



# “Delivering Oakajee to the World”

A speech delivered by:

Christopher Eves  
Chief Executive Officer  
Oakajee Port and Rail Pty Ltd

Tuesday 12 May 2009  
BelleVue Ballroom 2, Perth Convention  
Exhibition Centre

# Acknowledgements

Thank you John  
(John Snelling, Executive Director, Mergers and Acquisitions - ANZ Bank)

Good morning

Trustees of CEDA

Tom Baddeley  
State Director of CEDA

Deidre Willmott  
Cabinet Secretary and Chief of Staff to the Hon Colin Barnett – Premier and  
Minister for State Development

Anne Nolan  
Director General  
Department of State Development

Rob Jefferies  
Chief Executive Officer of the Geraldton Iron Ore Alliance

Distinguished guests

Ladies and gentlemen

I wish to first acknowledge the traditional owners of the land on which we are meeting this morning and my respect for their beliefs.



## **SPEECH HIGHLIGHTS**

### **Realising the opportunity**

The \$4 billion integrated Oakajee port and rail project provides many opportunities for Western Australian, Australian and international businesses through a competitive tender process for a number of packages of works.

Rail – including track laying, accommodation camps, sleepers and rails, bridges, roads and crossings.

Common user port infrastructure – breakwater, dredging and general infrastructure such as navigational guides and tugs.

Private use port infrastructure – ship-loader and berth, stockyard and train unloading facilities.

The letting of tenders for these works will be based on extensive planning, which is now underway, to allow us to fully understand the massive and complex transportation task ahead.

The business planning process involves proving up technical, commercial and financial feasibility – from this process, integration across the supply chain has proven to be a critical factor for effective management.

Integration is essential in providing the flexibility to manage changes in demand and supply at all points in the supply chain, while establishing a regulatory framework that ensures that supply chain is available to all access seekers.

The open access nature of the supply chain poses challenges in itself and highlights the complexity of the project in terms of timing – several mines in the region have different development timelines and we need to deliver a timely solution while ensuring long term efficient cost structures.

The cost structure is critical in meeting our overarching long term objectives of: ensuring the region's competitiveness - we recognise that FOB costs will comprise a large part of producers' unit costs and so our service needs to be as cost effective as possible.

The design and production of the supply chain will be driven by demand, not lead it, and so we need to better understand a number of factors – products from mines, volumes, timing and tonnages.

The sooner mines can firm up their product requirements, the sooner we can work together to determine a tariff model – longer term contracts for set capacity from foundation customers will be priced according to their low risk, while flexible and interruptible volumes will attract commensurately higher prices.

The basis of this model is to maximise volumes while underpinning the viability of the supply chain.

The current schedule to bring these items together:

March 2009	Signing of the State Development Agreement
May 2009	Completion of value engineering studies
Mid-2009	Commencement of Bankable Feasibility Study, including appointment of Project Manager Services Contractor Rail corridor definition and land access for investigation studies
March 2010	Completion of BFS and front end Engineering/design
Late 2010-early 2011	Financial close Commencement of construction
Late 2013-early 2014	Project completion Commencement of commercial operation

### **The Strategic Importance of Oakajee**

The Oakajee Port and Rail project does not only represent an investment of around \$4 billion in the supply chain, but also:  
underpins the development of the regional iron ore industry through certainty of supply to market;  
supports the development of the Oakajee Industrial Estate; and  
provides the State Government, through its investment in common user port infrastructure, with the opportunity to take the project from multi-user to multi-product through the development of other potential.

The project will overcome many of the infrastructure bottlenecks and issues of closed access seen in many other areas, giving the mid-west a major strategic and regional advantage.

### **Engaging Regional Economies**

The project also represents the opportunity to engage other regional economies in WA's economy, through connections with Japan, China and Korea.

This engagement should be seen against a backdrop of:

- Significant natural resources in WA.
- A time of significant economic uncertainty and economic reconstruction.
- Continuing demand for steelmaking in China and Korea.
- Latent financial support available from those countries.
- The know-how and financial support of OPR's Japanese partners.
- Support from the Western Australian Government.

