

The Chamber of Minerals and Energy of Western Australia

Submission

Australian Defence Force Posture Review

CME Background

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia funded by its member companies who generate 95 per cent of all mineral and energy production and employ 80 per cent of the resources sector workforce in the State.

The Western Australian resources sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 40 different types of mineral and energy resources and also includes power generation.

Western Australian exports of both minerals and oil and gas were worth around \$91.6 billion in 2010. The resources sector is also the largest private employer in regional and remote Western Australia, and the largest private sector employer of Aboriginal Australians.

CME Position

CME appreciates the opportunity to make submission to the Australian Defence Force Posture Review, and to have had the opportunity to meet with Departmental Representatives in Perth and to provide a briefing on the resources sector in WA, and particularly the North West.

In particular CME welcomes the increased focus on energy security and the protection of strategic infrastructure in the North West. CME would like to see an increased defence presence and focus on the North West of Western Australia, commensurate with the need to secure and protect vital strategic economic infrastructure of national significance.

It may ultimately be appropriate that some of these matters are addressed through other State or National Agencies with other policing or security responsibilities. However CME considers that these are matters which will need to be considered and is using this opportunity to raise these issues with Government, and will continue to do so.

Consultation

CME welcomes that consultative approach undertaken by the Australian Defence Force in the review. CME is aware that a number of member companies have also taken the opportunity to make submissions as part of this process. CME would welcome the opportunity to provide further information or feedback as part of the review process.

The Resource Sector in the North West (Pilbara & Kimberley)

The North West is Western Australia's primary resource producing minerals, oil and gas at an international scale. Commodities produced in the North West include iron ore, copper,

gold and silver, diamonds, manganese and salt, and a range of hydrocarbons including crude oil and condensate, liquefied natural gas, natural gas, LPG Butane and Propane.

The development of the resources sector in the North West has been the catalyst for the growth of the Western Australian economy in the latter half of the twentieth century. Resources companies are the primary driving force of the Pilbara economy which is often referred to as the 'economic heart' of Western Australia.

The value of resources production from the Pilbara was over \$71 billion in 2010, contributing to approximately 78 per cent of the State total. Companies' substantial economic contributions, both direct and indirect, have a huge positive impact locally, regionally and nationally. They inject millions of dollars directly into the region through salaries and wages, payments of taxes and royalties to governments and through the support of local suppliers, contractors and other businesses.

In 2010 the Pilbara region was responsible for \$49 billion of minerals exports, with offshore petroleum (largely concentrated off the north west coast) accounting for \$22.8 billion. Taken together, the region accounts for approximately 29 per cent Australia's merchandise exports.

Although difficult to measure accurately the indirect contribution of the companies is often of greater value due to the multiplier effect with employees spending their incomes, payments to providers of goods and services, the circulation of taxes/royalties and reinvestment of company profits.

The value of minerals and energy production in the North West will continue to grow.

Approximately 400 million tonnes of iron ore were exported in 2010/11 from the Pilbara, with a total sales value of nearly \$47 billion (2010) which makes it the leading commodity in WA. Many new projects are underway as well as expansions to existing projects. There are now \$17.7 billion of committed iron ore projects in the Pilbara. The Pilbara Development Commission has identified the potential for iron ore exports to grow from 400 million tonnes in 2010, to 1 billion tonnes by 2020.

Western Australia's largest oil and gas field is the Carnarvon Basin off the north-west coast. Following the discovery in 1971/1972 of the North West Shelf gas fields the North West Shelf Venture has seen \$27 billion invested in facilities that make up Australia's largest oil and gas resource development.

Australia's biggest resource project, the Gorgon Joint Venture LNG project, is set for development at an estimated cost of \$43 billion and a further \$19.6 billion of offshore committed projects are to be developed in the Scarborough and Macedon areas. Final investment decision is also due to be taken in the second half of 2011 on the Wheatstone Project at Ashburton North which will include two LNG trains with a combined capacity of 8.9 million tonnes per year and a domestic gas plant. The petroleum sector accounted for \$22.8 billion of production in 2010.

In the Kimberley, the Browse LNG Development has a project value of approximately \$30 billion, including the onshore facility at James Price Point (60km north of Broome). This project has created some recent controversy, and demonstrates some potential security concerns for existing major project and future project developers.

Critical Strategic and Economic Infrastructure

The ever present challenge in the Pilbara is ensuring that infrastructure exists to support and grow the resource sector. From a security and risk management viewpoint that this infrastructure continues to function at full capacity is extremely important.

Ports are a critical link in the supply chain, providing the vital link to international markets for exports. The capacity of ports to perform this function has come under greater scrutiny as trade volumes associated with a growing Western Australian resource sector have more than doubled in the last ten years.

