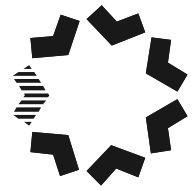


NATIONAL  
COMPETITION  
COUNCIL



## Goldsworthy Railway

Application for declaration of a  
service provided by the  
Goldsworthy Railway under  
section 44F(1) of the  
*Trade Practices Act 1974*



**Draft Recommendation**

**20 June 2008**



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## Abbreviations and glossary of terms

|                       |   |
|-----------------------|---|
| above rail            | Assets and equipment such as locomotives and ore cars that operate on a railway   |
| above rail service    | A service provided using above rail assets and equipment usually for the purpose of hauling or moving freight and/or passengers by rail                               |
| ACCC                  | Australian Competition and Consumer Commission  |
| AMEC                  | Association of Mining and Exploration Companies   |
| API                   | Australian Premium Iron Joint Venture   |
| Applicant             | The Pilbara Infrastructure Pty Ltd  |
| Atlas Iron            | Atlas Iron Limited  |
| below rail            | Fixed railway assets such as tracks, sleepers, signalling and monitoring equipment  |
| below rail service    | A service which constitutes the use of the below rail infrastructure necessary for running trains, but does not include the use of trains and other above rail assets |
| BHP Billiton Iron Ore | Collectively BHP Billiton Iron Ore Pty Ltd and BHP Billiton Minerals Pty Ltd  |
| BHP Billiton Minerals | BHP Billiton Minerals Pty Ltd   |
| BHPBIO                | <i>See</i> BHP Billiton Iron Ore  |
| Cape Lambert Iron Ore | Cape Lambert Iron Ore Limited   |
| CBS                   | Capacity Balancing System   |
| CCIWA                 | Chamber of Commerce and Industry Western Australia  |
| clause 6 principles   | The principles set out in clause 6 of the Competition Principles Agreement – 11 April 1995 (As amended to 13 April 2007)  |
| consist               | In railway terminology, a consist describes the group of rail vehicles that make up a train, or a group of locomotives connected together for multiple-unit operation |
| Council               | National Competition Council  |
| criterion (a)         | Section 44G(2)(a) of the TPA  |
| criterion (b)         | Section 44G(2)(b) of the TPA  |
| criterion (c)         | Section 44G(2)(c) of the TPA  |

|  |   |
|--|---|
| criterion (d)                                  | Section 44G(2)(d) of the TPA  |
| criterion (e)                                  | Section 44G(2)(e) of the TPA  |
| criterion (f)                                  | Section 44G(2)(f) of the TPA  |
| designated Minister                            | The Minister designated to make the decision on whether or not to declare the service subject to the application for declaration in accordance with the requirements under Part IIIA of the TPA—for this application, the Hon. Wayne Swan MP, Treasurer |
| Finucane Island section                        | The section of the Goldsworthy Railway running from the Goldsworthy Junction to Finucane Island   |
| Fortescue                                      | Fortescue Metals Group Ltd  |
| Full Court                                     | Full Court of the Federal Court   |
| GDP  | Gross Domestic Product  |
| Goldsworthy Agreement Act                      | <i>Iron Ore (Mt Goldsworthy) Agreement Act 1964</i> (WA)  |
| Goldsworthy Application (comprising Parts 1-3) | An application by TPI for a recommendation under Part IIIA of the TPA that a service provided by the railway owned by the Mt Goldsworthy Joint Venture Participants be declared   |
| Goldsworthy Joint Venture                      | An unincorporated joint venture consisting of: BHP Billiton Minerals Pty Ltd; Mitsui Iron Ore Corporation Pty Ltd; and ITOCHU Minerals and Energy of Australia Pty Ltd  |
| Goldsworthy Railway                            | The railway line from a location near Yarrie to a location near Finucane Island within the port of Port Hedland and associated infrastructure, which is the facility that would be used to provide the Goldsworthy Service                              |
| Goldsworthy Service                            | A service which is sought by the Applicant to be declared. The Goldsworthy Service is a 'rail track' or 'below rail' service using the Goldsworthy Railway.   |
| Goldsworthy Service Providers                  | The owners and operators of the Goldsworthy Railway facility that would be used to provide the Goldsworthy Service  |
| GSP  | Gross State Product   |
| Hamersley Agreement Act                        | <i>Iron Ore (Hamersley Range) Agreement Act 1963</i> (WA)   |

|  |  |
|--|--|
| Hamersley Application (comprising Parts 1-4) | An application by TPI for a recommendation under Part IIIA of the TPA that a service provided by the railway owned by Hamersley Iron Pty Ltd and other entities be declared  |
| Hamersley Iron                               | Hamersley Iron Pty Ltd (a wholly owned subsidiary of Rio Tinto)  |
| Hamersley Service                            | A service which is sought by the Applicant to be declared. The Hamersley Service is a 'rail track' or 'below rail' service using the Hamersley Railway.  |
| Hamersley Service Providers                  | Collectively Hamersley Iron, the participants of the Robe River Iron Associates, HI-Yandi and Pilbara Iron Pty Ltd. These entities are the owners and operators of the Hamersley Railway facility that would be used to provide the Hamersley Service. |
| haulage service                              | See above rail service   |
| HI-Yandi                                     | Hamersley Iron-Yandi Pty Ltd (owner of the railway line from Juna Downs to Yandicoogina)   |
| Hope Downs joint venture                     | An unincorporated 50:50 joint venture between Rio Tinto Limited and Hancock Prospecting Pty Limited  |
| JORC   | Australasian Joint Ore Reserves Committee  |
| Junior explorers                             | A generally smaller company that is exploring for mineral resources but is not yet producing mineral commodities   |
| MCA  | Minerals Council of Australia  |
| Mt Newman Joint Venture                      | An unincorporated joint venture comprising the following participants: BHP Billiton Minerals Pty Ltd; Mitsui-Itochu Iron Pty Ltd, and ITOCHU Minerals and Energy of Australia Pty Ltd  |
| Mt Newman Recommendation                     | The Council's final recommendation (23 March 2006) on the application by Fortescue for declaration of the Mt Newman Service  |
| Mt Newman Service                            | A rail track service using the Mt Newman Railway running from a rail siding near Mindy Mindy to Port Hedland, which is the subject of the Mt Newman Recommendation   |
| mtpa   | million tonnes per annum   |
| NWIOA  | North West Iron Ore Alliance   |

|   |  |
|---|--|
| OECD                                    | Organisation for Economic Cooperation and Development  |
| Part IIIA                               | Part IIIA of the <i>Trade Practices Act 1974</i> (Cth)   |
| Pilbara Iron                            | Pilbara Iron Pty Ltd (a wholly owned subsidiary of Rio Tinto Limited, which has the exclusive right to manage and operate on an integrated basis the railway assets of Hamersley Iron, HI-Yandi and the Robe River Iron Associates)                            |
| Proposed Pilbara Rail Haulage Regime    | A regime the Western Australian Government is developing for access to rail haulage services for iron ore in the Pilbara   |
| rail haulage service                    | See above rail service   |
| rail track service                      | See below rail service   |
| rake                                    | A set of ore cars usually numbering around 100 cars. An iron ore train is usually described in terms of rakes rather than ore cars.  |
| Rio Tinto Iron Ore                      | Rio Tinto Iron Ore Pty Ltd (a division of Rio Tinto Limited responsible for iron ore operations)   |
| Robe Agreement Act                      | <i>Iron Ore (Robe River) Agreement Act 1964</i> (WA)   |
| Robe Application (comprising Parts 1-3) | An application by TPI for a recommendation under Part IIIA of the TPA that a service provided by the railway owned by the Robe River Iron Associates be declared   |
| Robe Railway                            | The railway line running from a location near Mesa J to Cape Lambert and associated infrastructure, which is the facility that would be used to provide the Robe Service   |
| Robe River Iron                         | The Robe River Iron Associates (an unincorporated joint venture comprising the following participants: Robe River Mining Co Pty Ltd; Mitsui Iron Ore Development Pty Ltd; North Mining Limited; Cape Lambert Iron Associates; and Pannawonica Iron Associates) |
| Robe Service                            | A service which is sought by the Applicant to be declared. The Robe Service is a 'rail track' or 'below rail' service using the Robe Railway.  |
| Robe Service Providers                  | Robe River Iron Associates and Pilbara Iron Pty Ltd. These entities are the owners and operators of the Robe Railway facility that would be used to provide the Robe Service.  |
| SMS                                     | Simulation Modelling Services Pty Ltd  |

|                               |   |
|-------------------------------|---|
| State Agreement companies     | The mining companies subject to State Agreements  |
| State Agreement Acts          | <i>The Iron Ore (Hamersley Range) Agreement Act 1963 (WA), Iron Ore (Mt Goldsworthy) Agreement Act 1964 (WA), Iron Ore (Robe River) Agreement Act 1964 (WA) and Iron Ore (Yandicoogina) Agreement Act 1996 (WA)</i> |
| State Agreements              | The agreements entered into between the State of Western Australia and mining companies   |
| the haulage services market   | With respect to each of the Goldsworthy, Hamersley and Robe applications the haulage services market is the market for haulage services for iron ore on the relevant railway in the vicinity of that railway        |
| the iron ore tenements market | The market for tenements that contain iron ore in the Pilbara   |
| TPA                           | <i>Trade Practices Act 1974 (Cth)</i>   |
| TPI                           | The Pilbara Infrastructure Pty Ltd (also the Applicant, a wholly owned subsidiary of Fortescue and manager and operator of Fortescue's railway)   |
| track service                 | <i>See below rail service</i>   |
| Tribunal                      | Australian Competition Tribunal   |
| WA Rail Access Regime         | <i>Railways (Access) Act 1998 (WA) and the Railways (Access) Code 2000 (WA)</i>   |
| Yandicoogina Agreement Act    | <i>The Iron Ore (Yandicoogina) Agreement Act 1996 (WA)</i>  |
| Yarrie section                | The section of the Goldsworthy Railway running between Yarrie and the Goldsworthy Junction  |

## 1 Council processes and draft recommendation

- 1.1 On 16 November 2007, The Pilbara Infrastructure Pty Ltd applied to the National Competition Council (**Council**) for a recommendation under Part IIIA of the *Trade Practices Act 1974* (Cth) (**TPA**) that the service provided by a railway owned by the Mt Goldsworthy Joint Venture participants be declared for a period of 20 years (**Goldsworthy Application**<sup>1</sup>).
- 1.2 The Council also received applications for recommendations under Part IIIA of the TPA that a service provided by the railway owned by Hamersley Iron Pty Ltd and other entities (**Hamersley Application**) and a service provided by the railway owned by the Robe River Iron Associates (**Robe Application**) each be declared for a period of 20 years.
- 1.3 The Council has prepared a separate draft recommendation in respect of each of the three applications. Parts of the Council's consideration are common to more than one application and several parties made submissions in relation to more than one application (or indicated that submissions in relation to one or more specific application should be taken into account in relation to other applications 'where relevant'). Where this is the case the content of the three draft recommendations is similar or identical. Where issues, submissions or analysis are specific to a particular application (or applications) the Council has included these in its consideration of that application(s) and in the relevant draft recommendation.
- 1.4 The Council conducted a public consultation process in preparing this draft recommendation in relation to the Goldsworthy Application. The Council received submissions from the following organisations:
  - BHP Billiton Iron Ore Pty Ltd and BHP Billiton Minerals Pty Ltd (collectively **BHP Billiton Iron Ore**)
  - Government of Western Australia
  - Atlas Iron Limited
  - Association of Mining and Exploration Companies
  - North West Iron Ore Alliance
  - Minerals Council of Australia
  - Chamber of Commerce and Industry Western Australia.
- 1.5 The Council received a submission from Rio Tinto Iron Ore in response to the Hamersley and Robe applications. Rio Tinto Iron Ore requested that the Council take that submission into account in its consideration of the Goldsworthy Application.

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<sup>1</sup> See paragraphs 2.1 and 2.3 regarding the Goldsworthy Application.

- 1.6 Appendix A provides details of the Council's public consultation process.
- 1.7 In preparing this draft recommendation, the Council has taken into account the submissions received, information provided during meetings with specific parties and organisations, and other information obtained from publicly available sources.
- 1.8 In accordance with section 44GA of the TPA the Council has used its best endeavours to make a recommendation on this application for declaration to the designated Minister within the standard period of four months beginning on the day it received the application.
- 1.9 A period of four months from the date of this application has expired and the Council has been unable to meet the targeted time. Several factors have contributed to this outcome:
- this is one of three applications relating to iron ore railways in the Pilbara that the Council has sought to address concurrently
  - the applications contained limited information, and in the case of this application and the Hamersley Application some time elapsed before sufficient information was provided to enable proper consideration of the applications to commence
  - all three applications are complex with the service providers in particular making extensive submissions on a number of aspects
  - in the case of the Hamersley Application, the Council's power to consider the application was subject to a legal challenge by Hamersley Iron Pty Ltd (a wholly owned subsidiary of Rio Tinto Limited) (while this did not in itself delay the Council's work it diverted significant Council resources)
  - the service providers relevant to this application and the Hamersley and Robe applications requested additional time to provide their submissions on the applications, and the Council considered additional time was warranted.
- 1.10 Pursuant to section 44GA of the TPA, on 12 March 2008, the Council extended the standard period of four months for considering this matter by 167 days, until 29 August 2008. The Council will continue to use its best endeavours to provide its recommendation to the designated Minister as soon as possible.

## **Draft recommendation**

- 1.11 The Council has reached a preliminary view that the Goldsworthy Application satisfies each of the declaration criteria set out in section 44G(2) of the TPA and meets the other requirements relating to declaration set out in Part IIIA.

- 1.12 Based on the information available at this point in time, the Council intends to recommend to the designated Minister (Hon. Wayne Swan MP, Treasurer) that the service be declared for a period of 20 years.

### **Call for further submissions**

- 1.13 The Council now seeks submissions from interested parties in response to this draft recommendation. The closing date for submissions is **Monday, 21 July 2008**.

- 1.14 Submissions can be emailed to [goldsworthy@ncc.gov.au](mailto:goldsworthy@ncc.gov.au), with a hard copy addressed to:

John Feil  
Executive Director  
National Competition Council  
GPO Box 250  
Melbourne VIC 3001

- 1.15 Submission guidelines and submission coversheets can be obtained at [www.ncc.gov.au](http://www.ncc.gov.au).

- 1.16 Any queries can be directed to Ross Campbell on (03) 9285 7474 or to [goldsworthy@ncc.gov.au](mailto:goldsworthy@ncc.gov.au).

## 2 The application

### The application and applicant

- 2.1 On 16 November 2007, The Pilbara Infrastructure Pty Ltd (**Applicant**) applied to the Council under Part IIIA of the TPA for a recommendation that the service provided by a railway line owned by the Mt Goldsworthy Joint Venture participants be declared for a period of 20 years (**Goldsworthy Application Part 1**).
- 2.2 The Applicant is a wholly owned subsidiary of Fortescue Metals Group Ltd (**Fortescue**). The Applicant stated that it will operate Fortescue's rail and port operations in the Pilbara.
- 2.3 On 18 January 2008, following a request from the Council for further supporting information, the Applicant provided a supplementary submission in respect of its application (**Goldsworthy Application Part 2**). On 6 February 2008, in response to information provided by the legal representatives of BHP Billiton Minerals Pty Ltd (**BHP Billiton Minerals**), regarding the ownership of the facility, the Applicant submitted a letter further supplementing its application (**Goldsworthy Application Part 3**). Together with the Goldsworthy Application Part 1, these documents constitute the **Goldsworthy Application**.

### The service sought to be declared

- 2.4 The term 'service' is defined for the purposes of Part IIIA in section 44B of the TPA:

**service** means a service provided by means of a facility and includes:

- (a) the use of an infrastructure facility such as a road or railway line;
- (b) handling or transporting things such as goods or people;
- (c) a communications service or similar service;

but does not include:

- (d) the supply of goods; or
- (e) the use of intellectual property; or
- (f) the use of a production process;

except to the extent that it is an integral but subsidiary part of the service.

- 2.5 The service which is sought by the Applicant to be declared (**Goldsworthy Service**) is described at [3.2] and [3.3] of the Goldsworthy Application Part 1 as follows:

The service which TPI seeks to have declared is the use of the facility comprising the Goldsworthy Railway from a location near Yarrie, at one end, to a location near Finucane Island within the port of Port Hedland, at the other end, and all points in between...

The Goldsworthy Service would also include the use of all associated infrastructure necessary to allow third party trains and rolling stock to move along the Goldsworthy Railway between points of interconnection, including, but not limited to:

- (1) railway track, associated track structures, over or under track structures, supports (including supports for equipment or items associated with the use of the railway);
- (2) bridges;
- (3) passing loops;
- (4) train control systems, signalling systems and communication systems;
- (5) sidings and refuges to park rolling stock;
- (6) maintenance and protection systems; and
- (7) roads and other facilities which provide access to the railway line route.

