

IRON ORE PROCESSING (MINERALOGY PTY. LTD.) AGREEMENT AMENDMENT BILL 2008

First Reading

Bill read a first time, on motion by **Mr C.J. Barnett (Minister for State Development)**.

Explanatory memorandum presented by the minister.

Second Reading

MR C.J. BARNETT (Cottesloe — Minister for State Development) [11.47 am]: I move —

That the bill be now read a second time.

The purpose of this bill is to ratify a variation agreement to vary the state agreement ratified by the Iron Ore Processing (Mineralogy Pty Ltd) Agreement Act 2002. The variation agreement was made on 14 November 2008 between the parties to the state agreement, namely: the state of the first part; Mineralogy Pty Ltd—described in the state agreement as the company—of the second part; and Austeel Pty Ltd, Balmoral Iron Pty Ltd, Anshan Resources Pty Ltd—formerly Brunei Steel Pty Ltd—Korean Steel Pty Ltd, Sino Iron Pty Ltd—formerly Bellswater Pty Ltd—and International Minerals Pty Ltd—together described in the state agreement as co-proponents—of the third part.

The main purpose of the variation agreement is to vary the state agreement to allow for iron ore concentrates to be produced as part of a project—including as a separate project—under the state agreement for sale within Australia or for export to overseas purchasers. This is not currently allowed. Currently the projects contemplated by the state agreement require all iron ore concentrates produced as part of them—apart from a minor tonnage for use as heavy media in the coal washing industry—to be processed into pellets, direct reduced iron-hot briquetted iron, or steel. Other variations, which I will refer to later in greater detail, include amending area A, being the area earmarked for development under the state agreement in the short to medium term, and providing for the relinquishment by Mineralogy of land to the state to facilitate the future development of multi-user port facilities at Cape Preston outside area A.

The state has committed to sponsoring this bill and to endeavouring to secure its passage as an act by 31 December 2008 or such later date as may be agreed with Mineralogy and its co-proponents. To put the variation agreement in context, I will provide some background on the state agreement as well as the Sino Iron project, the first project that has now been approved under the state agreement.

State agreement: Mineralogy holds mining tenure over the Fortescue magnetite deposit located at Cape Preston, which is situated approximately 80 kilometres south west of Karratha. The deposit at Fortescue is a banded iron formation, which contains iron ore in the form of magnetite, with extensive indicated and inferred resources in excess of four billion tonnes, grading from 15 per cent to 32 per cent iron. Magnetite ore can be concentrated through grinding and magnetic separation to produce a high grade concentrate. Area A under the state agreement was earmarked for development in the short to medium term while area B1 and area B2 were seen by Mineralogy as having long-term exploration and development potential.

The state agreement was entered into by the state to assist in developing in Western Australia value-added projects—pellets, direct reduced iron or hot briquetted iron, and steel—based on that magnetite deposit. The projects contemplated by the state agreement are pellets, project 1; direct reduced iron or hot briquetted iron, project 2; steel, project 3; or a combination of projects of the types of project 1, project 2 and/or project 3. The state agreement obliged Mineralogy, either alone or with a co-proponent, to develop one processing project and provides for projects to be undertaken by Mineralogy alone or by Mineralogy together with one or more of its co-proponents. Originally, the co-proponents were all subsidiaries of Mineralogy. Now Sino Iron Pty Ltd and Korean Steel Pty Ltd are subsidiaries of CITIC Pacific Ltd, a Hong Kong listed company, while International Minerals Pty Ltd is a subsidiary of Australasian Resources Ltd, an Australian listed company.

Sino Iron project: In May this year, the undertaking by Mineralogy and Sino Iron as project proponents of the Sino Iron project was approved under the state agreement. The Sino Iron project is a project for the production of six million tonnes per annum of pellets of iron ore mined from Mineralogy's mining leases 08/24 and 08/25 within area A and the export of those pellets through port facilities to be constructed at Cape Preston. First production of pellets is expected in 2010. The Sino Iron project is currently the largest planned magnetite project in Australia. Mineralogy and Sino Iron have advised that it will provide employment for approximately 2 500 people during the construction phase and approximately 500 permanent jobs. In addition to the six million tonnes per annum of iron ore concentrates to be produced for processing into pellets, Sino Iron also wishes to produce, as part of the Sino Iron project, up to an additional 36 million tonnes per annum of iron ore concentrates for export sale. The state agreement needs to be amended to allow such production.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

The Sino Iron project discharges Mineralogy's obligation to develop a processing project under the state agreement. It may, but is not obliged to, bring forward proposals for further processing projects. Mineralogy claims that Western Australia is a high-cost location for pelletising and that the world market has changed since the state agreement was entered into in late 2001. The current demand in China, the market for Mineralogy's ore, is for iron ore concentrates rather than for pellets. The state recognises this shift in demand and is accordingly prepared to allow the production, as part of projects under the state agreement, including as a separate project, of iron ore concentrates for sale. It is hoped that by allowing the export of iron ore concentrates and the development of Mineralogy's magnetite deposit, further processing projects will be forthcoming under the state agreement.

