

PRODUCTIVITY COMMISSION SUBMISSION: INADEQUATE GOVERNMENT SUPPORT FOR THE DEVELOPMENT OF NEW PORT INFRASTRUCTURE IN WA

The Yilgarn Iron Producers Association (YIPA) represents current and prospective iron ore miners in the Yilgarn Iron Province (YIP).

The aims of YIPA are to promote the interests of prospective and current iron miners and the development of rail, ports and other infrastructure.

The YIP is already an established iron producing region with approaching 15 Million tonnes per annum of Direct Shipping Ore to be exported this year through Esperance and Kwinana ports.

The YIP boasts an aggregate iron endowment of over 15 Billion tonnes of Potentially Beneficiable Magnetite and one Billion tonnes of DSO hematite ores.

The Province roughly extends from Wiluna to Koolyanobbing near Southern Cross and to Kalgoorlie.

Having access to infrastructure and concentration of prospective mines in such a small area with large resources of ore earmarks the province as one of great potential.

YIPA is pleased to make this submission which comprises four parts:

1. Background
2. Possible mechanisms of financial support that the State and Federal governments could utilise to expedite and provide certainty to the Esperance Port upgrade process
3. Addendum #1 - The Economic Benefits of an approximate 10 Mtpa Esperance Port upgrade as calculated in a report by Engineering firm AECOM which was commissioned by YIPA
4. Addendum #2 - An outline of the process for the upgrading of Esperance Port which is largely drawn from Esperance Port Sea and Land sources

Background

The State Government has ruled out a direct financial contribution to the Esperance Port Multi User Iron Ore Facility (MUIOF) due to negative impact on its balance sheet and commensurate increase in State debt. This makes successful provision of infrastructure more protracted and less likely than if the government were to contribute financially.

The MUOIF at Esperance is expected to cost around \$150 million and facilitate the export of approximately 10 Mtpa of iron ore from the Yilgarn. In January, Esperance Port Sea and Land (EPSL) announced a planned completion date of early 2015.

The port expansion will support WA's balance sheet, as a 10 Mtpa MUIOF upgrade pumps almost \$1 billion into State coffers over a decade – including \$95m pa in Royalties (Independent Economic Impact Study in Addendum #1).

YIPA has done a preliminary assessment of possible non-financial support mechanisms and the Association is currently finalising a more detailed proposal from which it intends to put to Government.

Problem

Large miners have balance sheets that can support private provision of port infrastructure but this is not the case for smaller and junior miners.

Common to Oakajee, the Esperance MUIOF suffers from the CHICKEN & EGG CONUNDRUM which greatly increases uncertainty for what is in effect a very viable project:

- Smaller miners find it difficult to enter a 'take or pay' without a bankable feasibility study which in turn requires a port to be available with a known cost structure
- Successful MUIOF proponent won't commit to the upgrade without 'take or pay' agreements being finalised with the miners

Also, capital markets are difficult with support for juniors at historically low levels.

Possible Solution via Balance Sheet neutral support mechanisms

Innovative non-financial support mechanisms can be achieved by way of a non-contingent liability. The accounting treatment of these methods of support does not require placement on the balance sheet and therefore does not increase State debt.

There are three primary mechanisms by which the State Government can support the MUIOF:

1. Guarantee for the miners take or pay arrangements
2. Guarantee for a minimum tonnage through the port upgrade
3. Guarantee the underlying debt facilities of the port upgrade

Further positives

- Flexibility and affordability as each mechanism can be made conditional in terms of timing, quantum and fees
- Guarantee may be only a fraction of the revised \$150m estimated MUIOF upgrade cost.

The use of these mechanisms could be utilised to provide support for the provision of port infrastructure.

Another option is for the WA Governments is to rethink their position and revert to direct financial support for ports including Esperance.

An additional concern is to foster the development of competition in the below and above rail spaces.

ADDENDUM #1 - AECOM STUDY OF ECONOMIC IMPACT FROM ESPERANCE PORT UPGRADE

YIPA commissioned a report by AECOM on the Economic Impact of the upgrade of Esperance Port. The study confirms major benefits to State's economy during

construction and subsequent operational phases of a modestly priced and commercially viable 10 Million tonne per annum port upgrade and associated Yilgarn iron ore mining activity.

