure has reached almost 45 per cent and may reach 70 per cent by 2030. As such, around 400 million Chinese will be urbanised over the next two decades. The result will be more than 220 cities with populations of more than one million people (Europe has about 35 such cities today).

The long-term implications for Australia of these deep trends in industrialisation and urbanisation throughout China and emerging Asia are profound. Australia has a comparative advantage in many mineral commodities, with resource reserves (based on indicative life) high by global standards (Table 1).

**Table 1: Australian mineral resources – select indicators**

Australian mineral resources 2009 (select)				
	<i>Share of world production</i>	<i>Indicative life years<sup>i</sup></i>	<i>Share of world EDR</i>	<i>World ranking<sup>ii</sup></i>
Black coal	6%	100	7%	5
Iron ore	17%	70	17%	2
Gold	9%	33	12%	2
Copper	5%	91	13%	2
Nickel	12%	145	35%	1
Zinc	11%	45	25%	1
Uranium	16%	125 <sup>j</sup>	46%	1

Source: Geoscience Australia

<sup>i</sup> Indicative life is calculated as the stock of the accessible economic demonstrated resource (EDR) relative to annual production for that commodity.

<sup>ii</sup> The world ranking (2008) is based on the EDR in Australia compared to that in other countries.

Yet as Table 1 also demonstrates, there is no shortage of minerals resources in the world and countries such as China and India can look to other countries for their future supply. Australian minerals producers confront an ever more competitive marketplace. The growing challenge from aggressive competitors in South-east Asia (e.g. Indonesia), South America (e.g. Brazil and Chile) and, increasingly, Northern Asia (Mongolia) and Africa has already been demonstrated in the last period of rapid expansion.

In the period since 2002, Australia lost market share in key commodities such as coal, nickel, bauxite, copper, gold and uranium. While Australia's global production share of iron ore kept pace over this period, Australia faces significant competition from other iron ore producers in coming years, especially from Brazil, Canada, India and a number of African countries. To illustrate, the known high-grade iron resources in Western Australia are in the order of one billion tones at 64 per cent iron content. In contrast, Companhia Vale do Rio Doce (Vale) in Brazil has immense resources of more than 17 billion tones at 66.5 per cent iron in the Carajas region in the Amazon basin alone.<sup>2</sup>

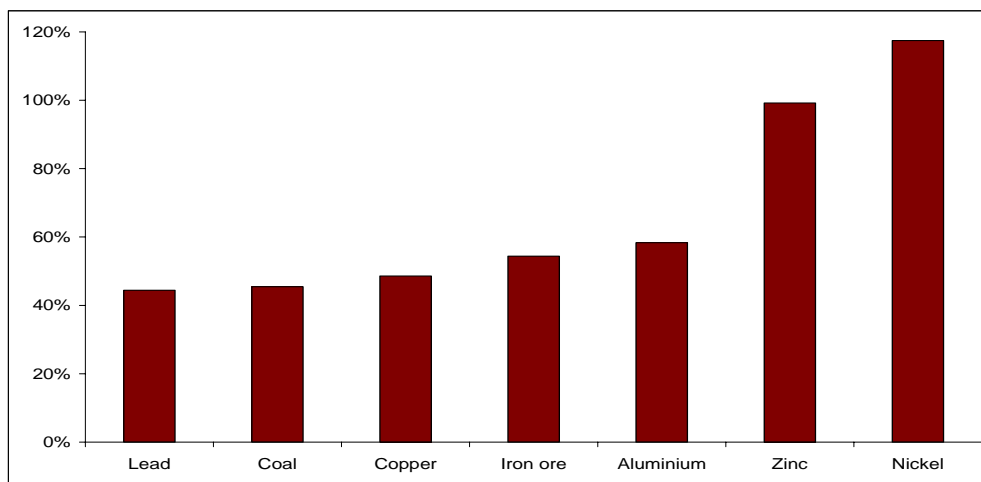
Faced with a highly competitive environment in a globalised industry, comparative advantage in mineral resources does equate automatically with competitive strength. For Australia to make the most of growing global demand for mineral commodities, policy settings must be geared to further growth and investment in mine capacity.

<sup>2</sup> CSIRO Minerals Iron Ore Processing Program Manager Ralph Holmes, quoted in "CSIRO Minerals, Iron Ore: Billion dollar bounty through processing alternative ores", *Process* (newsletter), February 2006.



In work for the MCA, Access Economics has estimated supply scenarios based on projected global demand by 2020 (Chart 2). These indicate that in order to meet forecast 2020 global demand levels world coal production will need to grow by 45 per cent, iron ore by 54 per cent and aluminium by 58 per cent above their 2006 production levels. In order for Australia to merely maintain its present global market share in these products in 2020, minerals and energy production will have to match these levels of growth.

**Chart 2: Industry scale increase required from 2013 to 2020 to maintain market share**



Source: Access Economics

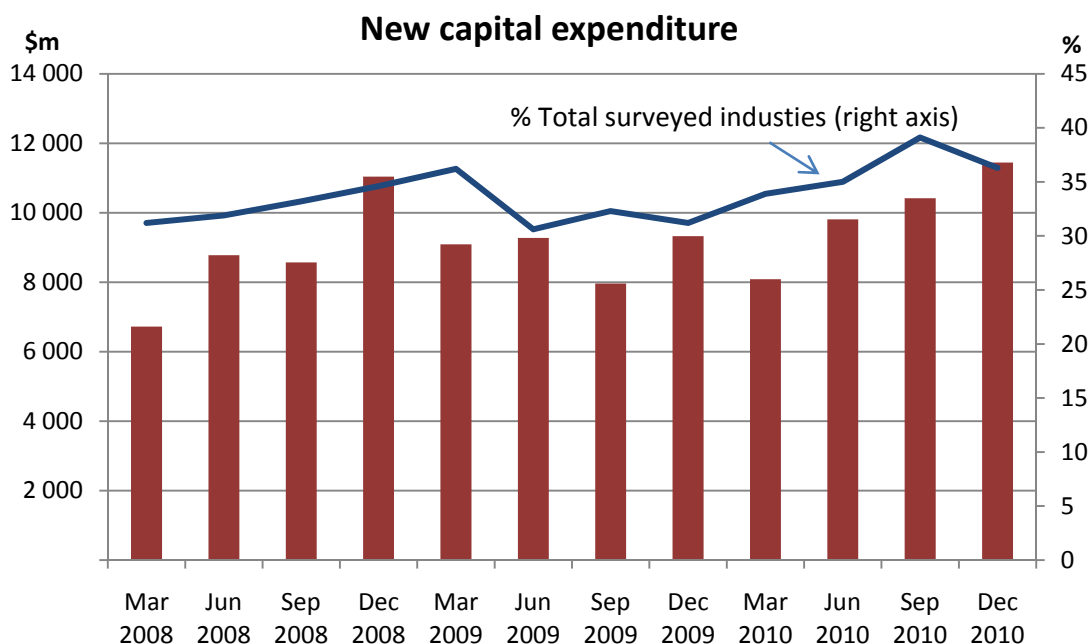
Put differently, just to maintain market share, production of iron ore and coal would have to increase three times as much by 2020 as it did between 2002 and 2007. This highlights one of the central challenges Australia faces – that is, overcoming capacity constraints that hobbled the industry’s supply response in the previous period of rapid demand expansion are not revisited in coming years.

In summary, there are good grounds for optimism about growth prospects in Asia, and hence for long-term demand for the minerals and energy commodities that Australia produces. But Australia lost market share in most mineral commodities in the last decade and its resource endowment offers no guarantee of market share growth in the future. Added to this is the fact that with growing export opportunities come increased exposure to cyclical fluctuations of major Asian economies, with the potential for significant volatility in commodity prices. The benefits of “Mining Boom Mark II” to Australia are by no means assured.