In 2008, the fully loaded 290m iron ore ship (bulk carrier Iron King, carrying 155,000 tonnes of iron ore) ran aground in the Harbour at Port Hedland Port Authority, blocking port operations and shipping. The carrier experienced steering failure as it left the port. Fortunately, the Iron King was able to be refloated on the morning high tide. However, for 12 hours it had blocked the channel leading into Port Hedland Port.

Similar incidents have already taken place due to error, accident or mistake (such as the grounding of the Pasha Bulker off Newcastle, 76,000 tonne ship illustrating the difficulties of moving intact vessels) . However these incidents underscore the risk, to our supply chain to market, around these critical pieces of infrastructure.

These Ports are critical junctures for export and should a Port be unable to load and ship product (such as through the grounding or sinking of a tanker in the harbour or channel), either as a result of accident, or other event, the economic consequences would be severe. It would stop the ability to export for a very considerable period of time (conceivably many months), and would result in the shutdown and cessation of large mining operations and significant job losses, as well as considerable detrimental flow on effects for the State and National economy.

Thousands of kilometres of pipeline from the North West provide gas to the southern regions of the state and Goldfields as a source of energy to businesses and the community.

In 2008, Western Australia endured a serious energy shortage as the result of a major disruption to natural gas from the rupture of a pipeline and subsequent explosion at a processing plant on Varanus Island of the North West Coast. This facility, which typically provided more than a third of the state's gas, was shut down for more than two months while major repairs were carried out. WA is heavily reliant on continuous supply of gas for industrial processing, manufacturing, residential use and electricity generation.

The sudden loss of almost 35% of WA's gas supply had immediate impacts on the WA community. Many businesses were forced to reduce or cease operations (some never re-opening), resulting in workers being made redundant or forced to take annual leave and the State Government requesting that businesses and householders conserve energy usage. An emergency coordination committee of government and industry representatives rationed and redirected remaining gas supply sources. When many large gas users switched to diesel for power generation (to ensure continuity of supply), the risk of a shortfall in transport fuel led to the federal government authorising the release of emergency fuel reserves stored at the Garden Island Naval Facility. The incident raised significant issues related to energy security, adequacy of existing infrastructure, and contingency planning.

While upcoming LNG projects, and new pipelines will reduce our reliance on limited infrastructure, this significant and recent incident demonstrates WA's reliance on this

infrastructure. Work is still being undertaken by Government and Industry to develop better management arrangements to address a future natural gas emergency shortage.

Complementary Regional Development and Supporting Infrastructure

The WA State Government is investing heavily in regional Western Australia, through the Royalties for Region program. With nearly a \$1 billion committed to the Pilbara Cities Vision, designed to grow the towns of Port Hedland and Karratha to cities of 50,000 people each by 2035. This program on investment in building regional communities in the Pilbara overtime will help build larger sustainable communities, with greater social and community facilities making the North West a more attractive location to live and work.

The Pilbara Cities Visions aims to grow the diversity of the regional economy, beyond the resources sector. CME supports the goal of diversification of the economy in the Pilbara to build a more balanced and broader community. The approach to help grow and develop support industries around the resource sector is sound, and is supported by Industry, which recognises the need to broaden the economic base. Member companies operating in the Pilbara also make significant contributions, both to the provision of community infrastructure, as well as through community contributions

A regional defence presence, would fit well with these regional development strategies, and could reliably expect continued State and Industry support. The strong and growing industry supporting the resources sector could also provide a useful support base for defence equipment and personnel.

Strategic Position of the North West

Approximately one third of Australia's maritime jurisdiction is in the Indian Ocean, including large exclusive economic zones around remote island territories, and large areas of extended continental shelf which are potentially rich in hydrocarbon resources.

Offshore developments of the North West of WA have an important role in the future prosperity of the nation. Offshore rigs, floating gas platforms and pipelines projects underway and in development are vital national assets. Despite the economic and strategic importance of these resource projects the Australian Defence Force currently has a limited presence in the North West to support operations in the region.

The establishment of a bilateral Force Posture Review Working Group to develop options to align Australian and US force postures in ways that benefit both countries' national security also suggests further complementary possibilities for the North West.

Conclusion

CME is not in position to make assessments regarding the relative risk or security threats that may exist. However, we are able to identify those areas where vulnerabilities could threaten our industry. Member companies undertake their own risk assessment with regard to the development and security of their projects, but as a nation, Australia must also make judgements around the protection of assets and infrastructure that provide significant economic wealth and essential energy supplies.

CME supports an increased defence presence in the Pilbara, commensurate with the need to protect vital strategic and economic infrastructure.