- 2.6 The Applicant stated that it seeks access to the Goldsworthy Service in order to be able to offer an above rail haulage service to mining companies seeking to move bulk materials between any two points on the Goldsworthy Railway, including without limitation interconnection points with other rail networks and railway lines. Such a service, is described as an *all points* service.<sup>2</sup>

## The facility

- 2.7 The facility which would be used to provide the Goldsworthy Service is the railway line from a location near Yarrie to a location near Finucane Island within the port of Port Hedland and associated infrastructure (**Goldsworthy Railway**).
- 2.8 A map showing the location of the Goldsworthy Railway is included in appendix B.

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<sup>2</sup> The significance of the *all points* nature of the Goldsworthy Service is discussed at paragraph 2.28.

## The service provider

2.9 The Council understands that:

- The Mt Goldsworthy Joint Venture participants own the railway line from a location near Yarrie to a location near Finucane Island within the port of Port Hedland.
- The Mt Newman Joint Venture participants own various infrastructure assets which are used in connection with the use of the Goldsworthy Railway.
- BHP Billiton Iron Ore Pty Ltd manages and operates the Goldsworthy Railway on behalf of the Mt Goldsworthy Joint Venture.

2.10 The Mt Goldsworthy Joint Venture is an unincorporated joint venture comprising the following participants:

- BHP Billiton Minerals Pty Ltd
- Mitsui Iron Ore Corporation Pty Ltd, and
- ITOCHU Minerals and Energy of Australia Pty Ltd.

2.11 The Mt Newman Joint Venture is an unincorporated joint venture comprising the following participants:

- BHP Billiton Minerals Pty Ltd
- Mitsui-Itochu Iron Pty Ltd, and
- ITOCHU Minerals and Energy of Australia Pty Ltd.

2.12 On the basis of the information set out in paragraph 2.9, the Council considers that the providers of the Goldsworthy Service are the Mt Goldsworthy Joint Venture participants, the Mt Newman Joint Venture participants, and BHP Billiton Iron Ore Pty Ltd (**Goldsworthy Service Providers**).

## The decision maker

2.13 The Council will forward its final recommendation in relation to the Goldsworthy Application to the designated Minister, who, pursuant to section 44H of the TPA, decides whether to declare or not declare the Goldsworthy Service. In this matter the Hon. Wayne Swan MP, Treasurer, is the designated Minister.

2.14 The designated Minister must publish the declaration or his decision not to declare the Goldsworthy Service and his reasons for decision within 60 days of receiving the Council's final recommendation. The Council will make its final recommendation public as soon as practicable after the designated Minister makes and publishes his decision.

- 2.15 Should the designated Minister not make a decision within the prescribed time, the application is deemed to have been declined, pursuant to section 44H(9) of the TPA.
- 2.16 The designated Minister's decision may be reviewed (upon application) by the Australian Competition Tribunal (**Tribunal**).

### **Other Pilbara railway applications**

- 2.17 The Applicant has submitted two other applications to the Council for the declaration of similar services provided by other railway lines in the Pilbara, which the Council is considering concurrently with the Goldsworthy Application. The two other applications are:
- an application submitted on 16 November 2007, for a recommendation that the service provided by certain railway lines owned by Hamersley Iron Pty Ltd (and other entities) be declared (**Hamersley Application**), and
  - an application submitted on 16 November 2007, for a recommendation that the service provided by a railway line owned by the Robe River Iron Associates be declared (**Robe Application**).
- 2.18 The Council has released separate draft recommendations in relation to the Goldsworthy, Hamersley and Robe applications.
- 2.19 The Council previously considered an application by Fortescue for a recommendation that a service provided through the use of the Mt Newman Railway from a rail siding near Mindy Mindy to Port Hedland (**Mt Newman Service**) be declared. On 23 March 2006, the Council recommended that the Mt Newman Service be declared for a period of 20 years (**Mt Newman Recommendation**). The Mt Newman Service was deemed not to have been declared after the designated Minister made no decision within 60 days of receiving the Council's recommendation. On 9 June 2006, Fortescue sought review of the designated Minister's deemed decision by the Tribunal. That review is before the Tribunal.
- 2.20 While the Goldsworthy Service is different from the Mt Newman Service, there are, nevertheless, areas where the Council's analysis of each declaration application has involved substantially similar considerations. Accordingly, in developing this draft recommendation, the Council has drawn where relevant upon its analysis in the Mt Newman Recommendation. Where this has been done it has been identified in this draft recommendation.

### **Issues regarding the application**

- 2.21 BHP Billiton Iron Ore submitted that the 'production process exception' provided by paragraph (f) of section 44B of the TPA applies in the case of the Goldsworthy Application. Rio Tinto Iron Ore, in its submission on the Hamersley and Robe

applications, raised several issues regarding the form and nature of the applications and the Council's jurisdiction to consider them, that it maintained also apply to the Goldsworthy Application. These issues are outlined in this section. Insofar as these issues relate to the Council's ability to deal with this application the Council's conclusions in respect of these issues are also set out in this section. Where an issue also has an impact on other parts of the Council's consideration of this application, the issue is also addressed in the relevant section of in this draft recommendation.

### **Production process exception**

- 2.22 BHP Billiton Iron Ore submitted that the Goldsworthy Service includes the use of a production process within the definition of 'service' in section 44B of the TPA and is accordingly exempt from declaration under Part IIIA (BHPBIO Sub 1 at [7.1]-[7.42]). Rio Tinto Iron Ore raised the same concern in relation to the Hamersley and Robe applications.
- 2.23 The extent of the 'production process exception' provided by paragraph (f) of section 44B of the TPA has been the subject of judicial consideration. The authority that the Council must apply is that established by the decision of the Full Court of the Federal Court (**Full Court**) in *BHP Billiton Iron Ore Pty Ltd v National Competition Council* [2007] FCAFC 157.<sup>3</sup>
- 2.24 In that case the Full Court stated (at [172]) that it did 'not accept that the phrase "the use of a production process" includes a step in a production process for the purposes of paragraph (f)'. The Full Court found that the production process exception did not apply to the Mt Newman and Goldsworthy railways, because those railways were only a part of any production process with which they might be associated and the exception did not apply to parts of any production process.
- 2.25 In the Council's view, the relevant circumstances leading to the Full Court's decision in respect of the Mt Newman and Goldsworthy railways are indistinguishable from the circumstances of this application.
- 2.26 The Council considers that it is not prevented from dealing with this application on the grounds that the Goldsworthy Service is, or includes, the use of a production process.

### **Section 44F(1) requires a 'particular service'**

- 2.27 Rio Tinto Iron Ore submitted that the Hamersley and Robe applications, and by extension the Goldsworthy Application, failed to identify a 'particular service' for which declaration is sought. This argument, as it relates to the Goldsworthy

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<sup>3</sup> The High Court has given special leave for an appeal against this decision, but until a decision is made the Council must apply the Full Court's decision.

Application, is that because the application provides for use of the Goldsworthy Service between all points on the Goldsworthy Railway, it seeks declaration of an 'infinite number of services'. Rio Tinto Iron Ore argued that this does not comply with section 44F(1) of the TPA, which requires that applications under Part IIIA be made in respect of a particular service. Rio Tinto Iron Ore suggested that the requirement that an application relates to a particular service is necessitated by the need for the Council (and presumably other parties to the decision making process) to determine whether the declaration criteria are satisfied, and 'the infinite number of services that in substance have been applied for makes it impossible to meaningfully apply the declaration criteria' (RTIO, Sub 1 at [1.5]).

- 2.28 In the Goldsworthy Application, the Applicant sought declaration of what has become known as an *all points* service, as distinct from a *point to point* service. The distinction is that the application seeks access to run trains between any two places on the Goldsworthy Railway rather than between two pre-specified points on the railway. Unlike the earlier application in respect of the Mt Newman Service where Fortescue sought access to run trains between its Mindy Mindy deposit and Port Hedland,<sup>4</sup> the Applicant in this case has sought a broader level of access so that it (and potentially other access seekers) can offer haulage services to a range of potential customers who may wish to have ore transported from different mine locations to one or more ports accessible through use of the Goldsworthy Railway, possibly in conjunction with other railways or means of transport. All points access also increases the variety of mine operators that might be able to use the service to transport ore.
- 2.29 The Council agrees with Rio Tinto Iron Ore's general submission that an application must be made with sufficient particularity as to the service to which it relates, to enable the Council (and other parties involved in the decision making process) to understand what is being sought and to make the assessments and judgments required under Part IIIA.
- 2.30 In the Council's view the approach to the requirement that applications are made in respect of a particular service as suggested by Rio Tinto Iron Ore is too narrow. In the Council's view, there is no requirement that applications must specify a 'point to point' service.
- 2.31 The approach taken by the Applicant is consistent with the practice of the Council and the approach of the Tribunal. In *Re Services Sydney Pty Limited* [2005] ACompT 7 the Tribunal considered an argument by Sydney Water Corporation that the services for which Services Sydney Pty Ltd were seeking declaration lacked sufficient specificity because the transportation service should be defined as a 'point to point service' and

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<sup>4</sup> In its Mt Newman Recommendation, the Council recommended declaration of a service from a point near Mindy Mindy to Port Hedland but noted that precise points of connection are appropriately regarded as conditions of access to be negotiated between the parties or, if necessary, the subject of arbitration under section 44V of the TPA.

the interconnection service should be defined in terms of specific points of interconnection. The Tribunal did not accept that argument and, at [17], stated:

Sydney Water argued that the services for which Services Sydney are seeking declaration lacked sufficient specificity, that the transportation service should be defined as a point to point service and the inter-connection service should be defined in terms of specific points of inter-connection. The Tribunal does not accept this argument. If a service is declared, access will potentially be available to anyone seeking it, not just Services Sydney. The Tribunal agrees with the NCC that the definition of the services for the purpose of declaration needs to be sufficiently broad to be relevant to alternative entry plans. The specific location of inter-connection points is something that can be determined as part of the negotiation and arbitration of the terms and conditions of access.

- 2.32 The particular service for which the Applicant is seeking declaration is sufficiently described and delineated so that the Council considers that it is able to gather appropriate information, conduct the assessments and make the judgments necessary to fulfil its responsibilities under Part IIIA.
- 2.33 The Council does not accept that the Goldsworthy Application is invalid on these grounds.

### **Changes or additions to the Goldsworthy Application**

- 2.34 Rio Tinto Iron Ore submitted in relation to the Hamersley and Robe applications that 'TPI [the Applicant] has, by a variety of documents, purportedly amended and supplemented its declaration application, including altering the service providers against whom declaration is sought' and that 'Part IIIA does not include any mechanism to permit declaration applications to be amended in this way' (RTIO, Sub 1 at [1.9]).
- 2.35 Following advice to the Council from the solicitors acting for the Hamersley Service Providers and the Robe Service Providers (which was provided to the Applicant by the Council), that the Hamersley and Robe applications had incorrectly specified the parties involved in the various joint ventures associated with the Hamersley and Robe railways, the Applicant wrote to the Council on 6 February 2008 advising of its revised understanding as to the providers of the Hamersley and Robe services.
- 2.36 The Applicant also wrote to the Council on 6 February 2008, following advice from the solicitors acting for the Goldsworthy Service Providers (which the Council provided to the Applicant) to advise its revised understanding as to the providers of the Goldsworthy Service (as discussed above, this forms the Goldsworthy Application Part 3).
- 2.37 Precise information as to the identities and role of the various parties involved in provision of a service such as the Goldsworthy Service may be difficult for an

applicant for declaration to determine. This is an example of the information asymmetry that the Applicant considered it and other applicants for declaration face.

- 2.38 In the Council's view to require that the Applicant withdraw its application and resubmit an updated application, in circumstances such as have arisen here, would not accord with the purpose of Part IIIA and would create an anomalous result.
- 2.39 The Council considers that it may allow an applicant to provide supplementary material, particularly in circumstances where the clarification occurs early in the process and no possible prejudice is suffered by any party. The Council considers that these circumstances are met in the case of the Goldsworthy Application.
- 2.40 The Council considers that the provision of supplementary information of the type provided in this case by the Applicant does not invalidate its application.

### 3 Access regulation under Part IIIA

#### Objectives of access regulation

- 3.1 Generally, a competitive market is the best means of determining the prices and other terms of access to the services provided by infrastructure or other facilities. Where such services are provided in markets that are effectively competitive, access is most likely to be provided where it is efficient, and at appropriate prices, and regulation is unnecessary.
- 3.2 In a limited number of cases, however, the underlying economics associated with the provision of specific infrastructure or similar services are such that one facility can meet current and reasonably anticipated demand at a lower cost than two or more facilities. Where participation in what would otherwise be competitive markets is dependent on access to the services of such a facility, competition is likely to be significantly constrained with consequent losses in efficiency and innovation, unless mechanisms exist to ensure that access is available on appropriate terms. Alternatively the economy would be burdened with inefficient and wasteful duplication of costly facilities.
- 3.3 Access regulation aims to promote effective competition in markets that depend on using the services of facilities that cannot be economically duplicated. The intended outcome is that competition in dependent markets is promoted and inefficient duplication of costly facilities avoided.
- 3.4 Access regulation seeks to ensure that facilities that are uneconomic to duplicate are shared on terms that allow efficient access to dependent markets by third parties, while maintaining a facility owner's usage rights and maintaining an appropriate commercial return on an owner's investment. Such an approach retains appropriate incentives and rewards for infrastructure investment but prevents infrastructure owners from exploiting their power over dependent markets.
- 3.5 Australia's national regime for regulating third party access, enacted in 1995, is set out in Part IIIA of the TPA.
- 3.6 Part IIIA provides three alternative pathways for a party seeking access to an infrastructure service. These are:
  - declaration, which provides access seekers with a legal right to negotiate terms and conditions for access with the service provider of a declared service
  - an effective access regime established by a state or territory (a service that is subject to a regime certified under Part IIIA is immune from declaration),  
or

- a voluntary access undertaking made by a service provider and accepted by the Australian Competition and Consumer Commission (**ACCC**).
- 3.7 In the declaration pathway, an application for declaration of a service provided by means of a facility<sup>5</sup> is the first step in a process by which access seekers can obtain a legal right to negotiate for use of a service and gain recourse to arbitration by the ACCC in the event of an access dispute that cannot be resolved by commercial negotiation.
- 3.8 Declaration provides a mechanism for determining whether the services provided by a particular facility should be subject to regulation. Parties seeking access to a particular service(s) can apply to the Council for a recommendation that the service(s) be declared. The Council then considers whether the service should be declared in terms of the legislated declaration criteria and advises a designated Minister as to whether he or she should make a declaration in the particular case. Ministerial decisions on declaration applications are subject to review by the Tribunal.
- 3.9 In 2006 the Australian Government amended the TPA by, among other things, inserting an objects clause to set out the purpose of Part IIIA. Section 44AA specifies that the objects of Part IIIA are to:
- (a) promote the economically efficient operation of, use of and investment in the infrastructure by which services are provided, thereby promoting effective competition in upstream and downstream markets, and
  - (b) provide a framework and guiding principles to encourage a consistent approach to access regulation in each industry.

### **Submissions on access regulation policy**

- 3.10 The Council received a number of submissions, in response to its call for submissions on the three applications for declaration. Most submissions focussed on one or more of the three applications under consideration by the Council and addressed the declaration criteria and other relevant considerations under Part IIIA. The Council has considered these submissions as appropriate in the relevant parts of this draft recommendation.
- 3.11 Some submissions addressed broader issues relating to whether access regulation is appropriate in relation to these railways or more generally. Most of these submissions also included specific comments in relation to one or more of the applications. In a small number of cases submissions made general comments only.

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<sup>5</sup> Under Part IIIA services provided by a facility may be declared. The facility is not declared, and ownership or control of the facility is not changed as a result of declaration.

3.12 The Western Australian Government stated that effective third party access is conducive to improved efficiency and competitiveness but expressed a preference for such access to be achieved through commercial negotiations. The Government recognised, however, that with monopoly infrastructure there is a clear and rational incentive for owners to exercise market power and a need for an effective safety net for access seekers if negotiations prove unsatisfactory. The Government noted that track access through the declaration process has the potential to allow third parties to transport iron ore from the hinterland to port but recognised the concerns of infrastructure owners. It expressed concern that the Part IIIA processes have not delivered the certainty that all parties require, and can be time consuming.