These factors combine to provide a time and place opportunity to bring all interests together.

OPR intends to intelligently position respective businesses in the mid-west to take full advantage of the undoubted upturn when it comes by reducing costs, increasing competitiveness and forging alliances.



## **Text of speech delivered by Chris Eves**

I will introduce the Oakajee Port and Rail supply chain to you this morning by setting out some key facts about the project and describing the technical and commercial steps to be undertaken between now and the commencement of commercial operations.

This morning I will spend a little time on:

- a description of the works to be undertaken;
- the contract packages to be let; and
- the procurement process to be adopted in implementing the project.

This morning I will reflect upon the strategic importance of the project for the development of the mid-west and, in this context, discuss the importance of State and Federal government support for the project.

I will also comment on the regional context of the project focussing on the:

- opportunities for regional engagement represented by the project;
- models which can be drawn upon to further and deepen that engagement; and
- the benefits of these engagements will generate for economies with significant complementarities.

### **Some key facts.**

The site:

- Oakajee is located 23 km north of Geraldton on the site of an ancient paleo-channel adjacent to the Oakajee industrial estate.
- Unlike most ports in Australia, there is no residential settlement around the site.
- The site is well served by the town of Geraldton which offers a high degree of residential amenities and access to skilled labour.

The supply chain project comprises:

- A 550km rail route to the north-east from Oakajee to transport iron ore from mines in operation and planned at Jack / Weld Range and to connect with rail mines in the south operated by Gindalbie Metals, Mt Gibson Iron, Asia Iron Holdings and others.
- A 35 mtpa port comprising a Pilbara-style car dumper, stacker, reclaimer, conveyors, stockpiles and 10,000 tonne per hour ship loader.
- Associated facilities such as ore stockpiles, rail operations and maintenance facilities, desalination plant, and lump rescreening will also be provided.
- Total project costs is estimated to date at approximately A\$4 billion comprising A\$2.4 billion in the rail, and \$1.6 billion at the port including approximately \$800m for the marine works including breakwater and dredging, and \$800m for land-based materials handling and port related rail works.

- Feasibility costs to date are approximately \$60m with an estimated additional work over the next 12-18 months at a cost of a further \$100m million. This is budgeted to be met by the OPR participants - not the State or Federal Governments.
- Significant expenditure is planned for finalisation of the rail engineering, geotechnical and environmental work.

The capital cost of the rail and the bulk of the rail expenditure are represented in the following key contract packages.

#### Rail

- Below formation works for rail route on four construction fronts including temporary and demountable accommodation camps.
- Culverts team.
- Bridges team.
- Roads and crossings.
- Track laying and supply.
- Early procurement sleepers and rail.
- Signals and communications.
- Yard and workshops.

The capital expenditure of the port is represented by the following key marine and land-based contract packages.

#### Common use infrastructure

- Breakwater.
- Dredging.
- Other works comprising tugs and small boat harbour and general infrastructure including navigation aids.

#### Private use infrastructure

- Train unloading.
- Stockyard.
- Lump rescreening.
- Ship loader and berths.

### **The procurement method**

It will come as no surprise to anyone here that the method of contract procurement will be competitive tender. Indeed it must be.

Quite apart from the State Government's involvement in the common use infrastructure, this is essential for the capital cost incurred by OPR to qualify for our regulated asset base as part of our regulated tariff calculation.

As a regulated infrastructure provider, OPR is obliged to ensure that our capital cost is incurred efficiently to enable it to qualify as forming part of the basis of our tariff charges to users.

Before we commence letting tenders for the execution of the works, we must plan the execution of those works to ensure that we fully understand the risks and issues entailed in the development of the supply chain and its operation.

During an extensive series of risk workshops conducted last year during our tender to the WA Government and at the end of last year, we determined that one of the most important risks for OPR to fully understand was the detail of the transportation task required in the mid-west.

This involves a thorough understanding of the mines products, volumes, timing and tonnages.