## Investment

Mining investment has continued to grow strongly in Australia. At \$11.4 billion in the December quarter 2010, new capital expenditure in mining (including oil and gas) increased 10 per cent on the September quarter and was 23 per cent higher than a year earlier (Chart 3). Mining investment accounted for 36 per cent of new capital expenditure across all survey industries in the quarter.

Chart 3:



Source: Australian Bureau of Statistics (mining includes petroleum and gas)

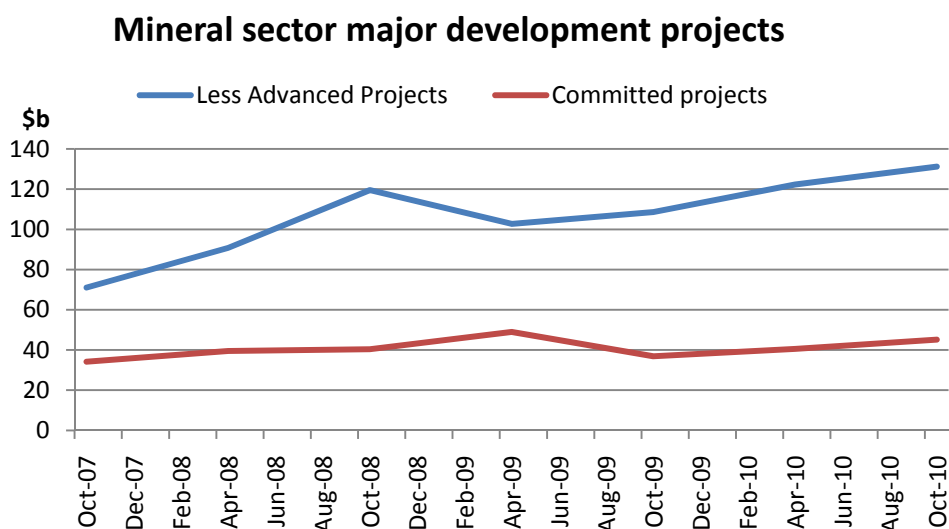
This continues the trend of historically high levels of investment in the mining sector. Between the March quarter of 2005 and the December quarter of 2010, mining industry capital expenditure rose 385 per cent and accounted for more than half of the increase in total new private capital expenditure. The positive investment outlook is further highlighted by the ABS CAPEX survey which reported the fourth estimate of mining investment plans for 2010-11 at \$55 billion, 57 per cent higher than the figure for 2009-10.

The Australian Bureau of Agricultural and Resource Economics and Sciences reports that in the minerals sector specifically, advanced projects (those either committed or under construction) totalled \$45.2 billion in the six months to October 2010, up from \$40.6 billion reported in April and an increase of 32 per cent since October 2007. Iron ore projects worth \$17.3 billion make up the largest share of advanced minerals projects. Advanced coal projects were worth \$5.3 billion.

Less advanced or more uncertain minerals projects have a total potential capital expenditure of \$131.2 billion. The October 2010 result sets a new record for potential investment which has been rising steadily since April 2009 and has almost doubled since October 2007 (Chart 4).

In the six months to October 2010, ABARES reported the highest number of projects completed since 2007. Twenty-five major projects were completed: five energy projects, 10 mineral mining projects, nine infrastructure projects and one mineral processing plant. Their combined capital cost was \$8.2 billion. The 38 projects (both advanced and less advanced) new to the list since April 2010 include 17 coal projects, five gold projects, four base metal projects, four iron ore projects and two uranium projects.

Chart 4:



Source: ABARES

### The Productivity Challenge

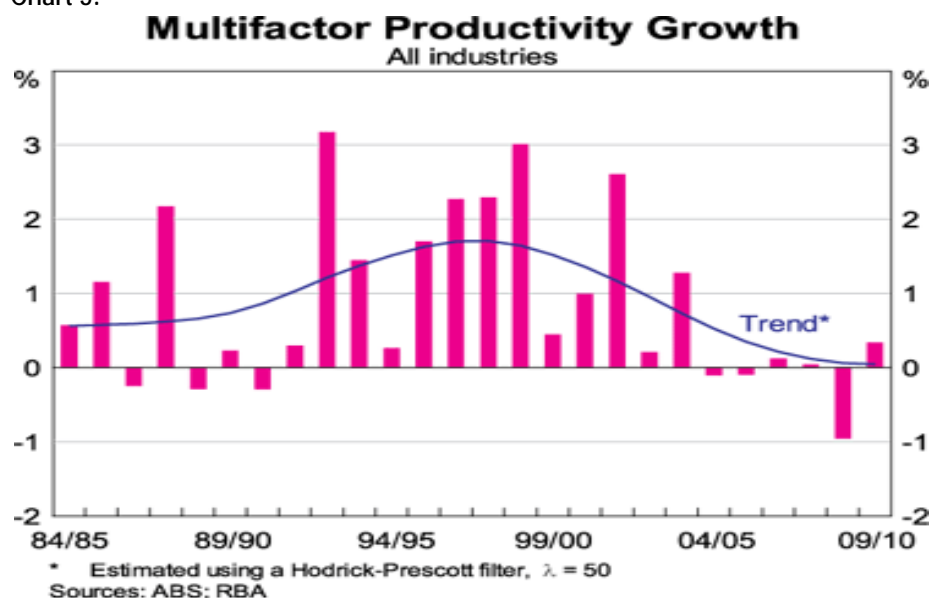
A new era of productivity-enhancing reform is needed to provide a solid basis for future growth in living standards in Australia. Productivity growth contributes to increased living standards as it increases the outputs of goods and services produced per unit of physical input. Historically, it has been the major determinant of future income growth.

While historically high terms of trade have boosted Australia’s national income over the last decade, this has masked a serious deterioration in national productivity growth compared with the 1990s. There is also evidence of a decline in Australia’s productivity performance compared with other key OECD nations, including against the United States – the traditional productivity “frontier” benchmark.

Labour productivity (real GDP per hour worked) has grown by only 1.4 per cent in the 2000s, down from 2.1 per cent in the 1990s. More rigorous measures that take account of economic cycles and capital inputs show an even sharper deterioration in Australia’s productivity performance. Multifactor productivity (MFP) – output per unit of labour and capital combined – is considered a better reflection of overall efficiency, one that reflects technological changes as well as a range of non-technological factors such as industry and firm-level adjustment, economies of scale and cyclical effects. On this basis, Australia’s multifactor productivity growth has been weak since the early 2000s, so that “almost all growth in output has been accounted for growth in labour and capital inputs rather than by improving the way those inputs are used” (Chart 5).<sup>3</sup>

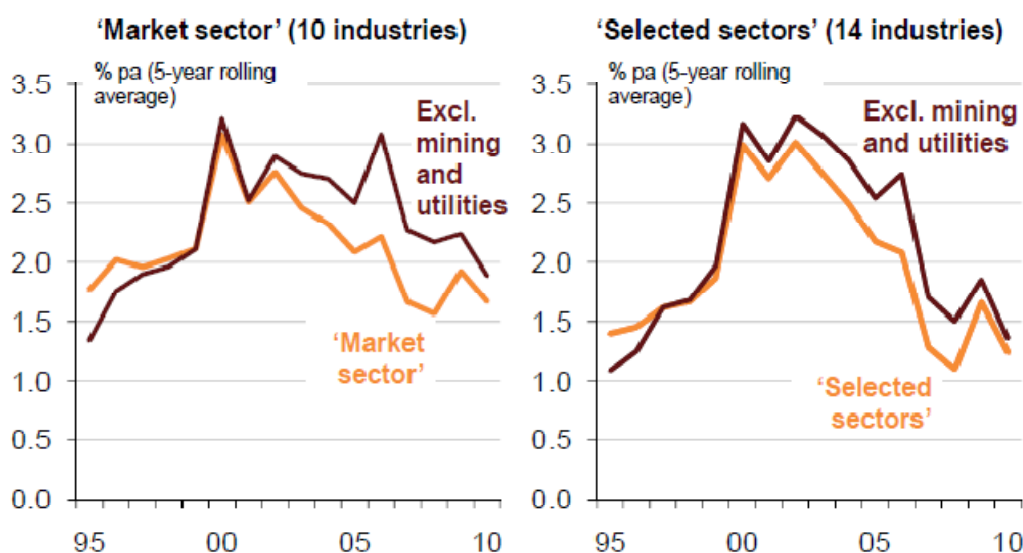
<sup>3</sup> Reserve Bank Assistant Governor Phillip Lowe, “Forecasting in an Uncertain World”, Address to Australian Business Economists Annual Forecasting Dinner, 8 December 2010.