Benefits of the variation agreement: The ratification of this bill by Parliament will lead to a number of benefits for the state, Mineralogy and its co-proponents, which I will now briefly outline.

Benefits for the state: Mineralogy will, as set out in clause 5 of the variation agreement, relinquish land to the state for the future development of separate multi-user port facilities at Cape Preston and outside area A, as to be defined in the state agreement. This will occur immediately upon the proposed variations to the state agreement becoming effective. Within three years after that, Mineralogy may be called upon to surrender the amended area D. In exchange, the state has agreed to amend the area of area A under the state agreement by including within it additional mining tenements which are held by or which may be granted to Mineralogy and provide for Mineralogy to be granted an easement over part of area D for pipelines and communication cables constructed within that area as part of the Sino Iron project. Sino Iron will be required to provide a significant community and social benefits package for the Sino Iron project in accordance with clause 5A of the state agreement. The value of this package is estimated to be \$400 million over the 25-year life of the project. Mineralogy also intends to establish a prescribed private fund as set out in clause 5A(9) of the state agreement. The objects of that fund are to include the advancement of medical research and the support of Indigenous communities in Western Australia. During the term of the state agreement, Mineralogy is to provide the fund with a total of \$100 million of benefits and grants to achieve those specific objects. The unimproved rating concession previously given by clause 25 of the state agreement will be removed. During the term of the state agreement, any railway constructed under the state agreement may be made subject to the provisions of the Railways (Access) Act 1998 and the Railways (Access) Code 2000. This will be expressly acknowledged by Mineralogy in clause 22(6) of the state agreement.

The state will receive increased royalties from the production of iron ore concentrates for sale. Such royalties will be payable at the rate prescribed from time to time under the Mining Act 1978. Currently, the state agreement provides royalty concessions for processing of iron ore concentrates into pellets, direct reduced iron or hot briquetted iron, and steel. The ability for project proponents to blend, in accordance with clause 11(7) of the state agreement, iron ore produced as part of a project with iron ore from outside the state agreement areas may result in the production and marketing of lesser grade iron ore that would not otherwise be produced. This would, of course, lead to the state receiving royalties on such production.

Benefits for the company and co-proponents: The principal benefits to Mineralogy and co-proponents from the proposed variation agreement are that the project proponents may produce as part of a project, including as a separate project, iron ore concentrates for sale within Australia or for export to overseas purchasers, including, subject to clause 11(7), as part of a blended product. The area of area A under the state agreement will be expanded to include other mining tenements held by or to be granted to Mineralogy. Area A will then comprise an area of approximately 802 square kilometres of tenure capable of being mined for iron ore. The term of Mineralogy's exploration licences comprising area B1 under the state agreement, which are seen as having long-term exploration and development potential, will be extended from five to 10 years.

The third party access provisions of clause 21(3) of the state agreement relating to third party access to port facilities constructed as part of a project under the state agreement will no longer apply to export wharves and associated facilities as to be defined in the state agreement. The state will, in accordance with clause 6 of the variation agreement and subject to certain conditions as set out in that clause, cause Mineralogy's applications for general purpose leases 08/63 and 08/74, less the part to be excluded from it as part of this variation, to be granted by the Minister for Mines and Petroleum.

In conclusion, this variation agreement was negotiated by the previous government and is supported by this government. We support the variation because it promotes the future development of the iron ore industry in the Pilbara and creates consequential employment opportunities in Western Australia. As members are aware, iron ore is one of Western Australia's strongest commodities, with world demand for the valuable mineral projected to continue for many years, despite the current market turbulence.

I commend the bill to the house.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

MR M. McGOWAN (Rockingham) [11.56 am]: On behalf of the opposition, I am pleased to indicate that it will support the progress of this legislation through Parliament this year. It has written to the Premier to urge him to bring on this legislation to have it dealt with during this sitting period by both houses of Parliament. Members will know that it has been through the upper house already, where some discussion took place, and it has now come to this house. The opposition does not propose to delay the legislation to any significant degree, and members will note that it has agreed to commence the debate immediately after the second reading speech to ensure it progresses. The opposition agreed to this on the basis that the bill before the house is identical to the legislation and the agreement that was reached during the course of the previous government. It is therefore appropriate that now, in opposition, we stick to what we agreed to when we were in government and make sure that this legislation is passed.

My understanding is that an original agreement was signed in 2002 or 2003 permitting this mining project to go ahead. The agreement was negotiated by the then Minister for State Development, Hon Clive Brown, on the basis that a large degree of downstream processing would result from this project. At that time economic conditions were different, and the proponents—I have been advised that this is right—were genuine in their desire to process the magnetite ore into pellet form in its entirety, rather than ship it out in a concentrate form. Time has progressed and circumstances have changed. The proponents of this project are keen to progress it further. Indeed, a large number of people are working on the project in the Pilbara as we speak. I understand that hundreds of people have been employed to progress some aspects of this development, such as construction on-site and of the port and pellet plant.