What is entailed in cargo assembly, where will that assembly occur and what value creation opportunities exist?

Several mines in the mid-west are still conducting, or are yet to conduct their bankable feasibility study (BFS) programs.

When this information is available, we will respond with the tariff profiles and options necessary for the mines to finalise their plans including cut off grades and pit designs.

To assist us, OPR is currently conducting a tender for the appointment of a Project Manager Services Contractor (PMSC) to manage the estimating and complete the remaining engineering designs to take our bankable feasibility study (BFS) to the required degree of accuracy for those studies to be acceptable to capital markets and governments.

We expect that capex and opex estimates will be put through a gateway process in March next year prior to progression into tender of contract packages and early front-end engineering and design (FEED).



## **Timetable**

- State Development Agreement signing in March 2009 which was necessary to provide the certainty to undertake the necessary expenditure to complete the detailed planning phase.
- Completion of value engineering studies by May 2009.
- Commence BFS with the appointment of our PMSC in mid 2009.
- Rail corridor definition and land access for investigation studies by mid 2009.

BFS completion by March 2010

- FEED by March 2010.
- Early procurement by Sept 2010.
- Financial close and start construction by late 2010 or early 2011.
- Project completion and start commercial operations by end 2013 or early 2014.

## **Business planning process**

The business planning process through which the project must pass to assemble a business case for investment by capital markets, the sponsors and government is one which demonstrates technical and commercial feasibility.

The bid process we passed last May required that we develop our business case on the basis of existing technical and commercial facts.

Commercially, this required among many other things that we benchmark the supply chain performance around Australia with the purpose of identifying the best practice aspects and lessons learned from projects that were experiencing significant difficulty.

This involved a comparison of the Pilbara supply chains and others at Dalrymple Bay in Queensland and in NSW's Hunter Valley coal fields and ports.

From these studies emerged the importance of an integrated bulk commodity supply chain - an integration of rail with port. This was fundamental to our business case and set the frame for further studies which followed through out 2008.

There are various aspects of integration of the rail and port systems that impacted on the efficiency of the supply chain as a whole, and optimised the possibility of delivering competitively priced transport services to mines.

One aspect is the supply chain must be flexible enough to manage variability.

Variations in berth utilisation through managing uncertainty around vessel presentations to variations in the quality and specification of ore bodies encountered by the mines which effects cargo assembly.

The Pilbara supply chains provided a good example in how to manage out ore specification variability by taking full advantage of blending opportunities at the train loading, unloading, material handling and ship loading phases of delivery.

Cargo assembly opportunities to assist in managing product delivery specifications arise at every step in the supply chain and this is facilitated by the transportation services contractor.

This means that it was more likely to deliver greater efficiencies to mines with greater opportunity to minimise demurrage if there was an integrated not fragmented supply chain.

The analogy with the Pilbara can only be taken so far as OPR is an open access service provider, regulated to ensure access to the supply chain is available to all access seekers.

This means OPR has to work within a regulatory framework which will ensure access requirements are met but, seeks to emulate the efficiencies of fully integrated systems.

In striking this balance, it is recognised that OPR is a monopoly service provider.

This is essential in the mid-west to avoid duplicative and inflationary fragmentation of the supply chain. To ensure that the mine customers are protected in terms of access to the supply chain we are proposing a “negotiate arbitrate” model.

More details of this model will soon be available on our web site.

To avoid confusing schemes of regulation, we adopted one access framework based on the rail access regime. This governs access and handling from mine gate to ships’ rail under an access and handling regime at the port which mirrors that applicable to the legislative scheme already in place to govern rail.

In the regulation of the supply chain we sought to ensure the principles reflected in the regulatory regime were given effect to while at the same time simulating the efficiencies of the Pilbara.

This was to be done among a number of relatively small fragmented mines with variable development programs, products and off-take requirements.

We believe that we have achieved an appropriate balance.

In moving forward from bid to implementation, timing of the development program is absolutely critical.