Chart 5:



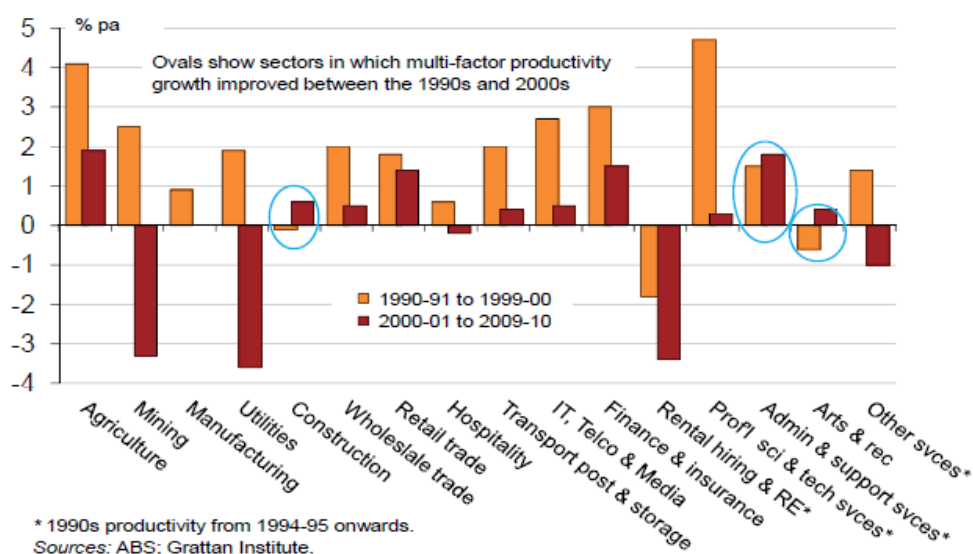
In explaining the slowdown in productivity, some have highlighted the role of temporary factors such as drought or large investments in mining and infrastructure yet to flow through to higher output. Mining has also faced a structural change to its operations – increasingly reserves are lower grades often at greater depths. These have played a part in the fall of the ‘headline’ productivity rate. More recent research, however, has found that the productivity slowdown is broad-based and persistent, even if certain sectors with one-off and measurement issues are excluded (Chart 6).

Chart 6: Labour productivity growth excluding the mining and utilities sectors



Source: Grattan Institute. Note: “Selected sectors” are agriculture, forestry & fishing; mining; manufacturing; electricity, gas, water and waste services; construction; wholesale trade; retail trade; accommodation & food services; transport, postal & warehousing; information, media and telecommunications; financial & insurance services; and arts & recreation services. “Market sector” comprises these sectors plus rental, hiring & real estate services; professional, scientific & technical services; administrative & support services.

Chart 7: Multi-factor productivity growth by sector, 1990s & 2000s



The potential benefits of productivity-enhancing reform are far-reaching. The Productivity Commission has found that if Australia could reclaim the 2 per cent annual average growth recorded in the 1990s in a sustainable way, by 2050 GDP would be some \$400 billion larger than otherwise, with per capita incomes 17 per cent higher (worth nearly \$19,000 per person in today's dollars).

**Important candidates for further economy-wide structural reform include improving the efficiency of energy networks, transport infrastructure, water markets, health and education services.** All are areas of unfinished business from the “reform-era”. There is evidence, for example, that poor productivity growth in key parts of the non-traded services sector has contributed to structurally higher service sector inflation in the Australian economy. According to research by UBS, average inflation in the last decade has averaged 2.9 per cent compared with 2.3 per cent in the 1990s – in large part due to the ratcheting up in average service sector inflation from 2.2 per cent to 3.7 per cent.

The MCA has continued to advocate a new wave of structural reform that focuses on expanding the supply-side responsiveness of the economy. Critical in this regard are:

- enabling, rather than prescriptive, regulatory frameworks;
- effective capacity building – human, technological and institutional – where government and industry discharge their distinctive (but complementary) roles; and
- policies that deliver an optimal dividend – financial, environmental and social – from the minerals sector's activities to the benefit of current and future generations.

Regulatory reform has a critical role as part of structural reform designed to reduce business costs and improve productivity, including in relation to key infrastructural inputs to production. For example: energy and water regulations and market, occupational health and safety reform, skills development and infrastructure.

## The Infrastructure Challenge

Despite progress in some areas, the infrastructure capacity problems which hobbled the supply response of the minerals industry in the mid to late 2000s remain a threat.

The provision of necessary infrastructure – economic and social – is essential to maximising Australia's advantages from strong demand for its mineral commodities. It can increase productivity both directly, by increasing the volume and quality of the nation's capital stock, and indirectly, promoting a more efficient allocation of activity across regions. In high-growth mining regions, increased public and private investment is needed to enhance infrastructure capacity given industry requirements, prevailing rates of population growth and decades of inadequate investment.

Given scarce public funds, the essential policy imperative has been articulated well by Treasury:

*This is about more than simply building new infrastructure. It is about investing in the right kinds of infrastructure and using existing infrastructure more efficiently. This requires appropriate regulation and pricing, private investment, and contestable and competitive infrastructure markets.<sup>4</sup>*

The minerals industry is prepared to play its part. If current policy settings continue, however, inadequate economic and social infrastructure will again stop Australia reaping the benefits of growing mineral commodity demand. In its Vision 2020 study released in 2009, the MCA examined capacity constraints in 21 minerals growth regions in all States and Territories of Australia. The period of surging global demand prior to the global economic crisis highlighted a range of infrastructure gaps and deficiencies as transport bottlenecks, poor regulation and inadequate community services combined to limit the supply response of the minerals industry to increased export opportunities.

Among the impediments to growth identified were substandard port, road, rail and airport infrastructure, inadequate energy supply networks, insufficient water supply and poor telecommunications infrastructure. Major deficiencies in social and community infrastructure in areas such as health, housing, education and child care services also limited both the industry supply response and the potential benefits of growth to local communities.

Progress on addressing the capacity constraints identified in the Vision 2020 Project remains uneven (see Box A). Large-scale transport infrastructure for bulk commodities (iron ore and coal) is improving and, provided regulatory burdens do not hamper developments, is on course to meet demand through to the middle of the decade. Developments in other areas are behind potential. Investment in energy capacity is deficient, water reforms remain uneven and social infrastructure spending is insufficient. Meeting energy needs will be a critical challenge to be addressed. In short, capacity constraints are likely to re-emerge quickly unless more is done now. Australia again risks losing international market share in key mineral commodities as it did from 2002 to 2007.

The MCA recognises the actions taken by the Australian Government to expand and improve capital investment in infrastructure in recent years. The last two Federal Budgets have substantially increased infrastructure spending. With the establishment of Infrastructure Australia, efforts have been made to improve the coordination and planning of national infrastructure projects. In addition, targeted policy initiatives such as the National Ports Strategy offer the prospect of more efficient and effective planning and development of key infrastructure assets.