Every time I look at the Leader of the House, I lose my train of thought!

Mr R.F. Johnson: I have that effect on people. They are astounded by my beauty.

Mr M. McGOWAN: It is astounding all right!

The proponents decided that the circumstances that existed in 2002, when they signed the heads of agreement with the then Minister for State Development, Hon Clive Brown, had changed. Those circumstances changed prior to the recent economic crisis that has enveloped the world. The renegotiation of this project commenced under the former state government. The Carpenter government was amenable to the renegotiation of the project on the basis that the renegotiated terms would not all be to the benefit of the proponents. The former government decided that it wanted some things out of this agreement if the entire mineral body was no longer to be converted to pellet form, as that change would of course lead to the creation of fewer jobs in Western Australia. We realised the reality of the economic situation confronting the company and agreed to some changes. The former government reached an agreement in principle that the majority of the ore body could be converted to a concentrate form prior to export. However, a pellet plant will still be constructed to convert six million tonnes of ore into pellets as well. Whilst this is a compromise, Western Australia will still get a pellet plant, the project will still happen and concentrate will be exported. In addition, the state and local community will receive a social benefits package. There is some agreement that local government rates will be charged on the project, that there will be some further effort on native title compensation and that third party access will be provided at the port. The social benefits package relates to the employment of local Indigenous people. Our government was keen to ensure that the companies that exploit the wealth of Western Australia in the regions employ local Indigenous people so that they can be given a way forward through career and employment opportunities in the areas in which they live. We negotiated a package along those lines to ensure that all those things would come to fruition. As I said, a pellet plant will be constructed at Cape Preston. That is a better site, from an environmental perspective, than the site previously considered for the plant. Downstream processing of six million tonnes of ore will also occur each year.

There is some history to the complex mineral leases in this part of the world, which I will not go into. The proponents of this development own one of the leases created in the early 1990s in this area. I might be corrected on this point, but they are probably the first to commit to a significant development and export project in this area. That is a good thing. The project will significantly expand the iron ore industry in the north of the state and will lead to the construction of a new port at Cape Preston with third party access. That deals with some of the third party access issues that have been around for a very long time. The provision of third party access to the port for any future proponents who want to undertake iron ore projects in that part of the Pilbara is a good thing for the broader iron ore industry.

An issue close to my heart is the agreement by the proponents to make an addition to the conservation estate. As environment minister, I was keen to ensure that proponents understood their obligations to the environment by providing some sort of environmental offset to their projects. A significant tree-planting program will also be undertaken for the geosequestration of any gas emissions produced from these operations. From memory, 150 000 trees will be planted, but I am not sure whether that is the number of trees that will be planted every

year. Again, that is a significant environmental offset for the project. I am pleased that the former government was able to negotiate that offset.

The pellet plant and the operations of the company will be powered by a combined cycle gas-fired power station, which will of course produce a small volume of emissions. The use of gas to power those operations is a natural consequence of the plant's location near Karratha. The combined cycle gas plant is a welcome part of the project.

Projects such as this take a significant time to develop. I know that the proponents of such projects experience frustration in getting their projects up and running, particularly when they are planning to invest significant amounts of money in Western Australia. It is important that we receive not only the royalties from these projects, which of course are largely redistributed away from Western Australia, but also some additional benefits for the state. As part of the renegotiation of this project, the former government took the view that the state should receive benefits other than just royalties and local employment opportunities. The benefits of the project need to come to the people who own the resources; that is, the people of Western Australia. The resources of this state should be used for the benefit of the people who live here, so the former government came up with a range of ways to ensure that the people of Western Australia would be the beneficiaries of this project. It will further enhance the relationship between Western Australia and China; a relationship that was developed and strengthened over the term of the previous government. We were very pleased to significantly expand the trading relationship between Western Australia and China over that eight years in office.

When we came to office, Japan was the major trading partner of this state, by a large factor. Whilst Japan is still an incredibly important trading partner of Western Australia, in terms of the overall value of products exported from Western Australia, the value of products exported from Western Australia to China is now higher than the value of products exported from Western Australia to Japan—not by a large amount, but it certainly is a higher value than was the case eight years ago. It is a tribute to the former government that we were able to continue that relationship and strengthen it in the way that we did and expand and create new projects that ensured that trading relationship between our state and China is able to be as prosperous as it is for Western Australia. Naturally, the strength of that relationship meant that during our time in office there was a historically low unemployment rate in Western Australia and a historically high level of personal income in Western Australia because of the previous government's success in ensuring that trading relationship continued and was strengthened.