3.13 The Chamber of Commerce and Industry Western Australia (**CCIWA**) provided a paper generally outlining the principles it believes should guide competition policy. In relation to access regulation the CCIWA paper stated that:

Businesses should have legal avenues to pursue the use of nationally significant infrastructure services owned and operated by others on commercially negotiated terms. Where commercially negotiated terms and conditions are not possible, implementing authorities must be sensitive to the implications of their decisions including possible disincentives to future investment that may result from mandated access and it is important that where access is given it is on 'reasonable' terms and conditions and at 'fair' prices. (CCIWA, Sub 1 at p 10)

3.14 The Minerals Council of Australia (**MCA**) opposed all three declaration applications. The MCA considered that there is no sound economic or legal policy basis for declaration of the private iron ore railways in the Pilbara. The MCA based this view on its understanding as to the origins and intent of Part IIIA and the production process exception, and its belief that the costs of access are significant and the benefits trivial. The MCA suggested that the Council should 'embrace the following criteria' in considering the applications:

- that competition be **substantially** promoted by declaration, as opposed to the current consideration where it is sufficient if the improvement in competition is non-trivial;
- that competition be promoted in a market that is **substantial and of national significance**, other than the market in which the service is being provided, before the service is declared;
- that the declared service be **essential to competition** in the market in which competition will be promoted, where "essential" means that the facility is indispensable to participate in that market;
- that the production process exemption prohibit or strictly limit access where doing so would disrupt a vertically integrated production process; and
- be satisfied that granting access is in the public interest, including in terms of promoting economic efficiency, and in so doing, take account of the costs and risks of regulatory error. (MCA, Sub 1 at p 7)

- 3.15 The Council is also aware of calls for the inclusion of an 'efficiency override' in the declaration process to ensure declaration is not available where the efficiency of a service provider's operations would be impaired by access.
- 3.16 Although the Council has a role in advising the Australian Parliament in relation to access policy and the operation of Part IIIA (see, for example, section 290 of the TPA), in making its recommendation in relation to an application for declaration the Council is required to apply the law as it is enacted and in a manner consistent with the objectives set out in the TPA.
- 3.17 Nevertheless, the Council generally considers that Part IIIA accords with many of the desired policy aims expressed in the policy oriented submissions noted above.
- 3.18 Declaration is only available in limited situations and even if a service is declared, commercial negotiations over access terms and prices are expected to occur. Recourse to regulation through the mechanism of ACCC arbitration is only available in the event of an access dispute that cannot be resolved through commercial negotiation. Even if a service is declared an access seeker may not get access through arbitration.
- 3.19 The objectives of Part IIIA (see paragraph 3.9) and the provisions governing both declaration decisions and arbitration of access disputes explicitly recognise the relevant interests of the various parties affected, including the legitimate interest of service providers in preserving their use of a service and making a commercial return on their investment in infrastructure and other facilities. Part IIIA also allows for a broad consideration of the public interest that permits consideration of the effects of a declaration on investment activity.
- 3.20 The Council has no capacity to apply different standards for declaration to those set out in Part IIIA. A number of the suggestions of the MCA are inconsistent with the relevant statutory requirements under Part IIIA and in the Council's view several of the suggestions would likely give primacy to the interests of service providers over those of access seekers in ways that would be contrary to the national interest.
- 3.21 In relation to the introduction of an efficiency override, the Council notes that the declaration criterion in section 44G(2)(f) requires the Council to recommend against declaration unless it is satisfied that access is not contrary to the public interest. The Council is satisfied that in the event that the costs of providing access are large and the benefits from any additional competition small, it would be entitled to recommend against declaration.

### **Declaration of a service**

- 3.22 Declaration may only occur if the declaration criteria set out in section 44G(2) of the TPA (relating to the Council's recommendation) and section 44H(4) (relating to the

designated Minister's decision) are satisfied, and certain other requirements of Part IIIA are met.

- 3.23 If a service is declared, then Part IIIA provides recourse to arbitration by the ACCC where service providers and access seekers are unable to agree on one or more aspects of access to a declared service (section 44S of the TPA). The TPA also prohibits the hindering of access to declared services (section 44ZZ) and provides for a range of enforcement proceedings in such an event (section 44ZZE).
- 3.24 Declaration does not provide access seekers with an automatic right to use a declared service. It does, however, provide a basis for negotiation and recourse to arbitration by the ACCC where commercial negotiations fail.
- 3.25 The ACCC's arbitration role is governed by section 44X of the TPA which provides:
- (1) The Commission must take the following matters into account in making a final determination:
    - (aa) the objects of this Part;
    - (a) the legitimate business interests of the provider, and the provider's investment in the facility;
    - (b) the public interest, including the public interest in having competition in markets (whether or not in Australia);
    - (c) the interests of all persons who have rights to use the service;
    - (d) the direct costs of providing access to the service;
    - (e) the value to the provider of extensions whose cost is borne by someone else;
    - (ea) the value to the provider of interconnections to the facility whose cost is borne by someone else;
    - (f) the operational and technical requirements necessary for the safe and reliable operation of the facility;
    - (g) the economically efficient operation of the facility;
    - (h) the pricing principles specified in section 44ZZCA.<sup>6</sup>

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<sup>6</sup> Relevant sections of the TPA governing the arbitration of access disputes are replicated in appendix C. This includes section 44ZZCA, which provides that the prices of access to a service should be set so as to generate expected revenue that is at least sufficient to meet the efficient costs of providing access and includes a return on investment commensurate with the regulatory and commercial risks involved. It also allows for multipart pricing and price discrimination when this aids efficiency, but not where a vertically integrated access provider

- 3.26 In addition, the ACCC is specifically prohibited from making an access determination where it would prevent an existing user having sufficient capacity to meet its reasonably anticipated requirements and no determination can result in a transfer of ownership of any part of a facility. Where expansion or enhancement of a facility is needed to accommodate access seekers, a service provider can be required to undertake such expansion, but the costs of this are to be met by the access seekers along with interconnection costs.
- 3.27 If the ACCC is unable to arrive at access terms that appropriately recognise the interests of an infrastructure owner, then it does not have to require the provision of access to a declared service.<sup>7</sup> The ACCC also has powers to deal with vexatious access disputes, or disputes not pursued in good faith, by terminating arbitrations.

### **The declaration criteria**

- 3.28 Applications for the declaration of a service are made to the Council. The Council has regard to the declaration criteria and other prescribed factors and, following a public consultation process, makes a recommendation to the designated Minister as to whether or not to declare the service. The designated Minister must then either declare the service or decide not to declare it (section 44H of the TPA). As noted earlier, the Minister is required to make a decision within 60 days of receiving the Council's recommendation. If no decision is made in that time the application is deemed to be declined.
- 3.29 The designated Minister's decision is subject to review by the Tribunal, which stands in the shoes of the Minister and, in effect, remakes the Minister's decision.
- 3.30 The Council cannot recommend that a service be declared unless it is satisfied that all of the following criteria (set out in section 44G(2) of the TPA) are met:
- (a) that access (or increased access) to the service would promote a material increase in competition in at least one market (whether or not in Australia), other than the market for the service
  - (b) that it would be uneconomical for anyone to develop another facility to provide the service
  - (c) that the facility is of national significance, having regard to:
    - (i) the size of the facility or
    - (ii) the importance of the facility to constitutional trade or commerce or
    - (iii) the importance of the facility to the national economy

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seeks to favour its own operations. The section also requires that access prices should provide incentives to reduce costs and improve productivity.

<sup>7</sup> Section 44V(3) of the TPA.

- (d) that access to the service can be provided without undue risk to human health or safety
- (e) that access to the service is not already the subject of an effective access regime, and
- (f) that access (or increased access) to the service would not be contrary to the public interest.

3.31 The Council must also consider whether it would be economical for anyone to develop another facility that could provide part of the service (section 44F(4)) and the duration of any declaration (section 44H(8)).

3.32 The Council must be affirmatively satisfied that all of the declaration criteria are met before it can recommend declaration. If the Council is not satisfied that one or more of the criteria are met, then it must recommend that the service not be declared.

3.33 The same criteria apply to the designated Minister's decision as to whether or not to declare the service and to the Tribunal's consideration on review.

3.34 The Council's consideration of this application against the declaration criteria and section 44F(4) follow in chapters 4 to 10 of this draft recommendation.

## 4 Criterion (a) – Promotion of competition

### Legal requirements

- 4.1 Section 44G(2)(a) (**criterion (a)**) provides that the Council cannot recommend that a service be declared unless it is satisfied that access (or increased access) to the service would promote a material increase in competition in at least one market other than the market for the service. The markets in which competition might be promoted are commonly referred to as ‘dependent markets’. The issue is whether access would improve the opportunities and environment for competition in dependent markets such as to promote materially more competitive outcomes. The assessment is concerned with the process of competition, rather than any particular commercial interests or pursuits of individual competitors, including an applicant for declaration, given that access that may result from declaration is not limited to the party which made the application for declaration.
- 4.2 In assessing whether criterion (a) is satisfied, the Council:
- identifies whether there is one or more dependent (upstream or downstream) market
  - considers whether the dependent market(s) is separate from the market for the service to which access is sought, and
  - assesses whether access (or increased access) would promote a materially more competitive environment in the dependent market(s) thereby promoting a material increase in competition.
- 4.3 Criterion (a) has been the subject of relatively recent legislative amendment and judicial consideration, which are relevant to interpreting the criterion. These legislative and judicial developments have resulted in the clarification that the Council must be satisfied that access would promote a material increase in competition and the provision of guidance on the interpretation of the term ‘access’. The developments are subsequent to the Council’s Mt Newman Recommendation. The implications of these changes are discussed in the following two sections of this chapter.

### Access must promote a material increase in competition

- 4.4 The *Trade Practices Amendment (National Access Regime) Act 2006* (Cth), which commenced in October 2006, amended criterion (a) to introduce the requirement that access (or increased access) to the service promote ‘a material increase’ in competition in at least one market (whether or not in Australia), other than the market for the service.

- 4.5 The additional words now contained in criterion (a), ‘a material increase’, indicate that the change in competition promoted by access must be more than trivial. The Explanatory Memorandum to the Trade Practices Amendment (National Access Regime) Bill 2005 (Cth) states that the original drafting of criterion (a) did ‘not sufficiently address the situation where ... declaration would only result in marginal increases in competition. The change will ensure access declarations are only sought where increases in competition are not trivial’.<sup>8</sup>
- 4.6 The addition of this materiality element to criterion (a) does not alter this criterion’s focus on the ‘promotion of competition’ and continues to require a consideration of whether access (or increased access) will remove or reduce competitive constraints in the dependent market(s) or otherwise improve the conditions and environment for competition. If this is the case, and the change is material, then criterion (a) will be satisfied.

### **The meaning of ‘access’ (or ‘increased access’)**

- 4.7 In the case of *Sydney Airport Corporation Ltd v Australian Competition Tribunal* [2006] FCAFC 146 the Full Court held that the relevant criterion (a) inquiry involves a ‘comparison between access and no access and limited access and increased access’. The Full Court then said (at [81]) that the words of the Act ‘do not say that it is necessary to examine whether declaration of the service would promote competition; they say “access or increased access ... would promote competition”’(Council emphasis).
- 4.8 The Full Court noted, at [82], that it did not agree that ‘declaration under Part IIIA’ was a surrogate for ‘access under Part IIIA’ (Council emphasis) and disagreed with an approach ‘whereby “access” becomes “declaration under Part IIIA”’. The Full Court held (at [83]) that the word access is being used in its ordinary English sense and that all criterion (a) requires is:
- ... a comparison of the future state of competition in the dependent market with a right or ability to use [the] service and the future state of competition in the dependent market without any right or ability or with a restricted right or ability to use the service.
- 4.9 Prior to this Full Court decision, the Council’s approach and that of the Tribunal had been to interpret ‘access’ as meaning the right to negotiate access to a declared service under Part IIIA, in effect that ‘access’ was synonymous with ‘declaration’. Following the Full Court’s decision, the Council has altered its assessments under criterion (a) to apply the Full Court’s approach.

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<sup>8</sup> Trade Practices Amendment (National Access Regime) Bill 2005 (Cth), Explanatory Memorandum at item 16 and p 21.

4.10 The Council has applied the Full Court approach in considering this application for declaration of the Goldsworthy Service.

4.11 The Applicant has argued that the Full Court’s approach makes criterion (a) easier to satisfy. The Council considers that criterion (a) is satisfied only where access would promote a material increase in competition in a dependent market. If a dependent market is already effectively competitive, then access would be unlikely to promote an increase in competition that is material. Conversely where there are high barriers to entry or other conditions that foreclose additional competition in a dependent market, which are unrelated to the facility that provides the service to which access is sought, then access may not result in a material promotion of competition. In both of these situations at least, the outcome from applying criterion (a) is likely to be the same irrespective of whether any effect on competition results from ‘declaration’ or ‘access’. Irrespective of the interpretation of the term ‘access’ in criterion (a), the other declaration criteria significantly limit the range of facilities that might provide services that could be declared and the scope for declaration more generally.

### **The dependent market(s)**

4.12 This section addresses the first two steps in assessing criterion (a) identified in paragraph 4.2 above, namely identifying relevant dependent markets and confirming that these are separate from the market for the service for which declaration is sought—the Goldsworthy Service. The assessment of the effect of access on competition in the dependent markets identified and whether this amounts to a material increase follows.

4.13 Markets are commonly defined in terms of product(s) and/or service(s) and the geographic area to which they relate:

- The product/service dimension of a market identifies the set of product(s) and/or service(s) that are sufficiently substitutable<sup>9</sup> to be traded in a relevant market as defined.
- The geographic dimension of a market identifies the area within which substitution in demand and supply is sufficient for the product(s)/service(s) traded at different locations to be considered in the same market.

4.14 Where products or services pass through a number of entities or levels in a supply chain, it is also useful to describe the market in terms of the function being considered. The functional dimension identifies which of a set of vertically related markets is being considered. In the context of considering applications for declaration

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<sup>9</sup> In *Re Queensland Co-operative Milling Association Ltd and Defiance Holdings Ltd* (1976) 25 FLR 169 at 190, the Trade Practices Tribunal held that a market was ‘the field of actual and potential transactions between buyers and sellers amongst whom there can be strong substitution, at least in the long run’ (Council’s emphasis).

the functional dimension of market definition can often be important in distinguishing a dependent market from the market for the service for which declaration is sought. The Council seeks to identify and describe relevant dependent markets in these terms.<sup>10</sup>

- 4.15 Having identified relevant dependent markets, it is then necessary for the Council to determine whether these are separate from the market for the Goldsworthy Service that is the subject of this application for declaration.
- 4.16 Separate product/service markets exist if their respective products/services are not strongly substitutable for one another. Similarly, separate geographic markets exist where products/services in one geographic location are not strongly substitutable for those in another location. Where two or more markets are characterised by a common product/service and geographical area, they may nevertheless be separate distinct markets where they involve transactions at different functional levels. For markets to be regarded as functionally separate, the transaction costs involved in the separate provision of the product/service must not be so large as to prevent separate provision being feasible, that is, vertical integration of the different levels is not inevitable (the 'economically separable' test). In addition, for functional levels to be separate, each must involve assets that are sufficiently specific and distinct such that the assets cannot readily produce the output of the other level: that is, substitution in supply is not readily achieved (the 'asset specificity' test).
- 4.17 The application of the 'economically separable' test was discussed by the Tribunal in *Re Services Sydney Pty Limited* [2005] ACompT 7 at [117] where the Tribunal described one approach to the test as requiring the consideration of whether the complementarities of vertical integration are such as to dictate vertical integration. The Tribunal noted that this approach is consistent with that adopted in *Re Sydney International Airport* [2000] ACompT 1 where it stated (at [97]):

Though in the past usually vertically integrated track services and the running of passenger or freight trains can be, and increasingly are, provided separately. As such, they operate in functionally distinct markets, even though there is perfect complementarity between them. To put it another way these complementarities do not appear to give rise to economies of joint production that dictate the services must be performed within the same economic entity.

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<sup>10</sup> Sometimes a 'time' dimension is also an important element of a market definition. However, in the Mt Newman Recommendation the Council found that the time dimension was unlikely to be relevant, and therefore limited its considerations to the product/service, geographic and functional dimensions of the relevant markets as defined. The Council has taken the same approach and reached the same conclusion in relation to the Goldsworthy Application as it is considering substantially the same markets.

## Application and submissions

4.18 The Applicant argued that if access to the Goldsworthy Service were available, then it would offer haulage using its own locomotives and rolling stock to mining companies seeking to move bulk materials on the Goldsworthy Railway. It stated that the effect of access to the Goldsworthy Service would be to promote a material increase in competition in two dependent markets, being the markets for:

- rail haulage services (transporting commodities—bulk minerals in particular iron ore—by rail) on the Goldsworthy Railway and in the Pilbara, and
- prospective iron ore or other bulk mineral tenements in the vicinity of the Goldsworthy Railway and in the Pilbara (Goldsworthy Application Part 1, at [8.2] and Goldsworthy Part 2, at [6.1]).