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<sup>4</sup> Commonwealth of Australia, *Treasury Incoming Government Brief – Red Book – part 1*, pp 5-6

**Box A: Elements of the Vision 2020 Project and a brief description of progress. Appendix 1 provides more detail.**

### **Ports**

*Vision:* Expansion of port facilities in Darwin, Queensland, Victoria, SA's Spencer Gulf and WA's South West, Mid West and Kimberley. Consolidation of port reforms in NSW and WA.

#### *Developments:*

- Newcastle's reforms are completed, but there remains a bias towards existing players subsidising new entrants.
- The consolidation of multiple ports authorities in WA is yet to emerge.
- Infrastructure Australia and the National Transport Commission have developed a national port strategy which recommends the reform of port authorities, and nationally consistent planning approval and environment laws for significant ports to give confidence to investors and users along the supply chain. This will be considered by COAG in February 2011.
- COAG should not regulate planning of terminals as these are commercial arrangements.

### **Rail**

*Vision:* On the East coast, reform to align interests of producers, terminals and shipping under commercial arrangements, rather than monopolistic government ownership structures which feed capacity constraints. On the West coast, action to address regulatory delays and duplication and remove the threat of access regime legislation which is constraining private investment.

#### *Developments:*

- In Queensland, rail investment is returning but the industry remains watchful in the wake of the privatisation and public float of QR National. Northern "missing link" (Goonyella to Abbot Point) underway and Southern Missing link (Surat basin) being planned. Recent floods will affect the investment schedule, adding to the case for simplifying approvals and other processes to ensure longer term projects can proceed on private finance with confidence.
- The Australian Rail Track Corporation's \$1.2 billion expansion of the Hunter Valley supply chain (with \$584 million from Commonwealth) is underway.
- Final agreements with government and customers for Mid-West rail developments have been delayed but are expected in mid-2011.
- The Australian Competition Tribunal's practical resolution of four Pilbara railways access applications will relieve some of the chill on investment, but laws still need to be reformed. New rail lines are planned.
- Transport ministers are developing a national rail safety regulator based in Adelaide.
- Though focused on urban and intercity freight projects, the 2010-11 Budget's \$1 billion capital equity injection into the ARTC will assist in resource-related projects.
- Infrastructure Australia's latest report noted the need for governments to identify and protect future transport corridors (though this, again, has a distinctly urban focus).

### **Roads**

*Vision:* Steady funding nationwide with Northern Queensland and North-west WA the priority.

#### *Developments:*

- Existing Auslink projects (major roads) in place, but regional roads not guaranteed.

### **Airports**

*Vision:* The upgrade of regional airports, including the Perth hub, Darwin, Gladstone and Proserpine.

#### *Developments:*

- Perth's master plan has been approved by the Federal Government and work on new terminals has commenced.

- IA classed road works around Perth as having “real potential” but they have not yet received formal federal assistance.
- Darwin master plan approved in December 2010.

### **Energy**

*Vision:* An ambitious plan to boost generation and distribution in regional areas; to address generation capacity issues in coastal regions; and to ensure renewable and alternative energy sources can access networks.

#### *Developments:*

- Electricity and gas were brought under one national regulator - Australian Energy Regulator – and one operator - Australian Energy Markets Operator. AMEO has identified the need to enhance generation, transmission and distribution network by 2020 to meet 30-70 per cent growth in demand (\$8.3 billion in transmission investment and between \$35 and \$120 billion in generation costs).
- A planning function was also created for long term development of market opportunities.
- Ministerial Council of Energy is looking at developing “clusters” of renewable projects that can access the grid.
- Grid electricity capacity in the Galilee and Surat basins and the Mt Isa region is a critical requirement. Feasibility study of 900MW Galilee Basin generation plant underway. Consolidation of the North-West Interconnected System (Pilbara and Mid-West grids) should be progressed with urgency, together with transmission projects in south-west of WA.

### **Social Infrastructure**

*Vision:* Urgent attention to meet the Crown’s responsibility to provide regional citizens with services comparable to urban Australians. Priority issues are the re-engineering of health and education services in remote WA and NT and addressing the need for social infrastructure for families in Queensland and the Pilbara.

#### *Developments:*

- Some improvements in Pilbara housing; Port Hedland Regional Resource Centre redevelopment; upgrades to hospitals including Alice Springs, Darwin and cancer centres in North Queensland towns.
- Indigenous opportunities through MCA/Government Memorandum of Understanding being developed.

### **Water**

*Vision:* Greater certainty in water markets to provide an investment framework that will attract additional capital for infrastructure such as water pipeline projects in SA and North Queensland; recycling and re-use projects across the country; and desalination in SA’s Eyre Peninsula. A region-wide integrated water strategy is required in WA.

#### *Developments:*

- Pace of reform is slow. Release of water infrastructure charges rule in December 2010 will assist the process. Onerous additional reporting requirements planned by Bureau of Meteorology will be an unfair burden for companies whose main business is not the trading of water.
- Tendency to “carve out” interest groups so that the costs and prices in the market are borne disproportionately by the mining industry.
- Some infrastructure works underway (e.g. Gladstone-Fitzroy Water Pipeline - \$345 million) or reaching final approval (e.g. Connors River Dam and pipelines – \$820 million); desalination plants and pipeline in Bunbury, Goldfields (WA) and Eyre Peninsula (SA).

### **Telecommunications**

*Vision:* Competition in broadband and mobile telecommunications in regional Australia to improve service and reduce costs.

#### *Developments:*

- Part of the broader National Broadband Network. Companies building infrastructure in partnership with telecommunications providers giving access for broader community as well as modernising operations.



The MCA acknowledges that the need for fiscal consolidation in coming years will constrain the growth of public infrastructure investment in Australia. It has long argued that regulatory reform holds the key to meeting critical economic infrastructure demands – both to increase the flow of private capital and to ensure optimal use of existing infrastructure. Despite some improvements, the current regulatory framework governing Australia's export infrastructure – both multi-user, multi-owner infrastructure and closely-integrated infrastructure that is privately-owned and operated – remains cumbersome, complex and adversarial, leading to inefficient outcomes in investment and operation.

Underinvestment in social infrastructure can act as an equally critical capacity constraint on the minerals sector's development and expansion. Over time, an expectation has arisen within government that the costs of upgrading social infrastructure in regional and remote communities can be borne by the minerals industry. This is despite the significant contribution made by minerals operations to direct and indirect employment in these communities, to wider economic activity and to governments directly through taxes and royalties.

## The Freight Policy Challenge

The National Land Freight Strategy presents a succinct summary of the policy challenge facing Australia namely:

*Productivity and competitiveness, which are vital to meet the challenges of the future, are inhibited by constraints to freight.*

*These constraints include a lack of planning for freight activities, a lack of clarity about the capacity for growth, and poor interoperability across infrastructure networks, all of which lead to congestion, low reliability and unexploited opportunities for investment.*

*The identification of a tightly defined national land freight network, including sea ports and airports, would start to address thematic issues such as best use of infrastructure; integration of freight and land use planning; capacity for growth, and responsiveness of infrastructure to demand. It would also facilitate scenario testing and forecasting.*

The MCA endorses this approach. The need to provide the best possible environment for private investment decisions should drive any freight strategy. Recognition within that strategy of the tremendous growth potential of the commodity freight task in particular is essential. The MCA has argued this proposition in its submission in the National Ports Strategy.

The recognition within the NLFS discussion paper, and the NPS, of the differences between bulk commodity supply chains on the one hand and container and general cargo ports on the other is also sound and should continue in the development of this policy.

The NLFS discussion paper talks about the importance of considering the routes, precincts and terminals that serve major cities. Those three components are also important in the bulk commodity area though the treatment may differ. For terminals, for example, these are other wholly private concerns or multi-user, multi-owner arrangements where policy should be geared to providing open, transparent and commercially driven access, supply and pricing arrangements. With the right competitive framework in place, the challenge is for less rather than more government involvement.