Former Premiers Dr Geoff Gallop and Alan Carpenter, the member for Willagee, were very keen on fostering that relationship, as were their ministers, and did a lot of incredibly important work in that regard. They need to be acknowledged as the fathers of this particular agreement, which will bring further prosperity and jobs to the people of Western Australia and ensure that Indigenous people are the beneficiaries of this project.

Whenever I met with major companies, it was always my view that they should be aware of the state's view on their obligation to employ local Indigenous people. A few years ago, Woodside had very few Indigenous employees—as I recall, it had only one. I was briefed on the matter a couple of years later and that number had increased, as I recall, to 50. That is a 50-fold increase within a few years. That did not happen by accident. Woodside realised its responsibilities and it has done it well, as have Rio and BHP. Those companies now realise what they need to do to make it work. The process is complex and time consuming, but ultimately rewarding for the effort that they put in to achieve that. However, that did not happen by accident. A lot of pressure was placed on the companies to do that, including from the former government. Geoff Gallop, and Alan Carpenter in particular, were very forceful in their dealings with companies to make sure that the rate of Indigenous employment improved.

As I said, the fathers of this project were the Premiers of the former Labor government and the former ministers for state development, energy and resources, including the member for Cockburn, who is sitting behind me. I am pleased to indicate that the opposition will be supporting what is in effect our bill.

MR V. CATANIA (North West) [12.13 pm]: I rise to also support the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill. I thank the Premier for bringing it on.

A great aspect of this bill is that the facility will be a multi-user facility. We have seen the issues that Fortescue Metals Group Ltd has had to contend with in the past. Hopefully history will not be repeated because the bill will allow third party access, as the Premier outlined in his second reading speech. Although this project will involve less processing than was the case in the original agreement, it will involve more processing than other projects currently do. It means more jobs and work for contractors in not only the metro area, but also the Pilbara, and particularly Karratha.

One of the real benefits of this bill is that local government rates will be charged. This will be a tremendous benefit to the Shire of Roebourne, which will enable it to carry out some functions that metropolitan people take for granted. I look forward to seeing what that produces for the Shire of Roebourne.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

This is a major agreement with China. As the member for Rockingham stated, this will enhance our relationship with China. Even though there is a current economic downturn, this project has a long-term future and it is only at the early stages of a 40-year mine life.

As the local member for the area, I support this bill. It is a great opportunity for the Pilbara to move even further forward.

DR M.D. NAHAN (Riverton) [12.15 pm]: I stand in support of the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill. It achieves a number of long-term aims that successive governments have attempted to achieve, particularly in downstream processing of iron ore resources. This state is immensely gifted in the natural resource of iron ore. Successive governments have aimed to add value to that by various means. It has been a long and difficult road for a variety of reasons: firstly, because of the isolated nature of the Pilbara in the north; secondly, the high cost structures of the state; and, thirdly, the often high energy costs. Successive governments have attempted by various means to try to add value. Many of them have been unsuccessful, particularly as we have scrapped almost more pellet plants than we have built.

This project achieves value-adding in a very successful way. Even though the bill before us downgrades the degree of processing from pellets to concentration, it is a rational adjustment to the markets that we face. The bill also goes about value-adding in a unique way by adding a multi-user facility at the plant that hopefully others will have access to. That is a significant movement which, to my memory, has never been done before in such plants. That is a major achievement. The plant also brings Chinese investment to Western Australia. Within the context of the markets that we face for iron ore, it is imperative that the state strengthens its already growing ties with China and gets Chinese investment in the sector now before things turn worse, which is possible. This project achieves that in a very positive and large manner indeed. However, as the proponents quite rightly argue, we must be cognisant that the plant is being built in a very high-cost structure. We must be flexible in the demands that we make of firms, particularly in light of the economic downturn that we are facing, and continue to be flexible about the provisions we impose on developers.

In summary, I would like to again congratulate the proponents of the bill and the existence of the bill because, in an incremental but positive manner, it adds to our long-term aim of adding value to our natural resources.

MR T.G. STEPHENS (Pilbara) [12.18 pm]: I rise in this debate, not aiming to add a completely discordant note to what others have said, but basically to try to refresh my memory of the handling of this particular agreement over the years.

Mr C.J. Barnett: It has a long history. I have gone full circle on it.

Mr T.G. STEPHENS: That is exactly one of the points that I want to go to. I stand in this place as the member for Pilbara. This agreement covers an area immediately adjacent to my electorate, just outside the boundary. Members will appreciate that this project is of great interest to the people within my electorate and within our region, and to the major companies operating in the Pilbara region.

My memory of the way this agreement came before this place in 2002 is along the lines that the previous minister had advanced it to a point at which it was not legally possible to slow down the agreement processes put before us as a team. One of the most compelling arguments put to us at that time was that although the agreement had some questions raised about it, we should press on and agree to advance the state agreement because it had by and large reached a point of no return; namely, that there would be only legal recriminations if we did not advance that state agreement into Parliament in 2002 and progress it in that way.