Several mines in the region have different development timetables. Gindalbie Metals is well developed while others are still at proof of concept stage and others still are in the prospective or planning phase.

Complex and difficult choices lie ahead in coordinating the development timetable of the mines among themselves and with the infrastructure.

There is some complexity in providing a regional transport and materials handling solution, which minimises stranded investment and at the same time promotes long term efficient costs.

This is our goal and we are striving to assist the mines achieve their development timetable while balancing short term pragmatism with long term efficiency. In doing this we, and the mines, are driven by the off-take market for product and in the end the requirements of steel mills which pay our bills.

Our overarching long term objective is to ensure the region's competitiveness.

Competitiveness with other world-class efficient producers such domestic Chinese and South America production is essential.

This competitiveness will be achieved through an understanding of the mines' position on the international supply cost curve, and a recognition that the costs of transport FOB Oakajee will be a large part if not the single largest component of unit cost.

So with this background of the need for an integrated supply chain, the design, documentation, engineering, procurement, construction, financing and operation of the project, the commercial appraisal of the project and the development of the business plan goes through several stages.

Importantly, I believe that the design and construction of the supply chain will respond to market demand for transport services from mines. It will not lead demand.

Foundation customers will receive the most competitive transport terms for making fixed and early capacity commitments where they can. If they cannot, significant additional cost may be expected as such will reflect enhanced risk.

Therefore I invite, I call on, the mill customers of mid-west mines to firm up their product requirements to take advantage of the lowest possible costs.

What may be said at the outset is that expansion capacity will never be cheaper than foundation customer capacity.

Foundation customers and their mills will be rewarded for the support they provide to underpin the commercial feasibility for the supply chain by tariffs which will reflect their commitment.

Tariff structures are being modelled at present and a considerable effort is being devoted to mirror the requirements of flexibility around quantities, (which international iron ore market practice requires of mines), in the supply chain.

This means our tariffs should reflect iron ore industry practice in terms of off-take contract structure in the transportation arrangements.

What long term commitments are mills prepared to place on their order books to mid west-mines?

Purchasers have volume contracts with annual price setting and volume flexibility usually around a base annual tonnage. This base represents a minimum to which mines may be expected to commit.

Flexibility or interruptible, volumes will be priced accordingly as will opportunistic spot contract volumes.

Overall, mines can take comfort from the fact that OPR wants to price to attract maximum volumes onto the system. This will drive up utilisation and drive down unit prices.

The business planning process requires a full evaluation of all project metrics including those of our customers and their customers.

The engineering studies outlined earlier represent only part of the activities undertaken to complete the business planning process for the project.

During 2009, OPR will advance capex and opex estimates, regulatory framework, tariff modelling, mine contract negotiations, social, environmental approvals and community communication programs.

All of these disciplines are reflected in a well-prepared business plan.

To get where we are today we have completed our preliminary feasibility study. We submitted a detail plan with our proposal in May 2008 against which our status as preferred developer was assessed.

Since then we have conducted a detailed planning review, executed detailed risk assessments through a formal risk workshop process. This led to a very substantial value engineering study focussed on breakwater design and rail formation works.

A planning review and gate process is due for completion by the end of May and when completed, will formally mark the commencement of our BFS program.

This will assess the commercial and technical feasibility of the project to + or – 15 per cent accuracy at a high degree of probability and is estimated to yield initial results towards year end and formal completion in the first quarter of calendar 2010.

### **Oakajee and development of the mid-west**

The strategic importance of the Oakajee port and rail system cannot be overstated.

There is plenty of iron ore in the world; the problem is the lack of infrastructure in getting the ore to market.

This importance of transportation services in the mid-west is such that the provision of those services enables:

- existing mines to go from proof of concept to commercial operation;
- prospective tenements to complete feasibility analysis to give investors and financiers confidence that products can reach market; and
- those considering mid-west investment to know that if discovered their resources have a pathway to world markets.

OPR provides this for the mid-west.

It is therefore not just the investment in the supply chain but the multiplier effect of mine expansions that represent additional benefit of the investment.