Similarly, there is no need to automatically centralise regulation, under a national regulator, as posited in the NLFS discussion paper. There is scope for existing arms of government to rationalise and harmonise their actions, rather than assuming a federal regulator would be able to address all issues by itself.

The MCA submits that the right framework should provide the following:

- for multi-user/multi-owner infrastructure, a policy that promotes the primacy of the market in the provision and operation of export infrastructure, with minimum effective regulation, whole-of supply chain planning and underpinned by commercial arrangements.
- for privately-owned and operated infrastructure, greater certainty for infrastructure providers on controlling access to their assets except where it genuinely essential to competition; and
- for all bulk commodity ports, an overhaul of the approvals system, particularly a shift to regional, outcomes based assessment and approval under streamlined environmental arrangements.

These issues are now dealt with in more detail.

## Multi-user/Multi-owner infrastructure

Australia's multi-user, multi-owner export infrastructure chains – track, trains and ports – have been, historically, and potentially will be in the years ahead, a supply capacity constraint limiting Australia's ability to fully capture the opportunities of the strongest global minerals market growth in a generation. These export systems have struggled at times to efficiently and effectively meet the increasing global demand for mineral products incurring significant demurrage and lost export opportunities. The inefficiencies inherent in these multi-user supply chains can also create delays and a disincentive to investment in future supply chain capacity. Much investment over the past five years, and some reform in key corridors, has sought to overcome these long-standing problems. But there remains a danger that these constraints could return within the next five years. There is, therefore, a need for a significant improvement in the current approach to regulation in order to facilitate a necessary increase in public and private investment in capacity.

The current economic regulatory framework is adversarial, cumbersome and complex, leading to inefficient and sub-optimal outcomes. Regulatory systems fail to adequately take into account the consequential impact of regulatory decisions on the market.

Australia's multi-user, multi-owner export supply chains have been characterised by:

- lack of timely investment in rail and port system capacity;
- poorly coordinated and disparate interests in the utilisation of existing and planning for future capacity;
- suboptimal alignment of track, train and port system capacity and economic interests;
- regulatory induced delays to new investment and delays to the introduction of new technologies and work practices; and
- ineffectual contractual arrangements that result in the misalignment system capacity with performance, leading to poor accountability for performance, no differentiation in pricing, and inequitable sharing of risk and reward.

These circumstances have given rise to a lack of certainty for Australia's mineral exporters of reliable access to export infrastructure capacity, which not only caused large and immediate losses to Australia's export earnings, but also risks stifling and constraining on-going investment in future upstream mining infrastructure.

The primary and immediate reform imperative is to address the systemic failures in the current regulatory system which is inhibiting investment. Private capital is not, nor potentially, the limiting factor in building capacity and operating it efficiently and effectively.

The regulatory system should allow for robust commercial frameworks underpinned by contracts that align performance accountability with system capacity.

The MCA has proposed a strategic framework of reforms centred on market-based solutions:

- the primacy of the market in the provision and operation of export infrastructure;
- government intervention only in cases of market failure and the demonstrable capacity to remedy;
- Minimum effective, nationally consistent regulation implemented in a timely fashion;
- Whole of system coordinated planning; and
- Commercial arrangements that deliver capacity and efficiency, and provide certainty of access to export infrastructure.

These principles are outline below:

## Strategic Framework – Principles

### Box B

#### Primacy of the market and minimum effective regulation

- Industry ownership and commercial arrangements in preference to public sector ownership and government regulation of operations.
- Industry sector provision and operation of export infrastructure – with explicit industry involvement allowed where there is the opportunity for privatisation or private investment.
- Operational issues relating to export infrastructure access and pricing are best left to the market through commercial negotiation between infrastructure providers and users and given effect through commercial contractual arrangements.
- Regulation in the context of export infrastructure provision be confined to investment facilitation and other non supply chain functions such as project and environmental approvals.
- Market intervention should be based on a proper cost/benefit analysis with all the costs of regulation fully accounted for.
- If regulation is required, access protocols provide certainty of access rights for existing users and provide the environment that gives appropriate incentives for infrastructure expansions necessary to create access for new projects in a timely manner.

#### Whole of system master planning (in supply chains where appropriate)

- Coordinated system planning for facilitation of alignment of capacity and performance with economic interests, identifying responsibilities and interests of all parties in multi-user, multi-access public-private infrastructure. This planning to be given effect through contractual arrangements between infrastructure providers and users.
- Evaluation and identification of the most efficient investment options (from loadpoints to port to system rules, contingent upon anti-competitive considerations) for increasing chain capacity from a cost and risk perspective and guide/inform capital investments in new infrastructure.

#### Commercial arrangements (including commercial drivers in regulation)

Commercial arrangements are a matter best dealt with by individual companies in order to reflect their own commercial requirements.

A framework for commercial contracts may include:

- clear and binding obligations on both parties;
- performance based arrangements;
- flexibility to respond to market and operational conditions; and
- resolution of disputes to be resolved in the marketplace and/or through common law (ultimately to the determination of the courts), in preference to a regulator.

#### Public sector involvement in infrastructure

- Government business enterprises (GBE's) as owners/operators of public infrastructure be parties to master planning and adopt commercial arrangements (outlined above) in the planning and operation of infrastructure.
- Government owned entities provide adequate and timely investment in expanding and improving efficiency of system capacity (including technological innovation), in coordination with the rest of the export chain.
- Government to provide alternative rail corridors and port sites to promote facilities-based competition.
- Ensure competitive neutrality between transport modes – transparent and equitable arrangements for access.

## Private Sector Investment – Access Regimes

Private sector investment hinges on the likelihood of a return. Access regimes have been designed to seek to balance broader competition concerns with that private sector requirement. In recent years, there has been a tendency to look to the Commonwealth trade practices arrangements rather than State alternatives, such as haulage agreements. Part IIIA of the Trade Practices Act - the access regime - has run its course in its present form.

While there will always be scope for some regulation to ensure competition in contestable markets, the specific Part IIIA provisions governing third party access were born of an economic time and designed for a specific purpose now largely passed. The Part IIIA statutes were an attempt to reflect the intentions of the Hilmer Report which recommended the introduction of a system of statutory access rights in Australia, which, *inter alia*, assiduously recommended the criteria under which one business should be required by law to make its private facilities available to another business. They were designed for specific circumstances where the privatisation of government enterprises would manifestly reduce competition. With a few exceptions the tasks envisaged by the legislators have been completed. Instead, there is a real danger that policy will fall victim to “mission creep” – increased regulatory intervention driven by the institutions charged with its administration.

The economic investment challenge facing Australia is large. As outlined earlier, during the last growth phase, from 2002 to 2007 Australia lost market share in five major commodities despite strong growth in production. Capacity constraints were the main cause of that missed opportunity. In its October 2010 assessment of minerals sector projects, the Australian Bureau of Agricultural and Resource Economics listed \$40 billion of advanced projects and \$101 billion other potential projects on the books (out of a total of \$238 billion including oil and gas). Realising these projects and ensuring Australia grows its market share over the coming decade will depend on the confidence of investors.