4.19 The Applicant submitted that the market for rail haulage services and the market for railway track services (the Goldsworthy Service) are functionally distinct (Goldsworthy Application Part 1, at [8.7]-[8.8] and Goldsworthy Application Part 2, at [6.4]-[6.6]). It noted that the distinction is supported by the Tribunal's decision in *Re Sydney International Airport* [2000] ACompT 1 at [97] (see paragraph 4.17) and recognised in *Pacific National v Queensland Rail* [2006] FCA 91 at [935]-[966].<sup>11</sup>

4.20 The Applicant further submitted that there is a functional distinction between the market for tenements that contain iron ore and the market for the production of iron ore. It stated that the activities involved in prospecting, initial exploration and tenement development can be undertaken by different firms from those that subsequently mine and market iron ore (Goldsworthy Application Part 2, at [6.52]-[6.53]).

4.21 The Applicant stated that Fortescue's requests to BHP Billiton Iron Ore for access to parts of both the Mt Newman and Goldsworthy railways had been declined, submitting that BHP Billiton Iron Ore had refused to enter into negotiations. Because of this refusal, the Applicant was of the view that BHP Billiton Iron Ore would also refuse a request for access to the Goldsworthy Service (Goldsworthy Application Part 1, at [5.1]-[5.2]). It stated that it 'is not aware of anyone who has had their ore transported by the Mt Goldsworthy Joint Venture or BHP Billiton Iron Ore' (Goldsworthy Application Part 1, at [8.13]).

4.22 The Applicant argued that without a right or ability for third parties to use the Goldsworthy Service, the Goldsworthy Service Providers would continue to deny non-

<sup>11</sup> In *Pacific National v Queensland Rail* [2006] FCA 91, the Federal Court cited economists' evidence tendered by the competing litigants, each of whom accepted that there were separate markets for 'rail infrastructure' and 'linehaul services' (at [941]-[942]). The Federal Court found that separate markets existed for narrow gauge and standard gauge rail infrastructure (at [954]), and further that separate markets existed for linehaul services in different geographical areas of Australia with different rail gauges (at [965]-[966]).

associated entities access to a haulage service on the railway, or would be the only providers of haulage services on the railway. Where the Goldsworthy Service Providers continue to refuse to provide a haulage service to non-associated entities, then only the entities related to the service providers will be able to transport iron ore from their mines to port facilities or between their mine sites and processing facilities in the vicinity of the Goldsworthy Railway. The Applicant argued that the Goldsworthy Service Providers have an incentive to exercise their market power in the market for track services to adversely affect competition in the market for rail haulage services and further that they have an incentive to use their control over rail infrastructure to prevent the development and mining of iron ore tenements by third parties (Goldsworthy Application Part 2, at [6.24]-[6.25]). In regard to tenements, the Applicant submitted that by denying access to the Goldsworthy Service, the Goldsworthy Service Providers can:

seek to ensure that iron ore tenements in the vicinity of the facility are not mined out by competing producers and that the price of tenements is maintained at a low level. This is because they will be underdeveloped and, in the absence of rail transport, unattractive to other investors. [The Goldsworthy Service Providers] can, at the same time, avoid the cost and risk associated with developing and retaining the mining tenements itself. (Goldsworthy Application Part 2, at [6.65])

- 4.23 By contrast, the Applicant submitted that with third party access to the Goldsworthy Service, there would be two or more providers of haulage services on the Goldsworthy Railway (itself and the Goldsworthy Service Providers), and that as a result of the competition between itself and the Goldsworthy Service Providers, the latter would have less ability and incentive to charge monopoly prices for haulage services on the Goldsworthy Railway (Goldsworthy Application Part 1, at [8.18(2)]). In addition, the Applicant stated that ‘the pool of potential purchasers of iron ore tenements in the Pilbara, particularly in the vicinity of the Goldsworthy Railway would be expanded’, which ‘will enable the development and exploitation of tenements by junior explorers and will result in prices for tenements more closely reflecting the prices that might be achieved in a competitive market’ (Goldsworthy Application Part 1, at [8.36]).
- 4.24 BHP Billiton Iron Ore did not explicitly identify what it considered to be relevant dependent markets, but stated generally that the Council could not be satisfied that access to the Goldsworthy Service will promote a material increase in competition in any dependent market. BHP Billiton Iron Ore stated that the Council cannot be satisfied of a material increase in competition in any dependent market because:<sup>12</sup>
- (a) the very small amounts of ore that might be produced by the projects and possible projects located near to the Goldsworthy Railway Line

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<sup>12</sup> The Chichester Railway is known as (and referred to in this draft recommendation) as the TPI Railway.

(which would total approximately **less than 1%** of the global iron ore market) could not have any appreciable effect on the extent of rivalry in the global iron ore market or any other relevant market

- (b) only one of the projects and possible projects identified by the Applicant has commenced operation (and this is a relatively low volume manganese project) and it has not been established that any other possible project located near the Goldsworthy Railway Line is economic or will be developed
- (c) transportation of ore by road to port facilities at Port Hedland is a viable alternative for the projects and possible projects located near to the Goldsworthy Railway Line
- (d) there is no evidence that the use of the Goldsworthy Railway Line is necessary for the development of any project or possible project located near to the Goldsworthy Railway Line
- (e) there is no spare capacity on the Finucane Island section of the Goldsworthy Railway Line, and there will not be any spare capacity for the foreseeable future
- (f) the Yarrie section of the Goldsworthy Railway Line is in relatively poor condition and it is unclear whether its current capacity is greater than 8 mtpa
- (g) a substantial increase in the capacity of the Goldsworthy Railway Line would require a virtual rebuilding of the railway line
- (h) it is not feasible to construct a railway line between the Finucane Island section of the Goldsworthy Railway Line and the Chichester Railway Line or the Applicant's train unloading facilities at Anderson Point
- (i) there is no evidence that there will be any other train unloading facilities at Port Hedland available for use by projects or prospects located near the Goldsworthy Railway Line and
- (j) all of the above reasons, where relevant, apply with respect to projects or possible projects located in the vicinity of Mindy Mindy. (BHPBIO, Sub 1 at [15.7])

4.25 In respect of the first of the BHP Billiton Iron Ore points, the Council accepts that iron ore production from independent producers in the Pilbara is likely to be a relatively small part of the iron ore market, but notes that the Goldsworthy Application does not identify the global iron ore market as a relevant dependent market. The Council considers the other elements of BHP Billiton Iron Ore's rationale, where relevant, later in this chapter.

4.26 In its submission to the Hamersley and Robe applications, Rio Tinto Iron Ore argued that the two dependent markets identified by the Applicant (and the markets for the Hamersley and Robe services) are in fact all elements of a single (competitive) global iron ore market. By extension, this argument maintains that the same or equivalent dependent markets identified in the Goldsworthy Application, and the market for the Goldsworthy Service, are similarly parts of the global iron ore market. It is therefore appropriate to address Rio Tinto Iron Ore's argument in considering the Goldsworthy Application.

4.27 Rio Tinto Iron Ore provided a paper by Dr Philip Williams (Frontier Economics) to support its view (RTIO, Sub 1 Annexure 11). On 'the functional separation between the rail track and related functions of mining (including prospecting and development) and transportation' Dr Williams concluded at [110] that:

[f]irst, that separate markets will not be tenable if the evidence suggests that vertical integration is critical to achieving efficiencies in mining and transportation activities. The second point is that the functional boundaries to any dependent markets should be consistent with the facts about the market in question. This means that one cannot infer from there being functional separation in other circumstances that it is appropriate to find functional separation in the circumstances of RTIO's rail network in the Pilbara.

4.28 In the event that the dependent markets identified by the Applicant are to be considered, Rio Tinto Iron Ore's view is that access would not promote a material increase in competition in any such markets (RTIO, Sub 1 at [7.36]-[7.72]). The main elements of Rio Tinto Iron Ore's analysis of the markets identified by the Applicant, which Rio Tinto Iron Ore considered would apply also to the Goldsworthy Application, are that:<sup>13</sup>

- there have been no transactions in relation to rail haulage of iron ore in the Pilbara (which reflects the likely diseconomies from access to track services) and (if the Applicant were required to bear or pass on to users of any rail haulage service the full costs of access) there is no potential for transactions to occur, with the Applicant finding it cheaper to use its own railway (the TPI Railway) and port facility and build extensions to serve particular deposits
- it (and by extension BHP Billiton Iron Ore) has no incentive or ability to affect competition in any rail haulage market because it does not provide a rail haulage service (so is not making 'monopoly rents' from haulage charges)
- the evidence of significant trading of tenements and interests in companies with tenements in the Pilbara demonstrates that it (and by extension BHP Billiton Iron Ore) is not leveraging any market power in relation to

<sup>13</sup> Rio Tinto Iron Ore stated that in any case there will be no spare capacity on key segments of its railways to accommodate third parties.

haulage in the Pilbara tenements market: indeed in the absence of access a tenement holder and Rio Tinto Iron Ore have ‘every commercial incentive’ to reach an agreement sharing the profits from development of the deposit, whereas the only effect of access would be to create the potential to transfer profits from itself to the Applicant

- access would only lead to the establishment of the Applicant as a monopoly rail haulage operator, and
- the Applicant has not identified how iron ore that it would transport using the Hamersley and Robe railways will be shipped from a port.

4.29 Atlas Iron Limited (**Atlas Iron**) identified an (above rail) rail haulage services market and a (below rail) track services market on the Goldsworthy Railway, submitting that the distinction between these markets drawn by the Applicant is correct. Atlas Iron also identified a market for prospective iron ore or other bulk mineral tenements in the Pilbara (Atlas, Sub 1 at [8.3]).

4.30 The Western Australian Government, in a submission on the Hamersley, Robe and Goldsworthy applications, discussed the effects on competition in the market for rail haulage services and in the market for iron ore tenements in the Pilbara. The Association of Mining and Exploration Companies (**AMEC**), in a submission to the Hamersley, Robe and Goldsworthy applications, identified a market for the transport of bulk mineral commodities (particularly iron ore) between mine sites and export ports in the Pilbara and a market for iron ore tenements. The North West Iron Ore Alliance (**NWIOA**) did not dispute the dependent markets identified by the Applicant.

### **The Council’s view on the dependent markets**

4.31 The Council considers that the most relevant dependent markets for the Goldsworthy Application are:

- the market for haulage services for iron ore on the Goldsworthy Railway in the vicinity of the Goldsworthy Railway (**the haulage services market**) and
- the market for tenements that contain iron ore in the Pilbara (**the iron ore tenements market**).

4.32 In the Mt Newman Recommendation the Council identified three distinct dependent markets that it considered to be separate from the service that was the subject of the application for declaration. These were the market for the haulage of iron ore by rail in the Pilbara, the market for iron ore tenements in the Pilbara and the global market for iron ore. The Council considered that the global market for iron ore was already effectively competitive and that it therefore followed that access would not promote competition in that market (Mt Newman Recommendation at [7.148]-[7.179]).

4.33 The Council remains of the view that the global iron ore market is effectively competitive. In that circumstance it considers that access to the Goldsworthy Service

is unlikely to promote a material increase in competition in the global iron ore market, notwithstanding the additional volumes of third party iron ore exports from the Pilbara may be greater than those which were considered in the Mt Newman Recommendation.

- 4.34 The Council is aware of a proposal by BHP Billiton to merge with Rio Tinto Limited, which should it occur would be a significant transaction in the context of the global iron ore market. At this time, the question as to whether the transaction will occur is speculative. It is not necessary to determine whether the merger would have an impact on the competitiveness of the global iron ore market, to the extent that the Council concludes that access would materially promote competition in another market(s).
- 4.35 The Council considers that the markets identified in paragraph 4.31 are separate from the market for the Goldsworthy Service for which access is sought for a number of reasons.
- 4.36 The distinction between a market for the use of rail infrastructure and related services such as the Goldsworthy Service and that for carriage on trains using that infrastructure is commonly accepted, including by most parties making submissions in respect of this application. As submitted by the Applicant separate markets of these kinds have been identified in decisions of the Tribunal and the Federal Court in situations that are relevant to the Council's consideration of this application.
- 4.37 The market for the Goldsworthy Service is a market in which heavy haul railway track and associated infrastructure services are provided and acquired. The relevant dependent markets are markets for iron ore rail haulage services on the Goldsworthy Railway and tenements in the Pilbara that contain iron ore. Bearing in mind the views expressed by Dr Williams on behalf of Rio Tinto Iron Ore, the Council does not believe that the degree of integration between the operation of rail infrastructure and the operation of trains on such infrastructure is such that the two must invariably be undertaken by one entity. That BHP Billiton Iron Ore operates both the Goldsworthy Railway infrastructure and the trains that run on that infrastructure is a choice largely born of historic development and a range of commercial objectives not all of which necessarily relate to optimising efficiency.
- 4.38 Finally the Council notes that the rail assets required to provide iron ore track services<sup>14</sup> are distinct from those required to provide iron ore rail haulage services.<sup>15</sup>
- 4.39 There would appear to be little scope for the dependent market for iron ore tenements in the Pilbara and the market for the Goldsworthy Service not to be seen

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<sup>14</sup> Including railway tracks, sidings, switches and signals, scheduling services and track maintenance services.

<sup>15</sup> Including locomotives, rolling stock, fuel facilities, rolling stock and locomotive maintenance services.

as distinct and separate markets. The products/services involved are quite different, such that substitution is unrealistic. The vertical integration of tenements trading and railway track services is not inevitable and the two activities are economically separable. The two activities also employ assets that are quite specific and distinct, that is, the assets used to produce railway track services would not appear to be able to be readily used for trading in iron ore tenements.

- 4.40 Similarly the Council considers that there is little justification for concluding that the market for the Goldsworthy Service, the market for iron ore haulage services on the Goldsworthy Railway and the market for iron ore tenements in the Pilbara are merely elements of the global market for iron ore. Adoption of such a broad approach to market definition would obscure any meaningful competitive analysis.<sup>16</sup> A broad range of products and services is used in the process of supplying iron ore to meet global demand and the degree of substitutability among many of these is low. The process of supplying iron ore involves a range of different and distinct transport markets—markets for rail and international shipping, many financial markets and markets in many geographic locations, each with different demand and supply conditions. Even where some of these products and services have significant common characteristics they are often dealt with at different functional levels in the process of supplying iron ore, levels that are economically separable and use assets that are specific and distinct.
- 4.41 The Council is satisfied that there are at least the two dependent markets identified at paragraph 4.31 above and that these are separate from the market for the Goldsworthy Service. The Council, in the next sections, therefore considers criterion (a) on the basis of those two markets.
- 4.42 The Council accepts there may be other markets that might also be relevant, such as a market for mineral tenements more generally or for tenements containing minerals other than iron ore, or for haulage of other mineral ores or mineral ores more generally. However, it considers that these markets are likely to be significantly less important than the respective markets relating to iron ore and that analysis of the broader markets would in any event be dominated by consideration of iron ore. The Council sees no need therefore to extend its analysis to examining competition outcomes in these other markets. If criterion (a) is met for one or both the identified dependent markets, then whether or not competition is materially promoted in other additional dependent markets is not determinative of the Council's recommendation. If criterion (a) is not met in relation to the two identified markets centred on iron ore, then it would not be likely to be met for other markets where transport options other than rail may be viable and where smaller volumes of higher value ores are shipped.

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<sup>16</sup> It is commonly accepted that the definition of markets in competition law (and competition analysis more generally) is purposive—the purpose is to assist in identifying market power and competitive constraints that arise.

## **The market for haulage services**

- 4.43 The Council considers that the product/service dimension of the haulage services market is appropriately described as the service of transporting iron ore by rail from a producer's mine site to a port facility (or to a processing facility). As noted above, iron ore constitutes the vast bulk of Pilbara mineral ore production by volume so a conclusion focussing on iron ore will likely hold even were the product/service market dimension expanded to include the haulage of other ores.
- 4.44 The Council considers that the geographic dimension of the market for haulage services is largely determined by the area within which it may be economic to access a haulage service provided on the Goldsworthy Railway. While the boundaries may be difficult to define with precision, the geographic dimension of the market for haulage services is generally a geographic envelope within the Pilbara encompassing tenements proximate to the Goldsworthy Railway. In considering the possible area of this geographic envelope, the Council notes that the Applicant identified the likely purchasers of haulage services on the Goldsworthy Railway as those companies with announced tenements located within a distance of about 50 kilometres of the Goldsworthy Railway (Goldsworthy Application Part 2, at [6.13]). The Council considers that this is a reasonable indicator of the likely geographic dimension of the market for haulage services. There may be some companies with tenements outside this envelope that could economically access a haulage service on the Goldsworthy Railway, and some within the envelope that could not, but these exceptions are likely to be few in number and are not material to the overall consideration of criterion (a).
- 4.45 In the current circumstances (without access) only the Goldsworthy Service Providers could provide a haulage service on the Goldsworthy Railway though at present they do not provide such a service. With access, the potential providers of the service of transporting iron ore by rail from mine sites proximate to the Goldsworthy Railway to a port facility or processing facility are the Goldsworthy Service Providers and any party that gains access to the track services provided by the Goldsworthy Railway.
- 4.46 The demand for haulage services comes from producers and potential producers of iron ore proximate to the Goldsworthy Railway whose deposits of iron ore are of insufficient magnitude to support the construction of a new railway and the purchase and operation of rolling stock or who choose for other reasons to seek haulage of iron ore from another party. The Applicant identified four companies with announced prospective iron ore tenements in the vicinity of the Goldsworthy Railway that it anticipated might wish to purchase rail haulage services on the Goldsworthy Railway (Goldsworthy Application Part 2, at [6.11]).