Mr C.J. Barnett: If I may interrupt, my memory of that time is that it was a complex agreement and I was trying to bring the bill down to get something started at the lower level of value adding. I was looking for reassurance that the project was ready to go and I was not fully convinced of that in the late 1990s. Here we are 10 years on; now it is happening.

Mr T.G. STEPHENS: As we have been told by the Minister for State Development and the previous speaker, something is in fact now happening. However, there has been a lot of torture and pain along the way and a lot of hints of litigation and —

Mr C.J. Barnett: Plenty of project launches though!

Mr T.G. STEPHENS: — plenty of project launches, and I think, in fairness, apprehension on the part of neighbouring corporations about the way this project has been advanced and the way it has reached this point.

Mr F.M. Logan: Amazing characters!

Mr T.G. STEPHENS: And the characters involved in the process.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

As the member for Pilbara, I will give the minister a little insight into how the passage of the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill came to my attention today. I had not paid close attention to the fact that this bill was going to be second read and go through consideration in detail in this place today. I have not watched the process as attentively as perhaps I should. When I heard it was coming on, I tried to get a copy of the bill and the second reading speech. Can the minister imagine what happened to me? I was told, "No, you can't get a copy of the second reading speech because the minister hasn't read it to the house." Fortunately, a few minutes before it came on, I finally got a copy of the bill. However, that is the process of the house and no-one can critique that; it is simply the process of the house. Until a bill has been read for a second time in this house, I am not entitled to a copy of the second reading speech. Therefore, I could not get a copy of the speech.

Mr C.J. Barnett: It has already been handled through the upper house.

Mr T.G. STEPHENS: Yes, but the minister can imagine the argument; I am a member of this house. I can engage on this topic for a long time because I have heard it many times in the other place when I tried to run that argument up there! My attempts to try to focus on this bill are starting roughly now, and I have a few concerns and questions about the way the agreement will continue to operate.

I want to ask the Minister for State Development some questions about this bill. I hope that this is an amended agreement that has been subject to all the scrutiny and that the minister accepts responsibility for it. I hope he will not simply say, "It was done by my last lot of colleagues and because they did it and advanced it to this point, I'm happy to advance it because it's their responsibility." I want to be sure that the minister will tell the house that he has subjected this agreement to all the scrutiny, that he is now happy to advance this bill and that he does not see or fear any deficiencies within the agreement.

Mr C.J. Barnett: I wouldn't claim the agreement is perfect but I think this variation is fine.

Mr T.G. STEPHENS: The variation is fine; okay. Does the minister accept responsibility for it?

Mr C.J. Barnett: Yes.

Mr T.G. STEPHENS: For the record —

Mr R.F. Johnson: If it goes wrong, we'll blame you.

Mr T.G. STEPHENS: For the record, the minister's fingers were crossed! I think he is expressing his hope that the agreement will work. I suppose that is the way that agreements work from time to time in Western Australia. Parties to agreements can sometimes be particularly litigious, and I hope that this will not be one of those agreements. I hope that the bill will not simply deliver Western Australia into endless litigation over the agreement that is now being amended by virtue of this bill and that something is delivered to Western Australia and the people of the Pilbara in ways that meet the ambitions articulated for this agreement by the minister and those who have spoken in the debate so far.

I will ask the minister a couple of questions about the detail of the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill. Is anything contained within this agreement to tackle the issue of the residential requirements for this project? Will anything in this agreement try to secure a permanent residential workforce associated with this project for the Pilbara region? If there is something to do that in this amended agreement, where is it? As the minister will appreciate, the people of the Pilbara are begging for alterations to the agreement that keep proponents and developers under pressure to deliver some commitment towards a residential workforce. I do not know whether the minister wants to answer that now.

Mr C.J. Barnett: That is not addressed in the variation and I might have to get some advice or get back to the member. However, in the original agreement, my understanding is that the intention is for a largely Pilbara-based workforce, but I will clarify and get the member that information. The variation does not address that matter; it does not change that part of the agreement.

Mr T.G. STEPHENS: I thank the minister. At some stage the minister might get the people who are helping with the bill to point out for me precisely—because I am only looking at the bill for the first time—the provisions in the agreement that make this project available to local government to fully rate the project in ways that will produce an income stream.

Mr C.J. Barnett: The rate exemption has been deleted, so it can now be subject to rating.

Mr T.G. STEPHENS: Has that happened by virtue of this agreement?

Mr C.J. Barnett: I think it has actually in this; yes.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

Mr T.G. STEPHENS: Can the minister point out to me at some point exactly where that provision is in the bill? I do not ask the minister to do that now, but when he has his people available can he show me where that happens in the bill?

Mr C.J. Barnett: I will get that information to the member. If not today, I will get it to the member in writing, if that is all right.