The overall impact of this on the mid west economy for present and future jobs growth and prosperity is very significant.

The connection of the new port to a regional rail network is of huge value to the state and regional development well apart from the Oakajee Industrial Estate

The State Government understands this in the support they have shown for the project.

From our point of view the State's participation in the project advances State's development objectives for the mid-west, it stabilises the provision of finance for the common use infrastructure and provides the State with the opportunity to take the project from a multi user port to a multi product port. This is a matter of State policy.

The State's involvement also enables it to provide one thing the commercial sector cannot.

That is the opportunity to encourage increased use of the supply chain through concessional wharfage rates given the natural hedge the State enjoys through revenue provided by mining royalties.

The greater the tonnes across the supply chain, the greater the State royalty revenue.

OPR is committed to work with the State and Federal Governments to deliver the project in a manner to realise these development objectives.

### **Constructive engagement of regional economies**

Finally, I want to address the regional dimensions of this project and emphasise the opportunity that such represents for the mid west and Western Australia, in particular.

I have been particularly fortunate to work in this project and assist in framing the connection which this project makes to the important regional economies of Japan, China and Korea.

I have had two major experiences in my professional life which have influenced my approach to the question of regional engagement in major resource projects.

These two main influences are:

#### **Alcoa Portland Aluminium Smelter**

It is an incorporated joint venture between Western Mining and Aluminium Company of America and the Victorian Government, CITIC of China under the great leader Hu Yaobang and a publicly listed resource trust sponsored by the National Australia Bank.

As secretary to the joint venture and general counsel to Alcoa, it provided me with a working example of how a major resource joint venture, with very different participants, could work to the commercial success of all concerned.

My second experience occurred as Special Counsel to the APEC Energy Working Group comprising at the time 18 APEC economies of the Asia Pacific region.

I executed a major regional study for the APEC Energy Working Group which I presented to a regional meeting of APEC Energy Ministers, structures and processes on the cooperation for power infrastructure in APEC member economies.

My study was presented to the inaugural meeting of APEC Energy Ministers in 1996 in Sydney.

The conclusions of the study were:

- The same risks, faced by the same investors, in the same capital markets, if managed in the same ways lowered the risk weighted cost of capital. Relatively modest cooperation, across international boundaries could produce economic efficiencies.
- The three E's policy of Japan namely: energy security, economic rational use of scarce capital and energy and environmental protection should inform policy development.
- Structures and processes for economic regulation of infrastructure investment would benefit from regular communication with the business community.

Regional cooperation for infrastructure investment can trace its origins to the European Coal and Steel Commission and the work of its Chief Executive, the Belgian Jean Monnet, who is often referred to as the *"first statesman of interdependence"*.

The European Coal and Steel commission was the forerunner of the EU which forced a focus on the then urgent need to foster the redevelopment of Europe in the post-war years through economic interdependence.

One major theme of its founders was to obtain regional peace and security through economic interdependence of sovereign states.

But what does this mean for the Oakajee supply chain in 2009?

It means with significant natural resources in Western Australia in a time of significant economic uncertainty and economic reconstruction, the continuing demand for steel making from the economies of China and Korea and the hugely important financial support available from those economies taken with the know how and financial support from Japan, it suggests that with State and Federal Government support, the mid-west can play an important role in bringing disparate interest together.

The aspirations for prosperity of the mid-west, Perth and Western Australian requires a collaborative approach to deliver this project.

OPR is ready to do its part.

In a recent boardroom discussion, these questions were asked:

*"What are we doing to take full advantage of this almost unprecedented economic situation?"*

*How will future generations judge our efforts in 2009 and 2010?*

*Will we be seen as intelligently positioning our respective businesses to take full advantage of the undoubted up turn when it comes by reducing costs, increasing competitiveness and forging alliances?*

Or

*Will we sit back and be judged to have allowed the opportunity to pass?*

What better time is there to develop a capital intensive development where our investment horizon is long term?

Thank you and good morning.