## **Application and submissions**

- 4.47 As noted above, the Applicant considered that without access to the Goldsworthy Service there will be no haulage available to third parties. Were access available, it

submitted that it would offer haulage using its own locomotives and rolling stock. This, it submitted, would have the effect of materially promoting competition in the markets for haulage services for iron ore and other bulk minerals on the Goldsworthy Railway by providing a service available to those with whom the Goldsworthy Service Providers are unable to reach agreement or a competing service that will provide competitive pressure for any haulage service offered by the Goldsworthy Service Providers.

- 4.48 BHP Billiton Iron Ore considered that the Council could not be affirmatively satisfied that access to the Goldsworthy Service will promote a material increase in competition in any dependent market for a range of reasons (BHPBIO, Sub 1 at [15.7]). Relevantly, in relation to the market for haulage services, BHP Billiton Iron Ore suggested that: the transportation of ore by road to port facilities at Port Hedland is a viable alternative (to rail) for the projects and possible projects located near to the Goldsworthy Railway; and in practice no haulage service will be available whether or not access to the Goldsworthy Service is available because of a variety of capacity constraints on the Goldsworthy Railway or because a haulage service will be unable to connect to necessary train unloading and port facilities.
- 4.49 Rio Tinto Iron Ore similarly submitted that access would not promote competition in a market other than that for the service to which access is sought. It submitted that all functional activities associated with the relevant dependent markets identified by the Applicant are encompassed by the global iron ore market, which is already effectively competitive. As noted earlier, Rio Tinto Iron Ore also argued that, even if that submission is not accepted, the markets for rail haulage and rail track services are not separate. Rio Tinto Iron Ore then argued that, if that submission is also not accepted, then access would not promote competition in any haulage market because: the Applicant can use its own railway line to offer haulage services; access to ports is uncertain; it (and by extension BHP Billiton Iron Ore) had no incentives to lessen competition; and that haulage would only lead to the establishment of the Applicant as a monopoly rail haulage operator (RTIO Sub 1, at [7.60]-[7.68]).
- 4.50 Atlas Iron submitted that access to the Goldsworthy Service will promote a significant increase in competition in the market for rail haulage services. It argued that access to the Goldsworthy Service would enable other parties to provide a haulage service on the Goldsworthy Railway, including the Goldsworthy Service Providers which absent access may continue to deny independent companies such as Atlas Iron access to a rail haulage service. Atlas Iron stated:

Without a right or ability for third parties to use the Goldsworthy Railway, the Provider [of the Goldsworthy Service] may continue to deny third parties such as Atlas access to its rail haulage services. Furthermore, without access being declared the Provider may continue to deny other third parties access to its below rail services. (Atlas, Sub 1 at [8.13])

- 4.51 Atlas Iron submitted that it would commence production of iron ore from its Pardoo project (adjacent to the Goldsworthy Railway) from October 2008 and from its Ridley Magnetite project (proximate to Pardoo) in 2012, and that its production would increase over time. It submitted that while it would transport Pardoo iron ore using trucks, rail is the cheapest and most efficient means of transporting bulk materials. Atlas Iron advised that access to the Goldsworthy Service would also create the potential, as the company's export volumes increased, for it to operate its own locomotives and rolling stock on the Goldsworthy Railway (Atlas, Sub 1 at [3.6]).
- 4.52 Several parties submitted that transport of iron ore by rail is more efficient than transport by road particularly as the distance transported increases. Atlas Iron (and the NWIOA) provided an indicative cost for transporting iron ore that suggests for its Pardoo project, which involves transport over the relatively short distance of 75 kilometres, a cost relativity of about 2.8:1 in favour of rail, with the relativity increasing as the distance transported increases. The NWIOA considered that the 'transport of iron ore by truck is only feasible where distances from [mine] site to port are short and product volumes low' (NWIOA, Sub 2 at [2.5]). The Western Australian Government stated that there is no alternative competitive transport option to rail for tenements located in the Pilbara hinterland (recognising that road transport may be economic for tenements nearer the coast) (WA Gov, Sub 1 at [3.1]). The Government also noted the significant negative externalities associated with road haulage, including environmental and social costs, which it considered would need to be addressed by firms transporting iron ore by road.
- 4.53 The Western Australian Government outlined its long sought policy objective that the third party access clauses in State Agreements<sup>17</sup> would result in the carriage of third party freight by the State Agreement companies. It advised however that no independent access seeker has been able to negotiate satisfactory haulage arrangements. The Government commented that:
- The third party access provisions contain relatively high level obligations and lack the detail required to bring about third party access. It is, therefore, not surprising, in hindsight, that those State Agreement access provisions have not proved to be an effective vehicle for any new market entrants. (WA Gov, Sub 1 at [6.4])
- 4.54 The Western Australian Government noted that it is currently developing a state rail haulage regime—the Pilbara Railways (Third Party Haulage) Regime—intended to provide for haulage of iron ore on the Pilbara railways on 'fair and reasonable terms', with the haulage service provided by the infrastructure owner. The Government

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<sup>17</sup> The Western Australian Government referred to various agreements entered into between itself and mining companies as 'State Agreements'. In the case of the Goldsworthy Railway the relevant State Agreement is set out in the *Iron Ore (Mt Goldsworthy) Agreement Act 1964 (Goldsworthy Agreement Act)*. See also chapter 8 for a discussion of Western Australian access regimes for railway track and haulage services.

considered that if the proposed state rail haulage regime is enacted, then access to the track services under Part IIIA may result in a material increase in competition in the market for haulage services to the extent that the Applicant or other access seekers can compete with the services provided under the proposed regime but would not result in a material increase in competition in the market for iron ore tenements (because access would not achieve a material increase in competition above that resulting from the state rail haulage regime). However, the Government cautioned that there are ‘considerable barriers’ to implementing the proposed state rail haulage regime. It advised that it is yet to approve the final form of the regime, which it will then need to enact. It also advised that the regime would not be unilaterally implemented across all Pilbara rail infrastructure facilities, so that implementation will require the mutual consent of the State Agreement companies (WA Gov, Sub 1 at [6.7]).

- 4.55 Regarding port access and capacity, the Western Australian Government noted that significant increases in export volumes have resulted in port facilities operating at or near capacity, but that it is investigating options that should meet medium and long term demand for port facilities in the Pilbara. It stated that:

The Government is currently investigating a range of options to meet medium and long-term demand for port capacity in the Pilbara...

An ongoing policy objective will be to ensure that there are common use facilities available for relatively small tonnage bulk commodity exporters...

It is therefore the Government’s conclusion, that while port capacity may be constrained in the short term, this is not an issue that planning and negotiation between the Government, its port authorities and exporters cannot resolve... (WA Gov, Sub 1 at [2.11]-[2.13])

### **The Council’s assessment**

- 4.56 In considering whether access will promote competition a key issue is whether the provider of a service has the ability and incentive to exercise its market power to adversely affect competition in dependent markets. The Goldsworthy Service Providers, as vertically integrated iron ore producers and providers and potential providers of rail track and haulage services, have an incentive to exercise market power in the market for track services in order to limit competition in the market for haulage services on the Goldsworthy Railway. By denying access to the Goldsworthy Service the Goldsworthy Service Providers can prevent the emergence of a competing provider of haulage services.
- 4.57 Without third party access, at best only the Goldsworthy Service Providers could offer a haulage service for iron ore in the geographic envelope proximate to the Goldsworthy Railway. However, given that the Goldsworthy Service Providers do not offer a haulage service to unrelated parties, the effect of preventing the emergence

of alternative haulage services is to ensure no rail haulage services are available for independent parties seeking to develop and mine tenements near the Goldsworthy Railway and export iron ore. The Council discusses the consequential effects of this restriction on the market for iron ore tenements in the Pilbara in the next section.

- 4.58 The Council is not persuaded by BHP Billiton Iron Ore's arguments as to why access to the Goldsworthy Service would not materially promote competition in any dependent market including the market for haulage services considered in this section. The Council's reasoning follows.
- 4.59 The Council considered the argument (put by both BHP Billiton Iron Ore and Rio Tinto Iron Ore) that all relevant activities fall within a generalised global iron ore market, and that the haulage market is not separate from the market for the underlying rail track service earlier in this recommendation, and declined to accept these positions.
- 4.60 The Council does not accept BHP Billiton Iron Ore's argument that because the transport of ore by road is 'economically viable/feasible' for projects located near to the Goldsworthy Railway, there would not be a material promotion of competition in a dependent haulage services market. The Council acknowledges that at least one iron ore miner located near to the Goldsworthy Railway proposes to transport ore by truck. However, the substantial cost differential between road and rail transport of iron ore suggests that haulage by truck is viable only for short distances or for low volumes during the early development of mines. (Road transport may be viable for higher value ores over longer distances but these ores do not form part of this market and in any event are produced in substantially smaller volumes than iron ore.) The Council's judgment is that the transport of iron ore by road does not provide a substitutable competitive haulage alternative to rail for the large part of the dependent haulage market.
- 4.61 The other reasons put forward by BHP Billiton Iron Ore to support its claim that access would not materially promote competition in a dependent market are also not convincing. There may be capacity constraints and other factors that will affect the level and range of services that a provider of haulage on the Goldsworthy Railway may be able to provide, however, these are not such that no haulage service of value to potential users can exist. In the Council's view there is potential demand for haulage services on the Goldsworthy Railway from parties that appear to value the opportunity to take up such services. More specific issues concerning the capacity or condition of the Goldsworthy Railway (or sections of it) are matters relevant to the terms and conditions of access rather than to an assessment of whether access would promote competition. These issues are appropriately negotiated commercially between access seekers and the Goldsworthy Service Providers, or where necessary determined via arbitration of a specific access dispute by the ACCC.
- 4.62 The Council does not consider that certainty regarding specific port access is a necessary precondition to satisfying criterion (a). While it accepts that there are

capacity constraints in relation to port facilities that may impact on haulage services on the Goldsworthy Railway, at least in the short term, it notes that there are a range of prospective port developments under consideration such that these constraints are unlikely to persist in the medium or long term. There are strong commercial drivers for expansion of port facilities to support continued growth in iron ore exports from the Pilbara, including third party ore that is likely to be hauled on the Goldsworthy Railway. In this regard the Council notes the statements by the Western Australian Government reported above that the Government is currently investigating a range of options to meet medium and long-term demand for port capacity in the Pilbara and that its objective will be to ensure that there are common use facilities available for relatively small tonnage bulk commodity exporters.

- 4.63 The Council generally agrees with the Western Australian Government that it 'should not examine issues of port access in deciding whether to [recommend that the designated Minister] declare the Pilbara iron ore railways' (WA Gov, Sub 1 at [2.13]). The Council considers that it is able to be satisfied that criterion (a) is met without examining in detail or resolving issues of port access.
- 4.64 Rio Tinto Iron Ore's submission that access would, at most, result in a transfer of profits between a service provider, the Applicant and tenement holders and that it (and presumably BHP Billiton Iron Ore in relation to the Goldsworthy Railway) had no incentive and ability to limit competition in a haulage market to leverage outcomes elsewhere is discussed later in this chapter.
- 4.65 Atlas Iron's statement that it would seek to use a rail haulage service on the Goldsworthy Railway to transport bulk material to port facilities on Finucane Island indicates that there is demand for an iron ore haulage service on the Goldsworthy Railway.<sup>18</sup> The high export returns to iron ore currently being achieved would appear to provide a commercial opportunity to parties to offer a haulage service to meet such demand. Possible service providers include: the Applicant, which has indicated it would develop and offer a rail haulage service using its own locomotives and rolling stock; the Goldsworthy Service Providers, which would be encouraged to offer a rail haulage service because they would obtain no value in maintaining restrictions once access is available; and potentially other mining interests (either in their own right or in cooperation) and other rail haulage companies without current Pilbara interests. Atlas Iron for example signalled its intention, were third party access available, to

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<sup>18</sup> The NWIOA submitted that there is latent demand for an iron ore haulage service on the Goldsworthy Railway from miners with projects and possible projects located in the vicinity of the Mt Newman Railway. However, the Council did not consider this latent demand in reaching its view that there is likely demand for an iron ore haulage service on the Goldsworthy Railway, because there is currently no access to the Mt Newman Service and no haulage service on the Mt Newman Railway. Without such access, miners located in the vicinity of the Mt Newman Railway are unlikely to find it economic to access a haulage service provided on the Goldsworthy Railway.

consider operating its own locomotives and rolling stock on the Goldsworthy Railway as its export volumes increase. Even if there were no new entry, the ability and incentive of the Goldsworthy Service Providers to withhold haulage services would likely be constrained by the potential for entry.

- 4.66 The Council notes that there are no existing arrangements to provide for access to rail track services that would constrain the ability of the Goldsworthy Service Providers from exercising their market power. The only access regime governing access to track services in Western Australia—the WA Rail Access Regime—does not cover any of the Pilbara iron ore railways including the Goldsworthy Railway.<sup>19</sup>
- 4.67 Neither the current and proposed arrangements for access to (above rail) haulage services prevent the Goldsworthy Service Providers from exercising their market power to deny a haulage service. Despite the clear intention of the Goldsworthy Agreement Act that the Mt Goldsworthy Joint Venture carry the freight of third parties on its railways to the extent it can do so without unduly prejudicing or interfering with its operations, there have been no agreements for the carriage of third party freight on the Goldsworthy Railway. The proposed Pilbara Railways (Third Party Haulage) Regime is not yet in existence (and in any case the Western Australian Government has not guaranteed its enactment and future certification) so it cannot provide an effective regime governing the provision of haulage services.
- 4.68 Further, there is no other railway line existing or proposed that could provide track or haulage services in the geographic envelope proximate to the Goldsworthy Railway, which might serve to constrain the ability of the Goldsworthy Service Providers from exercising their market power. The route of the TPI Railway (which offers access to track services and on which TPI has said it will offer an iron ore haulage service) means that these services are unlikely to be useful to most parties with tenements in the geographic envelope proximate to the Goldsworthy Railway. Similarly, the route of the Mt Newman Railway means that it is unlikely to be useful to tenement holders in the vicinity of the Goldsworthy Railway and in any case there is no track or haulage service on the Mt Newman Railway that is available to independent parties.
- 4.69 Accordingly, the Council is satisfied that an entity in the position of the Goldsworthy Service Providers would have the incentive and ability to adversely affect competition in the market for haulage of iron ore in the geographic envelope proximate to the Goldsworthy Railway. Given this incentive and ability, the Council is satisfied that the market is not subject to effective competition.
- 4.70 The Council considers that the availability of third party access to the Goldsworthy Service would have a material effect on the market for iron ore haulage services on the Goldsworthy Railway. At present there is no haulage service available for use by parties that are independent of the service provider. At best, without access, were

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<sup>19</sup> See paragraph 8.21 for information on the WA Rail Access Regime.

the Goldsworthy Agreement Act to operate as intended, there would be only a single provider of iron ore haulage services on the Goldsworthy Railway. With access there is the likelihood of new entry—the Applicant has indicated that it would provide a rail haulage service and there is the prospect that other entities would also offer such a service. The all points nature of the service for which access is sought is likely to enhance the pro-competitive effects of access by allowing haulage to be provided between a number of locations. On any reasonable view these outcomes would constitute a material promotion of competition beyond what would be, without third party access, at best a monopoly.

## The market for iron ore tenements

- 4.71 A ‘tenement’ is the right under licence to carry out prospecting, exploration or mining activity in respect of a specific piece of land. The right is created when a party takes out a licence (to prospect, explore or mine, as the case may be) in relation to that land, and endures for as long as that licence—or another licence—remains in place (for example, a party that wishes to progress from exploration activity to mining activity may replace an exploration licence with a mining licence).
- 4.72 Transactions in tenements<sup>20</sup> may take different forms including a transfer of the licence (for consideration, and subject to official approval in some cases) or the formation of joint venture arrangements whereby the entity holding the licence shares the proceeds from exploiting the tenement with another entity, usually in return for capital for further development or to construct the mining infrastructure. These transactions are in effect different ways of transferring the right to develop a proven deposit. In some situations the purchase of shares in the corporate entity that holds the licence to exploit the tenement can, in effect, amount to a transfer of rights in respect of a tenement or group of tenements, but generally the Council does not regard trading in the shares of mining companies as transactions within the iron ore tenements market.
- 4.73 The Council considers that the geographic dimension of the market for tenements containing iron ore is Pilbara wide. The pattern of development of the Pilbara iron ore industry shows that some mining companies (including BHP Billiton Iron Ore and Rio Tinto Iron Ore) have developed and acquired tenements throughout the Pilbara.<sup>21</sup>

<sup>20</sup> While deposits of different minerals may co-exist on a mineral tenement, the Council has focussed its consideration on tenements that predominantly contain iron ore. As noted elsewhere, iron ore dominates in the Pilbara.