Mr T.G. STEPHENS: That is fine.

The third point I raise is based on a quick look at the bill and is in reference to the \$100 million fund. There is a commitment to a \$100 million fund for a variety of noble purposes. However, I am keen for someone to tell the house on the record the process that will govern the allocation of that \$100 million. Once the agreement is signed, does the \$100 million land into a kitty or is there a sequencing of the delivery of that \$100 million into that fund for its use for those noble purposes? I am happy to leave that question hanging; I would love to know and be assured that that \$100 million will flow in ideally upfront, but if it is not going to apply upfront, I hope it will not be left until the very end of the agreement: “By the way, here’s the \$100 million we promised you.” If that agreement lasts a long time and that money is not obliged to be paid until the very end of the agreement, it might have diminished value by that point.

Mr C.J. Barnett: It is progressive. Looking at this, it is under clause 5A(9) in the state agreement.

Mr T.G. STEPHENS: Can the minister please point me to the page of the bill?

Mr C.J. Barnett: It is clause 5A(9), to make additions to the original agreement. We are dealing with the variation, so the questions the member is asking relate primarily to the agreement itself, which the member probably does not have a copy of in front of him—I do not either. Therefore, I will get back to the member with some more information. There is an intention to create that fund and that is specified in the agreement. I cannot now answer how it will be managed, but I will find out.

Mr T.G. STEPHENS: Maybe if the minister does not mind, for a very brief period during consideration in detail, he might have the officers to be able to put that —

Mr C.J. Barnett: If I can do that, I am happy with that.

Mr T.G. STEPHENS: If that is possible, for a brief period in consideration in detail, the officers might be able to deliver the answers to these three questions to the house. I will not trouble the house at great length.

Mr C.J. Barnett: They may be able to provide that information by the end of the second reading debate. I will see whether they can.

Mr T.G. STEPHENS: It will be fine if they can provide that detail by the end of the second reading. I think that is all I have to say about the detail of the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill, which creates an opportunity to amend the state agreement.

I want to place on record the Pilbara people’s ambition that argues for far more work to be done by industry and by governments to deliver a residential workforce to the region. The people want work done to make it more and more compelling for companies and for governments to find ways to make it attractive for a workforce to be connected to the region permanently, rather than be part of this blight that is fly in, fly out. Fly in, fly out is a blight on not only the region, but also its participants. The opportunities provided by a fly in, fly out workforce might make sense during the construction phase, but fly in, fly out is destructive for the lifestyle of not only far too many people permanently living in those communities, but also the fly in, fly out workers and their families. Fly in, fly out is quite simply a destructive expression of the contemporary Western Australian economy. The people of the Pilbara region are victims of that phenomenon and they do not like it.

Part of the challenge of this particular operation has been the natural ambition of some members of the resource sector, and for the government and the community of Western Australia, to have some multi-user facilities operating in the Pilbara and around Western Australia—facilities that are not the exclusive domain of the proponents. This variation of the agreement will create previously denied opportunities for that to happen.

A hiatus between the corporate entity engaged in mining the ore and the entity at the other end that transfers the ore across its port facilities for loading onto ships presents a major difficulty in an operation as complex as the one contained in this state agreement. If a separate entity has a monopoly on port infrastructure, there is a real risk to the landlocked ore body.

The opportunity in this agreement to create additional multi-user facilities in the Pilbara region should allow the various parties to this agreement, and the investors from China, to be increasingly confident that there will be no undue cost pressures placed on them by the entities that operate the port and the port handling and ship loading facilities.