The list of benefits to WA include:

- State Government royalty receipts of \$95m per annum, given global iron ore prices of US\$120 per tonne at the present exchange rate.
- Employment for up to 1,000 workers during construction phase, which may generate employment for a further 3,227 workers throughout the economy during construction phase
- Yearly direct employment for up to 360 people during mine operation, which could create almost 1,170 full-time equivalent (FTE) jobs elsewhere in the economy.
- A direct investment boost to the WA economy from mine and port construction worth up to \$550m initially, with an expected \$641m flow-on effect to industry output to meet this initial growth in demand during construction.
- An annual direct boost to demand in the WA economy during mine operation of up to \$540m, and an additional yearly flow-on effect to industry output during mine operation of \$627m in order to meet the initial demand growth.
- Direct wages of around \$131m during mine construction and \$46m per annum during mine operation.
- Indirect wage benefits worth up to \$122m per annum across the economy during operation phase, and nearly \$350m during construction phase from jobs expected to be created elsewhere in the economy.
- State Government payroll tax payments of up to \$2.5m per annum during operational phase and \$7.2m during construction phase.
- Goldfields/Esperance set for major boost to local economy
- Modestly priced (under \$200 million) Esperance Port upgrade (stage one) of about 10 million tonnes per annum (Mtpa) supported by AECOM Engineering and Financial Studies
- Solid case for Government to underwrite port expansion with only two years of Royalties paying off the debt

ADDENDUM #2 - EPSL MUIOF PROJECT DESCRIPTION (EXTRACTED FROM PUBLICLY AVAILABLE EPSL INFORMATION)

The Esperance Port Authority, trading as Esperance Ports Sea and Land, has commenced a process to identify a proponent to design, finance, build and operate a Multi User Iron Ore Facility (MUIOF) at the Port.

Esperance Port has been exporting iron ore since 1995 and is expected to handle about 11.5 million tonnes this year, the limit of the Port's current environmental operating licence.

Esperance Port is the deepest port in southern Australia and is capable of handling cape sized vessels that are most suited for the iron ore trade. New facilities can be built relatively cheaply and quickly at Esperance Port compared to building a new port. The Port is connected to the mining regions to the north by the Leonora-Kalgoorlie-Esperance standard gauge railway line and to the east-west transcontinental railway line at Kalgoorlie. Mining tenements in the Yilgarn Region can, therefore, be linked to the existing rail network making the cost of transporting their product to Port much less than it would be if a new rail network had to be built.

Currently the Port handles the product of only one iron ore exporter, Cliff's Natural Resources. Cliffs' mine sites are located north of Southern Cross at Koolyanobbing, Windarling and Mt Jackson in the Yilgarn Region. Koolyanobbing is located on the east-west transcontinental railway line.

A four-phase Procurement Process is underway:

Phase One – Registration of Interest and Prequalification (ROIP) phase, including short-listing of potential Proponents.

Phase Two – Interactive Request for Proposals (RFP) phase leading to the selection of a preferred Proponent.

Phase Three – Negotiations between the Preferred Proponent and EPSL leading to contractual close.

Phase Four – Settlement of outstanding conditions and precedents and contractual close between the Proponent and Miners which will culminate in financial close of the MUIOF.

Following approval by the Minister for Transport on 11 June, 2013, the Esperance Port Board announced on that the that two consortia had been short-listed to prepare bids along similar lines to a tender process to design, finance, build and operate new iron ore export infrastructure at the Port.

The two consortia are:

1. Qube Bulk Pty Ltd and Brookfield Infrastructure (Australia) Pty Ltd; and
2. Yilgarn Esperance Solutions (YES) Limited. (YES is a consortium comprising McConnell Dowell (Aust) Pty Ltd Constructions, Asciano and Marubeni Corporation).

During the RFP process, the two consortia will determine the scope and capital costs of the project that will be based on the level of commercially viable and sustainable demand for iron ore export capacity required at the Port.

The consortia will determine the commercial and financial ability of those companies seeking to develop their tenements and wanting to use export infrastructure at the Port to be in a position to sign take or pay contracts.

The RFP phase is expected to be completed by the end of 2013, which will be followed an evaluation of the two tenders and the appointment of a preferred proponent to proceed with the project.

RFP Closure

The two consortia shortlisted as potential proponents for the MUIOF project | Qube-Brookfield and the Yilgarn Esperance Solution submitted their Request for Proposal (RFP) tenders by the Friday, 22 November, 2013, deadline. The RFPs indicate what each consortia believe would be a commercially viable model for the MUIOF Project.

An independent panel will now evaluate the RFPs. The panel will recommend a preferred proponent to the EPSL Board followed by Ministerial approval by March 2014. EPSL will finalise MUIOF financial and contractual close before the proponent commences developing the new facility.

Construction

It is anticipated work on the new facility will begin in 2014 and be completed in 2015 subject to the proponent achieving financial close and project contractual close.

Operation

The MUIOF is expected to be in operation by 2015. It will be operated by the proponent.

December 11, 2013