<sup>21</sup> The Pilbara iron ore industry was originally controlled by four entities (Hamersley Iron Pty Ltd, Robe River, Mt Newman Joint Venture and Mt Goldsworthy Joint Venture). By 2000, ownership was concentrated in the hands of BHP Billiton Iron Ore (controlling the Mt Newman and Mt Goldsworthy joint ventures) and Rio Tinto Iron Ore (controlling Hamersley Iron Pty Ltd and Robe River), with a third potential producer (Hancock Prospecting Pty Ltd) in development. Rio Tinto Iron Ore purchased a 50 per cent interest in Hancock Prospecting Pty

More recently Fortescue has also acquired tenements across a broad spread of the Pilbara. Some smaller explorers have more localised interests in particular areas of the Pilbara, although it is likely this reflects more their overall level of involvement rather than a narrower geographic view as to where they would choose to prospect and look to develop tenements.

- 4.74 At the functional level, there is a chain of activities associated with a tenement containing iron ore. In general, the steps in this chain encompass ground acquisition and reconnaissance (from obtaining an exploration licence through to reconnaissance drilling to determine resource potential), resource definition (encompassing scoping and feasibility and related studies to determine the preferred development option and a broad estimate of its cost including appropriate ore cut-off grades), project approval and funding once the feasibility of a project is confirmed, project construction (based on the preferred development option determined through the earlier feasibility studies), project commissioning (involving testing of project components to ensure they and the system as a whole are capable of delivering design rates of production), and finally the production and marketing of iron ore.
- 4.75 The earlier steps in this chain—those associated with acquisition, reconnaissance, and feasibility studies to define ore reserves—are generally functionally distinct from the later project construction and commissioning, and iron ore production and marketing. Smaller exploration companies may hope to evolve into large producers akin to BHP Billiton Iron Ore and Rio Tinto Iron Ore and exploit their reserves in their own right, but many, at least in current circumstances, will either choose or be obliged to sell part or all of their reserves (either because they lack the funding or other capability to develop a deposit and export ore and/or, in the present circumstances, because they lack access to rail track services or a rail haulage service to get their product to market). Moreover, some exploration companies may deliberately adopt a business strategy to ‘add value’ to their company by locating iron mineralisation, conducting feasibility studies to the extent of determining the inferred resource and then seeking joint venture partners for subsequent development, or even selling their interests in the project without conducting feasibility studies. The Council’s view, accordingly, is that the functional dimension of the dependent iron ore tenements market focuses on the trading of tenements that are likely or shown to contain a defined ore reserve.
- 4.76 The Council notes that the iron ore tenements market is an Australian market and is concerned with the interests of parties that have explored for and identified iron ore reserves in the Pilbara and are seeking to develop these in their own right, enter into joint ventures or transfer the right on commercial terms set in a competitive market. In this market BHP Billiton Iron Ore and Rio Tinto Iron Ore are generally buyers. This market is distinct from the market for iron ore, which is a commodity that is traded in a competitive global market, and involves transactions primarily between large iron

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Ltd’s Hope Downs iron ore project (establishing the Hope Downs joint venture) in 2005.

ore producers (including BHP Billiton Iron Ore and Rio Tinto Iron Ore) and a number of international steel makers.

### **Application and submissions**

- 4.77 As noted above, the Applicant considered that the market for tenements containing iron ore in the Pilbara is not currently competitive, with the key barrier being the lack of access to rail haulage. It stated that without access to a rail haulage service, tenement owners have no viable means of getting iron ore products from their mine to a port and/or between a mine site and processing facilities located in the vicinity of the Goldsworthy Railway, and that the effect of this constraint is to limit purchasers of tenements largely to the parties that have their own rail and port infrastructure, the parties that plan to develop their own rail and port infrastructure and the parties that can access infrastructure such as the TPI Railway. The Applicant considered that the consequence of this limited pool of purchasers is that tenements will continue to be underdeveloped and underpriced. By contrast, it considered that where third parties have a right or ability to use the Goldsworthy Service, they will have greater ability to exploit tenements. This would encourage a larger pool of potential purchasers of tenements, with the result that the prices of tenements would more closely reflect the prices that would be achieved in a competitive market.
- 4.78 BHP Billiton Iron Ore considered that the Council cannot be satisfied that access will promote a material increase in competition in any dependent market, and provided a range of reasons for this view reproduced at paragraph 4.24. While not directly addressing the market for iron ore tenements in the Pilbara, the BHP Billiton Iron Ore submission indicated that the company considers that access to the Goldsworthy Service is not necessary for the development of projects or prospects located on or near the Goldsworthy Railway (including because transportation by road to port facilities at Port Hedland is viable for these projects) or projects in the vicinity of Mindy Mindy. BHP Billiton Iron Ore also argued that limitations at Port Hedland mean that access to the Goldsworthy Service cannot have the effect of promoting competition in any dependent market because of limitations in train unloading facilities at Port Hedland. It stated that it is not feasible to construct a railway line between the Finucane Island section of the Goldsworthy Railway and the TPI Railway or to the Applicant's train unloading facilities at Anderson Point, and that there is no evidence that there will be any other train unloading facilities available for use by (non-BHP Billiton Iron Ore) projects or prospects located near the Goldsworthy Railway. The Council has considered BHP Billiton Iron Ore's statements regarding a lack of access to train unloading facilities as an argument that access to the track services provided by the Goldsworthy Railway cannot have the effect of promoting development of iron ore tenements.
- 4.79 As noted above, Rio Tinto Iron Ore in its submission to the Hamersley and Robe applications argued that the tenements market is not a separate market from the

global iron ore market<sup>22</sup> and that even if there were such a market then it would be global rather than centred on the Pilbara. Even if there were a tenements market confined to the Pilbara, Rio Tinto Iron Ore considered that any such market would already be competitive. It cited as evidence the current significant purchases of tenements and interests in companies with tenements in the Pilbara by companies other than itself and BHP Billiton Iron Ore. It also argued that access would not promote a material increase in competition in any Pilbara tenements market (if such a market could be considered to exist) because the Applicant would find it cheaper to provide rail haulage services using its own railway (and where necessary build spurs to serve particular deposits) and that any additional access to track services would not increase the likelihood of the Applicant or any other party actually providing a rail haulage service (so there will be no material further promotion of competition in any tenements market).<sup>23</sup> Further Rio Tinto Iron Ore submitted that ‘the costs of access (especially the diseconomy costs) would dwarf the cost of a deposit owner constructing its own infrastructure’ and that in the absence of evidence from the Applicant that ore could be shipped through a port (such as Fortescue’s facility at Port Hedland), the Council could not be satisfied that declaration of track services would result in a material promotion of competition in a Pilbara tenements market. Rio Tinto Iron Ore also argued that access to track services would not result in a tenement being developed that would not be developed without access because it (and presumably BHP Billiton Iron Ore) and the owner of a tenement would have ‘every commercial incentive’ to reach an agreement sharing between them any profits that would arise from the development of the deposit. Rio Tinto Iron Ore would have no incentive to prevent iron ore from such a deposit from entering the global market (because the global iron ore market is already competitive).

4.80 Atlas Iron agreed with the Applicant that a tenement holder without access to rail transportation is less likely to develop an iron ore tenement because of the importance of the cost of transporting the mined product in assessing the feasibility of a project going to production. With access to a haulage service on the Goldsworthy Railway, Atlas Iron argued that it could reduce the cut-off grade of iron ore that it could economically produce and export, with the result that it could explore and potentially mine a greater area. With access to the Goldsworthy Service (or presumably to a haulage service on the Goldsworthy Railway) it argued that it would have a greater incentive to spend funds on exploring and extracting ore from its Pardoo and Ridley projects (in the region of the Goldsworthy Railway) and that its exploration and production in the region would likely also increase because it could redirect funding previously used to purchase transport services to these purposes.

4.81 Atlas Iron considered that the provider of the Goldsworthy Service has an ‘incentive in limiting access to rail haulage services as it will directly affect competition in the

<sup>22</sup> See the discussion at paragraphs 4.26 and 4.27.

<sup>23</sup> As noted previously, Rio Tinto Iron Ore stated that in the case of its own railways there will be no spare capacity on key segments to accommodate third parties.

market for iron ore tenements' (Atlas, Sub 1 at [8.21]). Atlas Iron noted that a tenement holder with no access to a rail haulage service faces the less competitive options of selling the tenement to a company with rail and port infrastructure, selling the iron ore at the mine gate, selling part of its interest to a company with rail and port infrastructure or using road transport, thereby incurring higher transport costs.<sup>24</sup>

- 4.82 The NWIOA emphasised the limitations on tenement development and additional exploration resulting from a lack of access to rail track or haulage services. It estimated that its member companies with mines located close to Port Hedland could transport a maximum of 3 million tonnes per annum (**mtpa**) while those located at a greater distance from the port could transport at most 1-2 mtpa (NWIOA, Sub 2 at [2.7]). The NWIOA considered that its members' forced reliance on road transport places a cap on their annual production of iron ore.
- 4.83 The AMEC argued that expanding the transport options for iron ore miners and potential miners would improve the viability of mining on iron ore tenements, which would make those tenements more attractive. Accordingly, it considered that with access there would be greater propensity for trading in iron ore tenements.
- 4.84 The Western Australian Government agreed that a competitive haulage market could increase competition in the Pilbara tenements market. It noted qualifications to this view, pointing to the need for a tenement to be located close enough to an existing railway to justify the construction of a spur line to the railway and to the need for a tenement to be located sufficiently distant to a port to rule out road transport as an economic transport alternative. It observed that, at 2007 iron ore prices, output in excess of 20-30 mtpa of quality grade ore would be required to make it commercially viable for a producer to construct its own railway. The Government acknowledged the potential for BHP Billiton and Rio Tinto Limited, as vertically integrated companies, to have an ability and incentive to exercise market power in the tenements market, but was not aware of any circumstances where this had occurred (WA Gov, Sub 1 at [2.4]).
- 4.85 The Western Australian Government recognised the importance of port infrastructure to the iron ore logistics chain and considered that access to rail infrastructure services alone would not result in a significant increase in competition in dependent markets. It recognised that the recent surge in world iron ore demand has led to significant pressure on infrastructure (including ports). It considered however that the limits on access to port facilities do not mitigate the need for third party access to the services provided by rail infrastructure. As noted above, the Government is currently investigating a range of options to meet medium and long term demand for port capacity in the Pilbara, including the construction of new ports and the expansion of

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<sup>24</sup> Atlas Iron proposes to transport iron ore by truck from its Pardoo project (75 kilometres from Port Hedland) to Port Hedland, but considers road transport 'is not as commercially beneficial' as rail transport.

existing ports. Its stated policy objective is to ensure there are common use facilities available for relatively small tonnage bulk commodity exporters, and it has recently announced the construction of a new public berth at Port Hedland designed to accommodate the needs of small bulk ore exporters (WA Gov, Sub 1 at [2.12]). The Western Australian Government concluded that:

While port capacity may be constrained in the short term, this is not an issue that planning and negotiation between the Government, its port authorities and exporters cannot resolve. In any event, the Government does not believe that current port capacity constraints diminish the requirement for effective third party access to Pilbara iron ore rail infrastructure. (WA Gov, Sub 1 at [2.13])

### **The Council's assessment**

- 4.86 Until recent times when record setting iron ore prices have been achieved, it was unlikely that any but the largest iron ore deposits could sustain the development of the infrastructure, including rail, needed to enable exports. As a result, without third party access to rail infrastructure services, a business's capacity to mine a tenement and export iron ore depended on it entering an arrangement with the owner of the proximate rail infrastructure for the sale of ore at the mine or an agreement to establish a joint venture development/marketing arrangement. While such arrangements might be commercially negotiated they were likely to occur only on terms that suited the owner of the rail infrastructure.
- 4.87 Without access to rail infrastructure services, tenement owners will have a reduced ability to develop their tenements (because returns will be less without access to rail transport, and tenement owners will be less likely to be able to raise the funding necessary to develop a deposit). Moreover potential purchasers of iron ore tenements will have reduced incentive to purchase a tenement if there is no viable means of transporting the mined ore for processing or export. This is likely to lessen the value of tenements and generally make acquisition of tenements by third parties less attractive than in a competitive market.
- 4.88 It is not difficult to envisage that these outcomes would be attractive to an entity that is a vertically integrated iron ore producer and provider or potential provider of rail infrastructure services. An entity in such a position could obtain considerable benefit from using its ability to control access to rail infrastructure services (by preventing the emergence of a competing provider of haulage services through their control over rail infrastructure and not offering a haulage service themselves) to constrain its competitors' capacity to develop and mine their iron ore tenements and export iron ore. Such action would among other things increase the likelihood that there is a valuable portfolio of iron ore assets (warehoused by other entities) that can be available to the vertically integrated producer and provider of rail infrastructure services on favourable terms and at times of their choosing.

- 4.89 While there are some exceptions where tenements can be developed without access to the Goldsworthy Service, these exceptions are likely to be relevant for only a small proportion of iron ore tenements in the Pilbara. The Council's view is that the exceptions are unlikely to constrain to any great extent the ability of entities that both provide rail infrastructure services and compete in the tenements market from exercising their market power in the tenements market. Accordingly, the Council considers that an entity in such a position would have both the incentive and ability to limit competition in the Pilbara iron ore tenements market<sup>25</sup> and that the Pilbara iron ore tenements market is not subject to effective competition.
- 4.90 In the Council's view access to the Goldsworthy Service is likely to reduce the ability and incentives for large integrated iron ore producers/track and haulage service providers to limit competition for the acquisition of tenements by refusing to offer haulage services to non-associated parties.
- 4.91 The Council accepts that there are some situations where the effects of access to the Goldsworthy Service may be limited. In particular:
- At current price levels, there is some dedicated infrastructure development occurring that will enable exports from the larger inland deposits. In these circumstances the additional costs involved in developing a railway compared to accessing an existing railway on appropriate terms can be absorbed within the overall project costs and value.
  - There are some smaller deposits located nearer to existing or planned port facilities that may be able to sustain the cost of developing railway infrastructure on a dedicated or joint basis to enable exports or that can be exported using road transport.
  - Some tenement owners may choose to forgo some profits by investing in railway facilities for strategic reasons, including avoidance of the uncertainty as to the effectiveness and timeliness of access that might be available through Part IIIA. Given that BHP Billiton and Rio Tinto Limited have both historically refused access and strongly resisted the application of access regulation, and the time that has elapsed in dealing with the issue of access to the Mt Newman Railway, that view is understandable even if from a national interest perspective the railway investment that results is wasteful and unnecessary.
  - Where a tenement is fortuitously located such that the major producers may compete to acquire the tenement or the ore it contains triggering some competition. In these situations, the effect of restricting access to the

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<sup>25</sup> In some ways Fortescue/TPI is in a similar position, although these companies have publicly committed to offer haulage services on the TPI Railway (for which there is a regime that provides for access to rail track services) and of course any access that results from declaration of the Goldsworthy Service is not limited to the Applicant.

Goldsworthy Service on competition in the tenements market would be less.

- Into the future, the presence of Fortescue as a developing iron ore producer and railway infrastructure owner may also enhance competitive activity in the market for iron ore tenements.

4.92 Where a tenement contains sufficient ore such that the tenement holder may choose to build a railway despite the costs of doing so, the effect of restrictions on access on competition will be less pronounced, and consequently promotion of competition due to access will be less. Access to the Goldsworthy Service will have less impact for mines located near to the Goldsworthy Railway that can transport iron ore by road. However, the evidence suggests that haulage by road is viable only for short distances or for low volumes during the early stages of mine development such that access to road haulage will not significantly affect competitive outcomes in the tenements market in general.

4.93 Tenements containing large ore bodies, or those which might economically use road transport, represent collectively a relatively small proportion of total iron ore reserves and mining interests in the Pilbara. There are significant numbers of smaller independently-owned tenements that will remain stranded without access to existing rail infrastructure.

4.94 The Council is not persuaded by claims that port constraints will prevent access from resulting in a material promotion in competition in the tenements market for the same reasons that it was not persuaded by these claims in respect of the rail haulage market. The Council is not required to confirm or verify each element of a project involving access before it can be satisfied that there would be a material promotion of competition. It needs only to be satisfied that there are options to overcome obstacles to the promotion of competition.<sup>26</sup> While the Council accepts that there are some shorter term capacity and user access issues for port facilities at Port Hedland and Dampier/Cape Lambert, it notes that the Western Australian Government is supporting the development of port facilities at sufficient capacity to support the trade in Pilbara iron ore such that port access is unlikely to be a constraint on competition in the tenements market.