The access regime in its present form is a potential “chill” on investment. The uncertainty created by the ability of a competitor to seek access to a developer’s infrastructure in the future hinders decisions made today. As the recently retired Chair of BHP Billiton, Don Argus AO, said in October 2009, “*mandated third party access deters investment by under rewarding infrastructure owners for the risk they endure*”. The upside to the investor is curtailed and the down side remains the same because access to infrastructure is only sought in good times and because the access seeker may decide to renew or not renew the access contract, he said, and then concluded:

*Since regulators in Australia typically use the ‘building block approach’ based on net present value and the weighted average cost of capital, one could see a scenario where investors will defer investment and wait for an opportunity with a higher expected return. That means infrastructure investment will be delayed.*

*Mandated access to infrastructure may help to achieve economies of scale where costs have already been sunk into infrastructure and there is plenty of spare capacity. However, in the resources sector, where expansion and growth remain a priority, mandated access works against our ability to achieve much needed scale in export oriented bulk commodities in particular.<sup>5</sup>*

The Productivity Commission has noted that third party access and the resulting benefits to service users were only possible “*if there is continuing investment in the essential infrastructure services themselves*”. While there were costs from monopoly pricing, “*such behaviour cannot threaten the continued availability of the services concerned*”.

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<sup>5</sup> Chairman of BHP Billiton, Don Argus AO, Melbourne Mining Club, October 22, 2009, p14.

*This asymmetry in potential outcomes highlights the priority that access regulation must give to ensuring that there are appropriate incentives for efficient investment.<sup>6</sup>*

The mining industry is a capital intensive, globally mobile, technologically intensive, competitive industry. It is characterised by often very large exploration outlays, longer term capital investment (including in infrastructure) and volatile market conditions.

Market risk can be high. Sovereign risk can be a major additional concern. Indeed, actual and perceived sovereign risk has increased in Australia as a result of recent decisions by governments at all levels.

For these reasons, *investment confidence* is a requisite feature of the mining industry's investment environment. As a major contributor to the nation's economic growth and budgetary stability, the mining industry needs Governments to understand these concerns and foster predictable policy climates for investment: Sovereign risk is "king".

Recent changes to the provisions (*The Trade Practices Amendment (Infrastructure Access) Act, 2010*) tinkers at the edges rather than addressing fundamental issues. Under the guise of expediting third party access approvals, it limited the rights of owners of economic infrastructure. The 20-year access 'holiday' – granting an exemption from access applications after an assessment at the beginning of the project - may give some re-assurance to investors but the scope for regulatory review during the 20 year period is still wide. It remains open for the National Competition Council to revisit matters if it adjudges there is "material" change in arrangements. Material change is not defined. All projects have variations during construction and implementation and thus the security offered by these proposed provisions may be illusory. The process of applying, making submissions and meeting with the NCC would add at least 12 months bureaucratic delay. Also, the NCC is likely to adopt a "compromise" approach to assessing applications – where the regulator will weigh up *potential* claims and thus a developer will not be able to lock in operational exclusivity to their own investment. The changes may indeed create further disincentives to investment by entrenching the requirement to establish access arrangements on private infrastructure.

### **Broader Reforms**

The MCA contends there is a strong case that the access regimes, which were created essentially to deal with the market power of privatised government monopolies, have run its course.

Export industries already work in a highly competitive global environment and need to attract investment. The intention of the Trade Practices Act is to foster competition, but in a global market can have no influence. The application of domestic competition paradigm on a globally competitive export market is questionable.

The 2005 Prime Ministerial Taskforce on Export Infrastructure called on the then Federal Government to consider an "efficiency override": a mechanism that would allow the NCC to limit the scope of access on the basis of efficiency (that is, the cost to the owner and disruption to its operation). At present, such assessments are undertaken by either the Australian Competition Tribunal or the Australian Competition and Consumer Commission *after* access has been granted and there is an arbitrated dispute over the charges for access.

"Efficiency" was added to the Objects clause of Part IIIA as a result of these recommendations, but not directly into the relevant sections of the Act. A genuine efficiency override would require the NCC take account of the cost of any access declaration during its initial deliberations.

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<sup>6</sup> Productivity Commission, Review of the National Access Regime, 2001, p xix.

The MCA recommends that reforms should be made to Part IIIA to more accurately reflect the intentions of the Hilmer Report in recommending the introduction of a system of statutory access rights in Australia which, *inter alia*, assiduously recommended the criteria under which one business should be required by law to make its private facilities available to another business, including a competitor.

The Act should be amended to ensure:

- competition be promoted in a market that is substantial and of national significance, other than the market in which the service is being provided, before the service is declared;
- the declared service be truly essential to competition in the market in which competition will be promoted, where 'essential' means indispensable as a practical matter for participation in that market;
- the production process exemption prohibit or strictly limit access where doing so would disrupt a vertically integrated production process; and
- the decision-maker be satisfied that granting access is in the public interest and in so doing, that the decision-maker takes account of the costs and risk of regulatory error.

These policy principles should be realised in amendments to Part IIIA access regime. Such amendments would reduce the risk that a declaration results in outcomes that are costly and inefficient without a material increase in competition that would justify the regulatory intervention. Accordingly the MCA recommends that amendments be formulated such that Part IIIA:

- better reflects the substantial and nationally significant economic benefits that come from an intervention into privately-held infrastructure. The existing definition – known as criterion (a): that access or increased access to the service would promote competition in at least one market – should be amended to require that any improved competition would be both likely, substantial and occur in an important market.

At present, even small or speculative improvements in competition are sufficient to justify declaration of a facility; even improvement in small or unimportant markets is sufficient to justify declaration of a facility.

- reflects the need for access to be essential rather than just convenient to a competitor. The existing definition – known as criterion (b): that it would be uneconomical for anyone to develop another facility to provide the service - should be amended to strictly limit the circumstances when a competitor may seek access to an infrastructure facility such that the facility is essential to competition or could not be developed in the absence of a declaration.

At present third party access need not be "essential" for competition for a service to be declared.

- provides for the operation of modern, highly integrated and efficient export infrastructure chains. Such a "production process exemption" should be an explicit threshold criterion for declaration, taking into account closely integrated infrastructure/facilities.

The scope of the production process exemption has been narrowed since its introduction so that most large infrastructure facilities are a risk of declaration, even in circumstances where they form part of what is plainly an integrated production process.

- provides scope for rigorous testing of the grounds for interventions. This would involve amending existing rules – known as criterion (f): that access or increased access to the service would not be contrary to the public interest - to require that declaration is demonstrably in the public interest and the explicit application and independent scrutiny of a public interest test.

The public interest test, which requires a balanced overall assessment of the benefits and costs of declaration, effectively plays no role in the decision about whether to impose mandatory third party access.

## Project Approvals

Duplication and inefficiencies between Federal and State project approvals processes impose major costs on industry. Variability in the content, administration and enforcement of project approvals and environmental protection processes carries large costs and is a major constraint on investment in the expansion and effective operation of the minerals sector.

The respective roles and responsibilities must be rationalised under the NPLS to reflect the shared stake of both States and the Commonwealth in governance, but restore the focus on outcomes rather than processes or bureaucratic patch.

Direct costs arising under the Environment Protection and Biodiversity Conservation (EPBC) Act alone, for example, have been estimated at up to \$820 million over the last decade, with little demonstrable improvement in environmental outcomes. Costs from the failure to appropriately align approval processes across different levels of government are considerably higher.

In particular, the Commonwealth's role should be strategic. As part of this the MCA supports an overhaul of the EPBC Act as part of streamlining and simplifying national project approval processes. The Commonwealth should have a strategic role based on full implementation of bilateral agreements for assessment and approvals processes, endorsement of regional planning instruments that meet EPBC requirements and strategic investment and planning support through, for example, monitoring and auditing compliance.

The National Ports Strategy's proposal to adopt a **regional** approach is good guide for the NPLS and should be extended.

Regulations impacting on exploration, mining and mineral processing involve a multitude of controls at all three tiers of government. These regulations vary from jurisdiction to jurisdiction.

Approvals processes relating to the EPBC Act 1999 is a key area of overlapping regulation. While bilateral agreements between Federal and State governments can avoid this duplication, only a limited number of agreements for approvals have been developed. The Productivity Commission has urged Australian governments to give high priority to completing all assessment and approvals bilateral agreements.

