

Come one, come all: sharing of infrastructure takes centre stage

COMMON user infrastructure is a phrase that's set to receive a severe working out during the next year or so.

In the resources sector there have already been millions of words written and probably hundreds of thousands of dollars spent on legal fees in arguments relating to common use iron ore railways and ports alongside an allied concept: third party access to them.

Essentially what all the argument is about is that the high cost of infrastructure generally restricts the chances of investment in new projects.

So if the cost of the infrastructure could be shared among several project proponents, then more projects could be developed and in theory more resource efficiency allocation achieved.

But as Andrew Forrest well understands, the argument is more complex.

Forrest's Fortescue Metals Group is well on the way to delivering a railway and port to service its Cloudbreak iron ore development.

The infrastructure has been approved by the West Australian Government on the general principle that it will be available to third parties through either commercial arrangements with FMG or through the rulings of an economic regulator.

Forrest has instituted over a number of years various actions designed to open up rail and port facilities owned by BHP Billiton and Rio Tinto to third party access.

This is against intense opposition from BHP and Rio, which argue that the rails and ports are integral to the iron ore production process.

It is not an esoteric argument, for as one BHP insider said a year or so ago: "Hell will freeze over before we concede third party access."

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Western Australia does have a common user facility operated by the government agency Landcorp at the Australian Marine Complex at Henderson, south of Perth.

It is designed to give commercial users access to load-out facilities.

This means commercial users do not have to bear the capital cost of providing wharves and heavy lifting equipment.

The facility works well and is set to become one of the nation's most important pieces of infrastructure when a floating dock comes into operation next year.

That success appears to have given the WA Government a belief that common user facilities and third party access are the answer to everything that involves infrastructure.

As one former senior adviser said last week: "You can't look at common user facilities as you would a shopping centre. The 'one size fits all' model cannot work, for instance, if you try to impose it on a capital-intensive industry where different companies' profit structures operate quite differently."

He was speaking about the latest common user proposal for the LNG hub servicing the Kimberley.

It is still not clear how this will work considering that the Browse Basin LNG proponents are highly competitive globally and have between them the capability of garnering capital in huge wads to build their own LNG liquefaction facilities without either government assistance or interference from their competitors.

The fear in the gas industry — and it appears to be reflected in

some quarters of the federal Government — is that the argument on the operations of the LNG hub, rather than whether it is a good idea in the first place, could take years to resolve.

There are just not sufficient years available if the industry is to meet its planned production start-up targets of around 2015.

It's hard not to acknowledge the gas industry view that common user LNG hubs represent a level of government interference in the export gas industry that isn't there now.

For an industry that has just secured Council of Australian Governments backing for a Productivity Commission review of the regulatory system for petroleum activities in all states and territories, further regulation is anathema.

A report into developing the West Kimberley resources, published in 2005 as part of the joint state/commonwealth regional minerals program, estimated the cost to government of providing the supporting infrastructure to a Browse Basin gas development was between \$350 million and \$525 million.

That included port dredging, roads, increased electrical power, improved water supplies, better airstrips and enhanced communications facilities.

But nowhere did this report suggest an LNG hub was the answer to the region's infrastructure deficiencies.

There may be entirely reasonable reasons to avoid having piecemeal industrial development in the Kimberley, but a common user LNG hub seems unlikely to be the complete answer.

It may not even get to first base with the industry it is supposed to serve.