4.95 The Council considers that third party access will have a material effect on competition in the market for tenements. Access would generally allow significantly greater choice for tenement owners. It would allow them greater opportunity to

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<sup>26</sup> The Council notes that in *Re Services Sydney Pty Limited* [2005] ACompT 7 (at [150]) the Tribunal took account of among other things significant technical hurdles faced by the access seeker (such as acquiring the means to effect substantial tunnelling under land owned by numerous private and public parties) but considered that it was not possible to rule out a structure being developed whereby such a project could be achieved if the possibility of access became a reality (at [150]).

develop their tenements and market iron ore. It would enable a greater array of potential purchasers of tenements and joint venture partners, reducing the scope for the exercise of market power in relation to the acquisition of tenements. This would increase tenement values and stimulate exploration for iron ore, feasibility testing to define ore reserves, project construction and the production and export of additional iron ore. The Council also considers that the all points nature of the service to which access is sought may enhance the pro-competitive effects of access by increasing the number of tenements effected. Access would therefore be likely to promote a material increase in competition in the tenements market.

### **Conclusion on criterion (a)**

- 4.96 The Council concludes that access to the Goldsworthy Service would promote a material increase in competition in both the market for haulage services for iron ore on the Goldsworthy Railway and the market for iron ore tenements in the Pilbara and that these markets are separate from the market for the Goldsworthy Service.
- 4.97 The Council considers that the Goldsworthy Application satisfies criterion (a).

## 5 Criterion (b) – Uneconomical to develop another facility

### Legal requirements

5.1 Section 44G(2)(b) of the TPA (**criterion (b)**) requires that the Council be satisfied that ‘it would be uneconomical for anyone to develop another facility to provide the service’ sought to be declared. This criterion seeks to ensure that declaration is limited to situations where the development of additional facilities would increase costs, waste economic resources and generally be contrary to Australia’s national interest.

5.2 Criterion (b) is concerned with Australia’s national interest not the private interests of any particular parties. The Council and the Tribunal have consistently found that the appropriate test for assessing whether criterion (b) is met is a social test and that the term ‘uneconomical’ should be construed in a social cost benefit sense rather than in terms of private commercial interests. In *Re Sydney International Airport* [2000] ACompT 1 the Tribunal explained at [205] that:

If “uneconomical” is interpreted in a private sense then the practical effect would often be to frustrate the underlying intent of the Act. This is because economies of scope may allow an incumbent, seeking to deny access to a potential entrant, to develop another facility while raising an insuperable barrier to entry to new players (a defining feature of a bottleneck). The use of the calculus of social cost benefit, however, ameliorates this problem by ensuring the total costs and benefits of developing another facility are brought to account.

5.3 In this context the assessment of criterion (b) centres on identifying whether a facility exhibits natural monopoly characteristics such that a single facility is capable of meeting likely demand at lower cost than two or more facilities such that it is uneconomical to duplicate the facility and society’s resources are most efficiently used and costs minimised if additional facilities are not developed. In *Re Duke Eastern Gas Pipeline Pty Ltd* [2001] ACompT 2 the Tribunal stated (at [137]):

[the] test is whether for a likely range of reasonably foreseeable demand for the services provided by means of the pipeline, it would be more efficient, in terms of costs and benefits to the community as a whole, for one pipeline to provide those services rather than more than one.

5.4 Under this approach, criterion (b) limits declaration to the services of facilities with natural monopoly characteristics. The key characteristics of a natural monopoly relate to the presence of significant economies of scale and/or economies of scope in the production of the service or services the facility provides, the existence of substantial fixed (or capital) costs and relatively low variable (or operating) costs, and large and lumpy investment costs.

5.5 Network facilities including those in the energy, telecommunications and transport sectors (including railways and roads) typically exhibit natural monopoly characteristics. Some other large infrastructure facilities such as some ports and airports may also exhibit natural monopoly characteristics.

## Application and submissions

### The Applicant

5.6 The Applicant submitted that the Goldsworthy Railway and associated infrastructure is uneconomic to duplicate. It submitted that 'detailed modelling is not required to make this out' (Goldsworthy Application Part 2, at [5.1]). It considered that the relevant test is not the social test advocated by the Council and Tribunal but an alternative test of whether the increase in demand on the railway would cause the owner/operator to build a second railway rather than augment the existing railway assets. The Applicant based its argument upon a paper by Professor Gans provided as part of its Goldsworthy Application (Part 2, Attachment C). The paper by Professor Gans is discussed at paragraphs 5.37-5.38.

5.7 In the alternative the Applicant submitted that if the Council applies the 'social test' then the Goldsworthy Railway should also be considered to be uneconomic to duplicate because the social costs of expanding or augmenting the network to meet the additional demand would be significantly exceeded by the social costs of replicating the entire Goldsworthy Railway for the following reasons.

- The Applicant submitted that based on the construction costs for the TPI Railway, replicating the entire length of the Goldsworthy Railway would cost around \$750 million. The cost of expanding the Goldsworthy Railway by constructing individual sidings is much lower.
- BHP Billiton Iron Ore's current demand for the Goldsworthy Service on the section of the railway running between Yarrie and the Goldsworthy Junction (**Yarrie section**) is low, but it may return to previous levels which it estimated to be around four train paths a day. The Applicant expected BHP Billiton Iron Ore's use of the section of the railway running from the Goldsworthy Junction to Finucane Island (**Finucane Island section**) to be higher. Overall the Applicant considered that the Goldsworthy Railway had capacity to accommodate six to 12 train paths a day and that BHP Billiton Iron Ore's demand is lower than capacity. The Applicant noted that BHP Billiton Iron Ore transported a total of about 110 million tonnes in 2006, but was unable to determine BHP Billiton Iron Ore's likely future demand.
- There would likely be sufficient spare capacity to accommodate third party demand, which it estimated would be around one return train pathway every two to three days. This would accommodate potential third party

demand of approximately 3 mtpa from Atlas Iron's Pardoo Project. The Applicant considered that there is potential for higher demand, identifying four companies with prospective iron ore tenements within approximately 50 kilometres of the Goldsworthy Railway. It also identified that Consolidated Minerals Limited (now Palmary Enterprises (Australia) Pty Limited), a manganese producer, may also have demand for the Goldsworthy Service.

- The Applicant advised that should the capacity of the Goldsworthy Railway be exceeded by foreseeable demand then it would contribute to the investment necessary to expand the capacity of the Goldsworthy Railway or compensate for any loss of efficiency that results from access.
- The Applicant considered that the capacity of a fully duplicated stretch of railway is about 400 mtpa (Goldsworthy Application Part 2).

5.8 The Applicant considered that there are a number of practical impediments to replicating some sections of the Goldsworthy Railway that would either greatly increase the cost or make it impossible. These include:

- likely objections on social, environmental and Aboriginal heritage grounds to the building of a new railway when an existing railway was already available
- that it would be difficult to replicate the Finucane Island section of the Goldsworthy Railway because it may affect other developments, such as the Port Hedland Airport and BHP Billiton Iron Ore's South Hedland rail facilities
- that the Western Australian Government would likely resist authorising construction of a duplicate railway when the existing Goldsworthy Railway is capable of being expanded to accommodate additional demand.

### **BHP Billiton Iron Ore**

5.9 BHP Billiton Iron Ore outlined a number of principles that it believes the Council should apply in assessing criterion (b). Its arguments can be summarised as follows.

- The Council should be mindful of the recent amendments to the objects clause in Part IIIA and, specifically, the requirement to take into account the promotion of efficient investment in infrastructure.
- The Council should not interpret criterion (b) in an unduly restrictive manner. The Council should assess 'whether it is economical for anyone to develop another facility that could provide a service which is functionally the same as the service to which access is sought' (BHPBIO, Sub 1 at [16.6]).
- The Council should apply a private investment test in interpreting criterion (b). However, if applying a social test the Council should ask 'whether a single facility can serve the entire range of reasonably

foreseeable demand for a service, and if it can, whether it can do so at lower cost (from society's perspective) than two or more facilities'.

5.10 Further, BHP Billiton Iron Ore considered that the approach taken by Professor Gans to interpreting criterion (b) is of no assistance to the Council and is misconceived in a number of respects. In support of this view BHP Billiton Iron Ore provided papers by Concept Economics (BHPBIO, Sub 1 Annexure 17) and the Allen Consulting Group (BHPBIO, Sub 1 Annexure 18) that review the paper by Professor Gans.

5.11 In responding to the Goldsworthy Application BHP Billiton Iron Ore stated that:

The Council cannot be satisfied that it is uneconomical for anyone to develop another facility to provide the same service as the Goldsworthy Service because:

- (a) it is economically feasible for the projects and possible projects located near the Goldsworthy Railway Line to transport their ore to port facilities by road;
- (b) there is no spare capacity on the Finucane Island section of the Goldsworthy Railway Line and there will not be any spare capacity in the foreseeable future;
- (c) BHPBIO has no plans to double track the Finucane Island section of the Goldsworthy Railway Line and there are significant impediments to double tracking that section; and
- (d) development of a Goldsworthy Junction to Anderson Point section, as an alternative facility, is physically feasible and no more expensive in terms of capital costs than double tracking the Finucane Island section (if it were possible).

Further, ... the other 'social' costs and diseconomies of third party access to the Goldsworthy Railway Line overwhelmingly favour the development of another facility. (BHPBIO, Sub 1 at [4.1]-[4.2])

5.12 In the white paper at Annexure 1 to its submission, BHP Billiton Iron Ore contended that infrastructure assets used for transporting bulk commodities are not natural monopolies and that the natural monopoly test is failed on two counts.

First, the scale of growth in demand (and expected high prices) makes building greenfield capacity feasible, as shown by the proposed Fortescue rail investment for their Cloud Break and Chichester deposits. The development of the Pilbara region also shows that having multiple infrastructure owners even in one region can be efficient (and economically viable).

Second, there is no effective excess capacity and existing capacity is not readily expandable at the scale required: planned expansions require current

infrastructure assets to double existing capacity. (BHPBIO, Sub 1 Annexure 1 at p 15)

- 5.13 In terms of demand BHP Billiton Iron Ore noted that Kendall (2007) reported that in 2007, global iron ore production was estimated to be 1.6 billion tonnes with Australian production estimated to be 288 million tonnes. Further WorleyParsons (2007) estimated that by 2025, iron ore production from the Pilbara will range from approximately 550 mtpa to 900 mtpa. In its white paper BHP Billiton Iron Ore reported that analysts expected there to be relatively strong demand for iron ore over the next few years, such that annual global demand is expected to increase by 65 per cent between 2006-15.
- 5.14 BHP Billiton Iron Ore explained that the Goldsworthy Railway consists of two major sections of track:
- the Yarrie section, which is the 191 kilometre section of the railway running between Yarrie and the Goldsworthy Junction, and
  - the Finucane Island section, which is the 17 kilometre section of the railway running between the Goldsworthy Junction, where the Goldsworthy and Mt Newman railways intersect, and Finucane Island.
- 5.15 In an affidavit to the Tribunal filed on behalf of BHP Billiton Iron Ore, Mr Michael Van De Worp stated that the Yarrie section of the 'Goldsworthy Railway is effectively a low volume operation at present with not more than one train operating on a daily basis' (BHPBIO, Sub 1 Annexure 3 at p 12). BHP Billiton Iron Ore stated that it plans to transport 2 mtpa on the Yarrie section for the next five years, but may in the foreseeable future increase its use of the Yarrie section. It noted that the track is in a poor state, but is confident that use of the section could be increased to 8 mtpa without significant expenditure. This would, however, require a corresponding increase in ongoing maintenance activity (BHPBIO, Sub 1 at [8.15]). BHP Billiton Iron Ore considered that it may be feasible to increase use, but achieving this would likely require a substantial expenditure (BHPBIO, Sub 1 at [8.16]). The affidavit of Richard Derek Miller indicated that the Western Australian Government tender for construction of the Goldsworthy Railway was for transportation and shipment of up to 15 mtpa (BHPBIO, Sub 1 Annexure 8 at [26]).
- 5.16 BHP Billiton Iron Ore indicated that its use of the Finucane Island section of the Goldsworthy Railway is currently around 32-39 mtpa. It stated that the section is fully used because it effectively uses 'the section as a queuing yard so trains are usually stationary on or "occupy" the Finucane Island section for significant periods of time' and that this will continue to be the case for the foreseeable future (BHPBIO, Sub 1 at [8.47]). It considered that because it uses the section as a queuing yard the capacity of the Finucane Island section should be understood to relate to train 'occupancies' rather than just train 'movements'. It estimated the capacity of the

section to be 14 rake occupancies per day each way (that is, approximately one rake occupancy every hour).

- 5.17 BHP Billiton Iron Ore stated that it does not currently propose to double track the Finucane Island section, and is unsure what capacity increase would result or whether it would be feasible to double track given the environmental and hydrological challenges of additional train movements in this area, and the lack of physical space (BHPBIO, Sub 1 at [8.52]). BHP Billiton Iron Ore estimated the capital cost of double tracking the Finucane Island section, if it were feasible, to be in the order of \$100-120 million.
- 5.18 To demonstrate that it does not intend to double track the Finucane Island section BHP Billiton Iron Ore supplied a copy of its application for approval to construct a railway line from a point on the Mt Newman Railway that could be used to transport additional ore to Finucane Island (BHPBIO, Sub 1 Annexure 5). It also submitted that this demonstrates that the Finucane Island section is, and will for the foreseeable future, be capacity constrained.
- 5.19 BHP Billiton Iron Ore also considered that if the Goldsworthy Service were to be declared, a railway connection (or connecting spur) would need to be established between the Finucane Island section and the Applicant's railway loop leading into its train unloading facilities for any rail traffic on the Finucane Island section to be able to use the Applicant's unloading and other port facilities near Anderson Point. It considered it unlikely that the connecting spur would be viable or that relevant authorities would approve the spur given the lack of available land and because it would require water tanks to be relocated, run through the South Hedland golf course and adjacent racetrack, and result in increased environmental concerns (noise and dust pollution) for the residents of South Hedland (BHPBIO, Sub 1 at [8.63]).
- 5.20 BHP Billiton Iron Ore further submitted that its proposed new railway line and the existing TPI Railway (from the point where it crosses the Mt Newman Railway) could provide part of the service provided by the Finucane Island section of the Goldsworthy Railway.<sup>27</sup>
- 5.21 In determining third party demand BHP Billiton Iron Ore stated that the Council should undertake its consideration of whether the declaration criteria under section 44G(2) of the TPA are satisfied only by reference to those scenarios of third party access that have a sufficient degree of certainty (BHPBIO, Sub 1 at [12.1]). It considered that the projects the Applicant referred to that are owned by Jupiter Mines Limited, Polaris Metals NL and the Australian Premium Iron Joint Venture (API) are too speculative to be included in demand estimates (BHPBIO, Sub 1 at [12.8]).

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<sup>27</sup> Section 44F(4) of the TPA requires the Council to consider 'whether it would be economical for anyone to develop another facility that could provide part of the service'. This matter is considered in chapter 10.

5.22 BHP Billiton Iron Ore argued that because the Applicant wishes to use the Goldsworthy Railway in order to be able to offer rail haulage services to mining companies seeking to move bulk minerals between any two points on the Goldsworthy Railway and between any point on the Goldsworthy Railway and another railway line there are many alternatives for use of the Goldsworthy Railway providing an infinite number of scenarios for the potential carriage of third party ore on the Goldsworthy Railway. BHP Billiton Iron Ore therefore considered that assessing criterion (b) is virtually impossible in these circumstances given the infinite and uncertain scenarios of third party access (BHPBIO, Sub 1 at [12.6]).

5.23 BHP Billiton Iron Ore submitted that third party access to the Goldsworthy Railway will impose costs, such as loss of flexibility and delays to investment, which have potential production implications (BHPBIO, Sub 1 at [13.1]).<sup>28</sup> In support of this BHP Billiton Iron Ore presented an affidavit of Stephen O'Donnell, in which he stated the view that:

...[as a] result of the rigid timetable operation which usually exists in a multi user system it is generally necessary to build an additional 10 to 20% capacity into the system to achieve the same throughput as could be achieved with flexible operation of that system, under the control of a single user and operator. (BHPBIO, Sub 1 Annexure 16 at [25])

### Other parties

5.24 Rio Tinto Iron Ore submitted that a private investment test should be applied when considering criterion (b), in particular. Both Rio Tinto Iron Ore and the MCA supported the view of Stephen O'Donnell (BHPBIO, Sub 1 Annexure 16) that access may reduce the operational efficiency and system capacity of the railways by around 10-20 per cent (RTIO, Sub 1; MCA, Sub 1).