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

To now focus a little on the Chinese economy is, I think, relevant in a debate such as this. I am chronically embarrassed to say that it was only two years ago that I first visited China. I am embarrassed to admit to the house that I had never previously visited any part of Asia. I had never been to Japan or any of our other major trading partners. In fact, it was not until two years ago that I saw a ship unloaded. I had only ever seen ships being loaded with iron ore, cattle and various other commodities. I had never spent time thinking about how they got the stuff off the ships! It was an extraordinary experience for me when, two years ago, I finally visited some of our customers in China and began to understand the way they handle our iron ore at their ports. I visited Baosteel Group Corporation's operations and port facilities at Shanghai. I could see there the speed of the Chinese economic operation. The momentum of the Chinese economy looked simply unstoppable. So much has happened in a very short time, including the outbreak of the sub-prime crisis in the latter part of 2007 and the financial markets' collapse in confidence that has led to, rather than been led by, the bursting of the financial derivatives bubble. The fallout has now spread around the globe. Tightened credit conditions and falling consumer confidence have significantly impacted on the real economy. The statistics show that all major western economies have slowed down in the second quarter of 2008. China, a country heavily reliant on international trade, with a huge amount of US-dollar assets, has not been able to de-couple from the deteriorating external environment. We need to understand the significance of the impact on China. Sure, China's rate of growth is still extraordinary, given a prognosis for growth of around 7.5 per cent and the prediction that the Chinese economy will recover in the second quarter of 2009. However, we must fully understand the changes to China's circumstances. Also, we must understand what those changes will require of us, as legislators, in the way we handle not only this agreement bill, but also other projects and their proponents operating in the Pilbara and around Western Australia. I hope that soon I will get the chance to go back to China and to better understand the changed Chinese circumstances that have emerged in response to the global economy. I would like to better understand some of our other customers and competitors. Members can appreciate that a lot of pressure is often placed on parliamentary representatives. I want to say this particularly to the new members: I made a mistake early in my parliamentary career of not better understanding the circumstances of our trading partners and the impact that their circumstances were to have upon my part of the world—that is, the regional areas of Western Australia. That impact was probably not at all understood by too many people. The great demands that were to come from China were scarcely understood by the Chinese government when it unleashed its economic changes. It is now the task of members of this place to translate those changes to meet the circumstances in their local communities. Suddenly, it was a case of all systems go, and then the systems began slowing down. However, lost in the great announcement of BHP's reluctance to proceed with its takeover of Rio Tinto was its near \$10 billion investment to expand the iron industry—virtually all of which was in the Pilbara region. Huge expansion is still being undertaken, yet it was lost in the headlines of last week. These are just some of the pressures that are placed on our communities as a result of the current level of confidence about the market. Agreements such as this one need to be carefully examined, and I look forward at some early point, either in the second reading response or during consideration in detail, to getting on record a response to some of these issues.

MR J.J.M. BOWLER (Kalgoorlie) [12.38 pm]: I first became aware of this state agreement in about 2001. At that time, especially considering the tonnage involved, I was extremely surprised to find an agreement for a multi-billion dollar deposit had been made with a company of limited resources and with no experience in mineral development. That it was not a mining company such as BHP or Rio Tinto surprised me. It is always good to look back with twenty-twenty vision; it is always a lot easier with hindsight. Members must realise that in 2001, 2000 and 1999, when this agreement would have been discussed, there had been no major new developments in Western Australia and therefore any government would have been keen to facilitate new developments and new mines in our state. There had been precious little or no major expansion in operations in the north west, and here was a promise not just of a new mine, but also, for the first time, of achieving what most Western Australians had been dreaming of—the ability to process our iron ore, to beneficiate the ore to a higher ore content or even into pellets perhaps even into steel itself. Therefore, it is no wonder that the state government at the time, and then in 2002 the then Minister for State Development, Clive Brown, jumped at the opportunity.

I was also surprised, I suppose, at the level of processing that was being promised. Today, we are winding back some of that. That is a bit of a disappointment, but it is also a reflection of reality. Despite that wind back, there is still going to be more processing with this iron ore than has ever been done before in Western Australia, so that is to be welcomed. A couple of thousand people will be employed in the development stage and, more importantly, 400 to 500 people will be employed in the operational stage. It is a massive project. I noticed that the Premier's second reading speech referred to four billion tonnes. I think that is a conservative estimate. I believe it will potentially be more than double that. However, when there are four billion tonnes, a company does not want to waste money drilling to find the fifth or sixth billionth tonne. That will be done 30 or 40 years down the track.

These changes are also welcome in the fact that they provide for third party access to that part of the coastline in the Cape Preston area. When I was the Minister for Resources and Minister Assisting the Minister for State

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

Development, I went to China to meet the Chinese government, which has a significant investment in the first stage of this project, and also to meet Larry Yung of CITIC Pacific Mining, to talk to them about any concerns they might have had and how the government could ensure that they had success. This is the first major development of its type by the Chinese government, with Chinese money, in Western Australia. Therefore, the state government needs to make sure that it is successful, because to do otherwise would send a bad message, not just to the Chinese investors, but also to the rest of the world. As a minister, I was acutely aware of some of the issues that we are discussing today. As I said, in 2001 and 2002 I was surprised at the level of processing that was being promised. I am not surprised that it is being wound back to a more realistic level to reflect current times. I believe that what is proposed now is achievable and that what was originally proposed was not achievable.

I also support and welcome the fact that local government rates will now apply in this area. I will quickly say, not related to this, that I am disappointed that the other iron ore producers in the north west are still dragging their feet in their dealings regarding their paying local government rates. They pay local government rates on houses they own in Newman, Port Hedland and other towns in the north west, but they do not pay local government rates, and they should, on other facilities in the north west. Two and a half years ago when I was a minister I thought it was all signed, sealed and delivered. It seems that the companies have let that grind to a halt. I say to the Premier and the rest of the government that they must make sure that that is expedited and resurrected, if it has not been; and, if they do expedite it, they should make sure it moves forward as quickly as possible, because the companies up there have been getting away with not paying local government rates. They have been getting away with it on the cheap, and it is time that they started to pay their way. Fair enough; 30 or 40 years ago when these agreements were established, why would they have paid local government rates? They were the local government. They built the houses; they built all the infrastructure. For the past two or so decades, they have not been doing that, yet they have not been paying full rates. It is unconscionable. These are massive companies with a lot of their ownership overseas; in one case, the head office is overseas. They should be made to pay local government rates forthwith.