The EPBC Act is seen as simply "another layer" of process-driven regulation, without providing demonstrable additional value in the protection of biodiversity above that which is already afforded through other jurisdictional requirements.

Inconsistency between Federal and State regulatory assessment and approvals processes promotes inefficiencies and unnecessary duplication. Compounding these inefficiencies, the regulatory system faces potential capacity and capability constraints to address the growing complexities associated with climate change and land and water use planning.



In 2009, both the Hawke Review of the EPBC Act, and a study by researchers at the Australian National University (ANU) <sup>7</sup>, noted significant duplication and inefficiencies remaining in project approvals processes in Australia. The ANU study estimated a direct cost to all industries of up to \$820 million over the life of the EPBC Act, with little demonstrable improvement in environmental outcomes. Costs from the failure to appropriately align approval processes across different levels of government are considerably higher. The Productivity Commission<sup>1</sup> has also concluded that the cost of project delays due to duplication and inefficiencies in regulatory systems “could total several billion dollars each year”<sup>8</sup>.

The Hawke Review presented an important blueprint toward more streamlined, nationally-consistent, environmentally effective and economically efficient environmental regulation. The MCA supports the Review's key recommendation that the EPBC Act be rewritten as it is too repetitive, unnecessarily complex and, in some areas, overly prescriptive. The MCA notes, however, that without the requisite political will and appropriate resourcing a new Act risks replicating current inefficient processes.

The MCA has consistently highlighted the need for a more efficient model for project approvals, with a more appropriate role for the Commonwealth. This would refocus the Commonwealth's administration of the Act to strategic guidance within which the States would assess individual projects. This would see:

- the establishment and full implementation of bilateral agreements for assessment and approvals processes;
- establishment and endorsement of regional planning instruments that meet EPBC [or the new] Act protection requirements under bilateral approvals, where other jurisdictions subsequently review and regulate projects; and
- Commonwealth activities being focussed more appropriately on strategic investment and planning support and assessing outcomes through monitoring and auditing compliance.

Both Commonwealth and State Governments have affirmed through COAG their commitment to the principles of effective, efficient and seamless environmental assessment and approvals process. The Hawke Report provides a mechanism for delivering on this commitment however progress on the implementation of the review recommendations has not been made.

The MCA recommends that the National Land Freight Strategy recommend:

- an overhaul the Environment Protection and Biodiversity Conservation Act to improve the efficiency and effectiveness of project approvals;
- the effective resourcing of COAG commitments to a comprehensive regulatory reform process, particularly focused on improving red tape reduction and duplication associated with project approval processes and related monitoring and reporting requirements, in line with the findings of the Productivity Commission Review;
- prompt to expansion of bilateral agreements [assessments and approvals] between the Commonwealth and States and Territories to reduce compliance costs and delays in approval processes.
- Cooperation between Commonwealth, State and Territory Governments to re-align the EPBC Act in order to fill existing gaps in strategic natural resource management planning which currently exist, provide businesses with longer term certainty about areas for investment (with reduced risk), reduce regulatory overlap, and provide a more consistent and appropriate service delivery from the Commonwealth in biodiversity protection.

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<sup>7</sup> A. Macintosh, *The EPBC Survey Project: Preliminary Data Report*, Australian National University, Australian Centre for Environmental Law, Canberra, 2009.

<sup>8</sup> Productivity Commission, *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*, Canberra 2009.



## Potential Network

State minerals and energy bodies will make further contributions on specific State level issues that the National Land Freight Strategy should address. By way of general comment, the Indicative Map of a National Land Freight Network (NFLS Discussion Paper pages 6 and 53) represents a good start at trying to provide a framework.

Drawing on the work of Infrastructure Australia the MCA endorses the development of:

- Abbot Point in Queensland;
- Hastings Victoria;
- Oakajee in Western Australia;
- Darwin port.

The indicative map overlooks the significant development of freight rail lines which are likely to be built over the coming five years, namely:

- Surat basin to Gladstone
- Galilee basin to Gladstone, the ports precinct of Hay Point, Dalrymple Bay and Dudgeon Point and to Abbot Point; and
- the longer term potential of Mt Isa to Tennant Creek.

The Darwin Port is a priority for Infrastructure Australia, but over the longer term may become a capacity constraint which will require significant re-design or the development of an alternative.

In addition the economic and social benefits of a more direct route from Kalgoorlie to the Pilbara (that is, not via Perth) should be considered.

## Other Issues

### Road Pricing Reform

The NFLS discussion paper raises reform of road pricing as an issue which should be addressed. There are several processes already examining these issues, the Council of Australian Government's Road Reform Plan as well as the work conducted under the Australian Future Tax System review, the "Henry Review".

This work is complex, but is worthy of discussion.

In general, the industry sees merit in a shift to user pays approaches provided they are underpinned by market mechanisms, such as contracts.

There also needs to be a demonstrable return, that is, that money is spent on upgrading and maintaining the roads where the fee is collected. The initial ruling by COAG to limit return of funds to State Governments rather than local governments where these bodies are the relevant agencies may serve to distort any proposal and should be reconsidered.

Any exclusion from a pricing regime should be limited. It is counterproductive if only a handful of industries actually participate. The regime must recognise the social dimension of roads which means it is incumbent on government to make a contribution.

There may also be a danger that policy makers overlook the mining sector because most of the bulk cargo goes on rail. A large volume of mining product is carried on roads. In addition, that traffic is not just one way. A mining complex is in many ways like a regional manufacturing centre, with significant inbound commercial freight requirements.

Appendix 1: Progress on Infrastructure Projects

Ports: Vision	Developments
<p>Queensland</p> <ul style="list-style-type: none"> <li>• Fourth deepwater port.</li> <li>• Expansion of existing facilities to increase capacity from 150Mtpa in 2008 to potential 300Mtpa by 2020</li> <li>• Accelerated development of Abbot Point State Development area.</li> </ul>	<ul style="list-style-type: none"> <li>• A preliminary master plan for a new Port at Dudgeon Point (5km from Hay Point and Dalrymple Bay complex south of Mackay) has commenced with a potential of between 120Mtpa and 200 Mtpa Project worth \$5billion. First stages by 2016.</li> <li>• Dalrymple Bay has completed an expansion from 48Mt to 85Mtpa. Feasibility studies have been conducted on further expansion to 153Mtpa (subject to water infrastructure availability).</li> <li>• Hay Point expansion (BHPB) of 10Mtpa to 55Mtpa under consideration.</li> <li>• Xstrata has EIS for new 35Mtpa, \$1 billion port at Balaclava Island (near Port Alma 50 km north of Gladstone) for its Wandoan Project.</li> <li>• EIS under development for Wiggins Island expansions, three phases to 90Mtpa (\$3.6 billion) underway (also at Gladstone).</li> <li>• The Abbot Point multi-user facility (near Bowen) is completing an \$818 million expansion from 25Mt to 50Mtpa. In principle agreements with Hancock Prospecting and BHPB to underwrite a further \$3.6 billion expansion to 80Mtpa and eventually 170Mtpa.</li> <li>• Shoalwater bay project not going ahead after rebuff from Federal environmental authorities. Abbot Point now likely destination.</li> <li>•</li> </ul> <p><i>Conclusion – on track to 2020 target.</i></p>
<p>NSW</p> <ul style="list-style-type: none"> <li>• Hunter Valley expansion to 250Mtpa.</li> <li>• Consolidation of Port Kembla to 18Mtpa.</li> </ul>	<ul style="list-style-type: none"> <li>• Port of Newcastle agreement will see increase in Port Waratah Port Services terminal from 90Mtpa, to 113Mt and then 133 Mtpa by 2012. The first existing Kooragang Island terminal also being refurbished allowing for additional 11Mtpa capacity.</li> <li>• Newcastle Infrastructure Group has completed a 33Mtpa with a further 23 Mtpa announced in August 2010.</li> <li>• A fourth terminal in Newcastle up for bid depending on demand.</li> <li>• Feasibility study of upgrade of Port Kembla (outer harbour) under way.</li> </ul> <p><i>Conclusion - considerable expansion to 2015, but more required after that to meet 2020 target.</i></p>
<p>Victoria</p> <ul style="list-style-type: none"> <li>• Hastings on Westernport Bay.</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusion in future Infrastructure Australia project lists. Development of export products will be key to the viability of expansion.</li> </ul>
<p>South Australia</p> <ul style="list-style-type: none"> <li>• Port Bonython/Whyalla Expansion – Upper Spencer Gulf.</li> <li>• Eyre Peninsula Port -lower Spencer Gulf.</li> </ul>	<ul style="list-style-type: none"> <li>• Port Bonython on IA future expansion list. Difference of opinion over whether facility should be a Port Bonython or an expanded Whyalla. Scope for both in longer term depending on commercial demands.</li> <li>• Expansion of Port Lincoln (Centrex) approved by Government but examination of a dedicated port further north at Sheep Hill still</li> </ul>