Mr T.G. Stephens: It is odd that now we have a couple of companies required to pay rates by virtue of their agreements, yet the earlier companies are left with an unfair advantage that applies to their agreements, which leaves them with no similar obligation.

Mr J.J.M. BOWLER: That is right. I have no doubt that once the Premier and the new Minister for Mines and Petroleum, Hon Norman Moore, get their teeth into this, they will once again expedite this matter and ensure that the other companies in that region start paying what they should be paying.

As I said, I was surprised initially at the level of treatment. I am disappointed that it is being wound back, but I can understand that. The processing that will take place and the beneficiation to take magnetite from 32 per cent to double that percentage, or whatever it will be, will be a great boost to Western Australia. It will also mean that this company needs access to energy, access to gas, and that also brings in some problems that the state has been encountering in the past four or five years. In a state that has these massive gas deposits off its coastline, Western Australian-based companies employing Western Australians are having increasing problems getting access to that gas. Hopefully, that can be overcome, if need be, by the intervention of the government.

I will reassert what the member for Pilbara said about fly in, fly out arrangements. I have long been known to be an opponent of this. I have seen it weaken the towns in my electorate. I have described it as the cancer of the bush. In saying that, I realise that in some very isolated and new mines, and mines that have a short life span, it is a necessary evil. This deposit is, as the Premier said, four billion tonnes. I think it will be at least double that. It has a 40, 50 or 60-year mine life at least. There is no way that it should be FIFO. It is not too far from Karratha. Of course, the problem in Karratha is that not enough land is being developed. It is a challenge for the new government to have more land released in that area of the state, because if we do not have the land, we cannot house the workers; and if we cannot house the workers, the only possibility left is FIFO. Therefore, the government will need to deal with a number of issues to facilitate these projects, but I am sure that it will do it in the coming months.

Finally, the people of the Pilbara have been very patient in waiting for this type of downstream processing to take place. This is an opportunity. I believe that when Sir Charles Court initially established the developments in that area, it was a long-held dream of his. Even though this agreement reduces some of those initial commitments, they are a step in the right direction, and I commend the bill to the house.

MR C.J. BARNETT (Cottesloe — Premier) [12.47 pm] — in reply: I thank members for their support of the Iron Ore Processing (Mineralogy Pty. Ltd.) Agreement Amendment Bill 2008. It is a variation agreement to the main agreement—something that was negotiated largely under the previous government and has simply been brought forward. The important thing about this whole project is that it is the first large development of a magnetite ore, rather than the traditional hematites. The significance of that is that the magnetite ore has a grade

Mr Colin Barnett; Mr Mark McGowan; Mr V. Catania; Dr Mike Nahan; Mr Tom Stephens; Mr John Bowler

of 15 to 32 per cent iron content, whereas the hematites tend to be 61 or 62 per cent. Therefore, this is ore that it was long assumed would simply stay in the ground and never be developed. It is the first development of a low-grade resource and a very large resource.

The project—I think the member for Kalgoorlie summarised it fairly well—has had a long history. Sometimes the expectations of the proponents were beyond what I at least thought through the 1990s was reality. Now we have come back to what is reality, and that has started at a basic level of producing a concentrate and pellets. Hopefully, it will progress to hot briquetted iron, and ultimately to maybe even steel.

In response to the specific questions asked by the member for Pilbara, I will deal first with the fund that is to be established. The state agreement acknowledges Mineralogy Pty Ltd's intention to establish a prescribed private fund. A mechanism for managing the fund is yet to be determined. However, it will be administered as a prescribed private fund in accordance with the Income Tax Assessment Act 1997. The two members representing that broader Pilbara area might be interested in having some discussions with me about the way in which that fund will operate. It is yet to be established. There is a commitment, and it is acknowledged in the agreement act.

Mr T.G. Stephens: Are there payment schedules? Is there something —

Mr C.J. BARNETT: I will give the member a copy of what is in the main agreement act, but the point I am making is that the details of how that is to be established and operated are yet to be determined. The other question the member for Pilbara raised, and on which the member for Kalgoorlie spoke, relates to local government rating. The current state agreement for this project provides for rates to apply only to unimproved value of land. This variation agreement removes that rating concession and allows rates to be levied in accordance with ordinary laws of the state. They will be calculated on the improved value of land; that is, the gross rental value of Cape Preston rates were applied to improvements to buildings, offices, accommodation, security buildings and plant shed but not the plant itself. I think the Shire of Roebourne, with the advice of the Valuer-General will be able to introduce rates, and he made his comments about that.

Debate interrupted, pursuant to standing orders.

[Continued on page 999.]