	<p>underway with SA Government giving it major project facilitation status.</p> <p><i>Conclusion – constraints unresolved.</i></p>
<p>Western Australia</p> <ul style="list-style-type: none"> <li>Mid-West – additional port capacity from 12 Mt to 25Mtpa at Geraldton and 80Mtpa at Oakajee from 5 operations.</li> </ul>	<ul style="list-style-type: none"> <li>Oakajee Port granted provisional funding after IA recommendation - some unresolved planning and commercial contracts issues have delayed final approvals until mid 2011. 45Mtpa initially lifting to 100Mtpa eventually. Total development \$4.4 billion.</li> <li>Geraldton port limits lifted. MCA Visions has scope for both Oakajee and Geraldton operations.</li> </ul> <p><i>Conclusion – Oakajee on target despite delays, expansion of Geraldton unlikely at this stage.</i></p>
<ul style="list-style-type: none"> <li>Pilbara – Expanded iron ore facilities at existing sites; two new iron ore ports, expanded facilities for minerals concentrates, supply bases for offshore developments. Potential iron ore supply of from 500Mt to 600 Mtpa.</li> </ul>	<ul style="list-style-type: none"> <li>BHPBIO port and rail expansion through Port Hedland (Rapid Growth Project 5) lifting capacity by 45Mtpa to 300 Mtpa.</li> <li>Utah Point multi-user 18 million tonne completed September 2010.</li> <li>North-West Iron Ore Alliance feasibility study completed for 50Mtpa (\$2.1 billion) South West Creek facility with Port Hedland’s inner harbour. .</li> <li>EIS underway for Fortescue/MCC/Aquila for new 40Mtpa port at Port Anketell (Karratha). RTIO Cape Lambert (Karratha) expansion – to 50Mtpa by 2013 and 130Mtpa by 2015 (total \$3.4 billion) underway. Feasibility study of further expansion of 50Mtpa underway.</li> <li>Dampier Port (RTIO) expansion of extra 10Mtpa to 230Mtpa to be completed by 2012.</li> </ul> <p><i>Conclusion – on schedule.</i></p>
<ul style="list-style-type: none"> <li>South West</li> </ul>	<ul style="list-style-type: none"> <li>IA has identified a \$756 million port/rail expansion as at Bunbury as possible project of national significance.</li> <li>Port of Fremantle channel deepening under way.</li> </ul>
<p>Northern Territory</p> <ul style="list-style-type: none"> <li>Darwin’s North West Arm.</li> </ul>	<ul style="list-style-type: none"> <li>Granted provisional Federal funding after IA recommendation.</li> <li>Unresolved planning issues surrounding mix of materials that will go through the port.</li> <li>Feasibility for 5-6 Mtpa iron ore facility under examination by Darwin Ports</li> <li>MCA NT has advocated early commencement to avoid skills shortages created by nearby Inpex LNG project in the next two years.</li> <li>Alternative port locations, such as Roper River, south east of Darwin, yet to be considered in detail.</li> </ul> <p><i>Conclusion – still suffering delays. Long term issues about corporatisation and commercially-driven expansions still being debated.</i></p>
<p><b>Rail:</b></p> <p><b>Vision</b></p>	<p><b>Developments</b></p>
<p>Queensland</p> <ul style="list-style-type: none"> <li>Goonyella Abbot Point Expansion (northern missing link, Jilalan rail yards.</li> </ul>	<ul style="list-style-type: none"> <li>Critical to the development of the Bowen Basin, funding (\$1.1 billion is now approved and construction underway).</li> </ul>

<ul style="list-style-type: none"> <li>Great Northern Rail line expansion by 165 per cent by 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Upgrade program from 2005 continuing but further investment required.</li> </ul>
<ul style="list-style-type: none"> <li>Galilee Basin rail line.</li> </ul>	<ul style="list-style-type: none"> <li>Hancock Coal-Alpa Coal awaiting second approval on multi-user line to Abbot Point after court action required re-assessment. Some existing segments of line will require upgrading to heavier haulage capacity. (Water and electricity transmission upgrades also needed).</li> <li></li> </ul>
<ul style="list-style-type: none"> <li>Surat rail line.</li> </ul>	<ul style="list-style-type: none"> <li>EIS approved by State Government in December 2010 for joint venture by QR, Xstrata, ATEC 42 Mtpa.</li> </ul> <p><i>Conclusion – rail capacity potentially keeping pace with Vision 2020 projections to middle of the decade.</i></p>
<p>NSW</p> <ul style="list-style-type: none"> <li>Hunter Valley, increase capacity to 200Mtpa.</li> <li>Port Kembla, increase in freight capacity separate to passenger network.</li> </ul>	<ul style="list-style-type: none"> <li>ARTC spending \$1.2 billion duplicating line and expanding signalling (with \$584 million from Federal Government) raising capacity to 200Mtpa.</li> <li>Third rail being considered for part of Hunter Valley line near Maitland.</li> <li>Revised Hunter Valley Access Undertaking being finalised.</li> <li>On southern rail, Maldon to Dombarton duplication feasibility study approved.</li> </ul> <p><i>Conclusion – expansions keeping pace with port developments but more may be required later in the decade.</i></p>
<p>Victoria</p> <ul style="list-style-type: none"> <li>Gippsland – create dedicated freightlink to export port.</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure Australia lists Port of Hastings and direct rail line (removing the need for Gippsland rail to transit via Caulfield in Melbourne) in its future projects listing.</li> </ul>
<p>Western Australia</p> <ul style="list-style-type: none"> <li>Mid-west, expansion from 25Mtpa to meet 105Mtpa potential.</li> </ul>	<ul style="list-style-type: none"> <li>Final approvals and investment decisions expected mid-2011.</li> </ul>
<ul style="list-style-type: none"> <li>Pilbara rail line to match 600Mtpa production potential.</li> </ul>	<ul style="list-style-type: none"> <li>BHP Rapid Growth Project 5 (\$6.7 billion including port) with potential total capacity of 300Mtpa.</li> <li>Hancock has secured environmental approvals for its new \$7.2 billion Roy Hill Iron mine to Port Hedland (total project worth \$7.2 billion).</li> <li>Fortescue examining rail capacity to Port Anketell (Solomons project).</li> </ul>
<p>Northern Territory</p> <ul style="list-style-type: none"> <li>New loading sidings on Adelaide to Darwin line.</li> <li>Possible construction of Tennant Creek to Wonarah line – with potential extension to Mt Isa.</li> </ul>	<ul style="list-style-type: none"> <li>Territory 2030 Plan discusses need for increased rail networks to increase viability of mines, as well as potential Mt Isa link.</li> </ul> <p><i>Conclusion – greater commitment needed from governments to realise potential.</i></p>