5.25 The Western Australian Government agreed with the Applicant that there may not be economic alternatives to the Goldsworthy Service for transporting iron ore in the Pilbara. It submitted that:

- there is no alternative competitive transportation mode, including road transport, for tenements in the Pilbara hinterland
- with some exceptions the railways in the Pilbara are remote from one another and therefore generally have a 'captive' regional market
- 'only for large tonnages would it become commercially viable for a company to consider the construction of a railway in its own right. ...At 2007 iron ore

<sup>28</sup> The Council notes that any inefficiency introduced into rail operations as a result of access is properly considered in relation to criterion (f), but the consequences are also relevant to estimations of capacity needed to meet likely demand, which is considered under criterion (b).

prices, it is likely that tonnages in excess of 20 to 30 million tonnes per annum of quality grade ore are needed to potentially make it commercially viable for a producer to construct their own railway' (WA Gov, Sub 1 at [3.1]).

5.26 The Western Australian Government noted that it is difficult to assess rail infrastructure capacity because of the information asymmetries that exist between the infrastructure owners and access seekers (and interested parties) (WA Gov, Sub 1 at [3.2]).

5.27 The Western Australian Government acknowledged that lost flexibility could be a major issue for rail infrastructure owners under the track access approach. Nevertheless, it argued (supported by independent expert advice) that 'expansion of a railway to a double-tracked facility would be a more cost effective (and efficient) solution than two or more rail facilities operating in parallel to the existing track' (WA Gov, Sub 1 at [3.4]).

5.28 Other submitters also considered that criterion (b) is met. The AMEC pointed to the likely significant cost of replicating a railway, such as the Goldsworthy, Hamersley and Robe railways. It considered the cost is likely to exceed the financial capacity of, in particular, smaller emerging producers. The NWIOA and Atlas Iron made similar claims. The NWIOA presented modelling results comparing the cost of transporting iron ore (on a net tonne basis) over various distances using:

- a haulage service on an existing railway
- a newly constructed dedicated railway, and
- road transport.

Over a distance of 75 to 150 kilometres, transport costs using a new railway would be some 5-6 times higher than using an existing railway, while transport costs using trucks would be some 2-3 times higher (NWIOA, Sub 2 at [2.5]). Over longer distances of about 400 kilometres, a requirement to construct a new railway would result in transport costs of about double those when using an existing railway, while the costs using trucks would be some 4-5 times higher when compared to using an existing railway (NWIOA, Sub 1 at [2.5]). The NWIOA stated:

It can be seen that from a purely financial aspect, an individual company building a new track and operating its own trains is not feasible. Basing road transport costs on above rail rates, the figures indicate that trucking seems to be marginal on short haul distances but is uneconomical on longer distances. It is clear that the only cost efficient method for transporting bulk commodities such as iron ore is by gaining access to an existing railway and using an efficient above rail operator. (NWIOA, Sub 2 at p 11)

5.29 In addition, the NWIOA expressed doubt as to whether constructing a new railway would be feasible. Apart from the cost it pointed to other constraints such as a lack of

available land, and social and environmental issues, including dust, noise, habitat impacts and water management.

- 5.30 The NWIOA indicated that lack of access would constrain production for mines close to Port Hedland because transport options would be limited to road. It considered that road haulage capacity would be limited to a maximum of about 3 mtpa depending on the availability of permits. For more distant mines maximum annual road haulage capacity could be limited to 1-2 mtpa, depending on the availability of permits.

Based on this assumption, the NWIOA combined would only be able to export a maximum of 13.5 million tonnes per year instead of the projected 53.5 million tonnes per annum by 2014. This would result in a net loss of 40 million tonnes per annum or an estimated A\$3.4 billion of revenue between the members of the NWIOA. It is also a loss in royalties to the value of \$191 million per annum. (NWIOA, Sub 2 at p 13)

- 5.31 In terms of demand the NWIOA identified a number of projects, mostly operated by members of the alliance, in the vicinity of the Goldsworthy Railway. It considered that access to the Goldsworthy Service could provide a long haul transport route for iron ore from those project mine sites to the port of Port Hedland. The NWIOA identified that Atlas Iron and Consolidated Minerals Limited (now Palmary Enterprises (Australia) Pty Limited) have potential demand for the Goldsworthy Service of about 15 mtpa by 2020—this included 13 mtpa from Atlas Iron’s Pardoo and Ridley projects. Atlas Iron also identified Pardoo and Ridley as projects for which it may seek to use of the Goldsworthy Service to transport its ore to port. The Goldsworthy Railway also appears to be the only rail access to the proposed Utah Point loading facility.
- 5.32 The NWIOA identified a number of projects in the vicinity of the Mt Newman Railway, some of which could commence production soon. It stated that the alliance member companies operating these projects would have demand for the Goldsworthy Service on the Finucane Island section if they were also able to access a rail track or haulage service on the Mt Newman Railway. It stated that these projects would not be viable without access to the services of the railways.
- 5.33 Atlas Iron submitted that there is less spare capacity on the Finucane Island section of the Goldsworthy Railway relative to the Yarrie section, but considered there is still spare capacity on the Finucane Island section. Further, Atlas Iron was of the view that likely future development of the Finucane Island section would mean that a lack of capacity on this section will not be a barrier to third party access to the Goldsworthy Service (Atlas, Sub 1).
- 5.34 No other parties commented on current or foreseeable demand of third parties.

## **Alternative tests for assessing criterion (b)**

- 5.35 Both the Applicant, BHP Billiton Iron Ore and Rio Tinto Iron Ore expressed a view that an alternative test than is currently applied should be used for assessing criterion (b).
- 5.36 BHP Billiton Iron Ore and Rio Tinto Iron Ore considered that a private investment test should be applied when considering criterion (b).
- 5.37 The Applicant sought an extension of the criterion (b) social test. Following the approach of Professor Gans (Goldsworthy Application Part 2, Attachment C), the Applicant suggested that in the case where capacity is constrained, the relevant test for satisfaction of criterion (b) should be whether the social benefits of having the duplicate facility built and operated by one provider outweigh the net social benefits of duplication with separate operators.
- 5.38 Further, Professor Gans expressed the view that ‘in reality a social test is difficult to apply because demand will fluctuate, providing more opportunities for seekers to access the infrastructure without creating a capacity issue and because overall demand growth will be an estimate’ (Goldsworthy Application Part 2, Attachment C at p 14). He therefore proposed an evidentiary test, which he illustrated with an example in which the demand of all access seekers is transferred to the infrastructure provider. He stated that ‘[t]hen, a facility will be considered uneconomic to duplicate if the provider would rather augment their own existing network than build a new rail network to accommodate that demand’ (Goldsworthy Application Part 2, Attachment C at p 14). This would be assessed based on ‘how [the service provider] would manage expansions in its own demand. If in its strategic documents there is no evidence that it would build a duplicate network to manage this demand, then the above test would force a regulator to conclude that the facility was, in fact, uneconomic to duplicate’ (Goldsworthy Application Part 2, Attachment C at p 15).
- 5.39 BHP Billiton Iron Ore and Rio Tinto Iron Ore both included papers in their submissions that are critical of the approach taken by Professor Gans (see (BHPBIO, Sub 1 Annexures 17-18; RTIO, Sub 1 Annexure 9).
- 5.40 Given the approach of the Tribunal to the interpretation of criterion (b) (which is outlined at paragraph 5.2), the Council believes that the test it must apply in assessing criterion (b) is a social test and that the term ‘uneconomical’ should be construed in a social cost benefit sense rather than in terms of private commercial interests. Both the Council and the Tribunal have previously found that a private investment test is not the appropriate test.
- 5.41 While the test under criterion (b) is a social test, this test is to be applied in the context of determining whether ‘it would be uneconomical for anyone to develop another facility to provide the service’. In the Council’s view the application of the test in the way proposed by Professor Gans is not supported by the words of Part IIIA.

5.42 As the Council does not intend to depart from the approach to consideration of criterion (b) that it and the Tribunal have usually adopted, it does not consider it necessary to discuss further the critiques of Professor Gans's approach by Professor Ordoover (RTIO, Sub 1 Annexure 9), Concept Economics (BHPBIO, Sub 1 Annexure 17) or the Allen Consulting Group (BHPBIO, Sub 1 Annexure 18).

### **The Council's assessment**

5.43 In considering whether criterion (b) is satisfied the Council:

- considers whether there are any alternative facilities that could provide the Goldsworthy Service
- considers the economic characteristics of heavy haul railways, including those characteristic of the Pilbara railways, to determine whether they exhibit natural monopoly characteristics
- considers likely current and forecast demand for the Goldsworthy Service arising from the service provider's haulage needs and those of third parties where access available
- examines whether foreseeable demand can be met within the capacity (current and planned) of the Goldsworthy Railway, and
- where access is likely to result in demand exceeding capacity, compares the likely costs of expanding the Goldsworthy Railway to meet the excess demand with the costs of constructing an alternative facility to meet the extra demand of access seekers.

### **Alternative facilities that could provide the Goldsworthy Service**

5.44 The Goldsworthy Railway is the only railway in the Pilbara operating track and haulage services from Yarrie to Finucane Island within the port of Port Hedland. As noted at paragraph 5.14, the Goldsworthy Railway consists of two major sections of track:

- the Yarrie section, which is the 191 kilometre section of the railway running between Yarrie and the Goldsworthy Junction, and
- the Finucane Island section, which is the 17 kilometre section of the railway running from the Goldsworthy Junction, where the Goldsworthy and Mt Newman railways intersect, to Finucane Island.

5.45 On behalf of the Goldsworthy and Mt Newman service providers, BHP Billiton Iron Ore is the exclusive manager and operator of the railway assets that form the Goldsworthy and Mt Newman railways. It therefore is able to use the Goldsworthy and Mt Newman railways as a network to provide haulage services between the mines it services and the port facilities at Finucane Island and Nelson Point within the

port of Port Hedland. The Mt Newman Railway cannot, however, provide an equivalent service to the Goldsworthy Railway.

- 5.46 The Great Northern Highway runs alongside the Goldsworthy Railway for part of its length, but could not provide an equivalent all points service to the Goldsworthy Railway.
- 5.47 BHP Billiton Iron Ore identified facilities that, if constructed, could potentially provide the part of the Goldsworthy Service currently provided using the Finucane Island section of the railway. This matter is discussed in chapter 10.
- 5.48 In determining whether it is economical to develop another facility, BHP Billiton Iron Ore stated that 'the Council needs to be mindful of the recent amendments to the objects clause in Part IIIA and, specifically, the requirement to take into account the promotion of efficient investment in infrastructure' (BHPBIO, Sub 1 at [16.1]). It noted that the Goldsworthy Application states that:

No facility other than access to the Goldsworthy Railway could provide the same service as the service to which access is sought. No other facility serves the same route as the route of the Goldsworthy Railway. (Goldsworthy Application, Part 1 at [7.12])

- 5.49 BHP Billiton Iron Ore considered this interpretation of criterion (b) to be unduly narrow. It further stated that:

The word "service" in criterion (b) does not mean a service that is identical to the service which is sought to be declared. Rather, the word "service" means an equivalent or substitutable service.

Further, the consideration of whether another facility provides the service to which access is sought should not be restricted to the precise route of the service provided by the facility. Such an interpretation would not only defeat the objects of the TPA and Part IIIA but would be inconsistent with the Tribunal's decision in the Sydney Airport matter. The Council itself has supported this interpretation.

Accordingly, the question the Council must ask is whether it is economical for anyone to develop another facility that could provide a service which is functionally the same as the service to which access is sought. (BHPBIO, Sub 1 at [16.4]-[16.6])

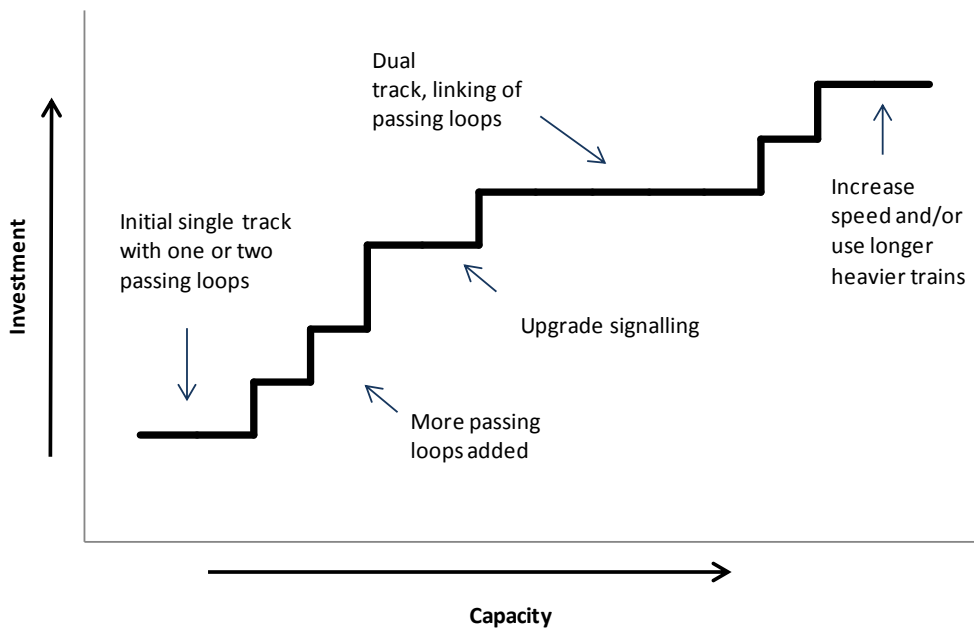
- 5.50 In its submission in relation to the Hamersley and Robe applications Rio Tinto Iron Ore made a similar point, arguing that other railways could provide the Hamersley and Robe services sought by the Applicant. It considered for example that the TPI Railway or the proposed Kennedy Railway (which will link to the TPI Railway and in turn to Port Hedland) might, with the addition of connecting spur lines, deliver the same operational outcomes as would access to its railways.

- 5.51 It appears to the Council that, at best, other railways would offer a level of track access that might enable an access seeker to pick up ore at some of the mine locations that a haulage service based on access to the services sought in each of the applications would. Track access services provided by different facilities that allow haulage from some common pick up points but not others and/or transport to different ports or potential ore processing locations via different routes, do not in the Council's view amount to the provision of the relevant service by way of an alternative facility.
- 5.52 The Council considers there are no alternative facilities that could provide the Goldsworthy Service. The issue of whether another facility could be developed to provide part of the Goldsworthy Service is considered in chapter 10.

### **Presence of natural monopoly characteristics**

- 5.53 A natural monopoly is said to exist if, given the level of demand for a good, service or facility within a market, one facility can produce the required outputs at lower cost than can two or more facilities.
- 5.54 The basic conditions for natural monopoly generally relate to the nature of costs and investment—such as the 'lumpiness' of investment and related economies of scale and/or economies of scope.
- 5.55 It is generally accepted that a natural monopoly is more likely to exist where capital costs are large relative to variable costs (implying high average costs compared with marginal costs).
- 5.56 The provision of services of the type for which declaration is sought in this application involves:
- construction of the rail infrastructure, and includes the purchase of land, earthworks, track construction and installation of signalling equipment
  - maintenance and renewal of the rail infrastructure, including repairs and replacement of track, signals and platforms, and
  - coordination and management of traffic on the rail infrastructure, including train control and implementation of safe working procedures.
- 5.57 The provision of this infrastructure requires a significant capital investment in track and signalling infrastructure, which the Applicant estimated would cost about \$750 million to replace. While ongoing maintenance costs and other operational costs associated with the railway service are significant, they are relatively small compared to the capital costs incurred in developing the facility or indeed the costs of operating the trains and the other above rail services that run on the rail infrastructure that provides the service for which declaration is sought in this application.

- 5.58 Queensland Rail (2006) estimated, using a life cycle cost framework, that for a typical freight railway, capital costs account for approximately 60 per cent of total costs and maintenance (such as inspections, ballast and track replacement, and rail grinding) accounts for around 25 per cent of total costs. The remaining 15 per cent are operating costs. Heavy haul bulk rail systems, like iron ore railways in the Pilbara, typically involve the greatest construction and maintenance costs per kilometre because of the significant wear and tear impact of the heavy trains on the track (based on Queensland Rail 2006). Terrain and climatic conditions also affect per unit track construction and/or ongoing maintenance costs. Nevertheless it is apparent that the Pilbara iron ore railways exhibit high investment costs relative to more modest ongoing operational costs, a characteristic feature of natural monopoly.
- 5.59 Once committed, much of the infrastructure costs of a railway, such as the cost of earthworks and track formation, are sunk (unrecoverable). While rails, sleepers and ballast could potentially be moved from one rail corridor to another, the expense involved largely precludes this.
- 5.60 In addition, the capacity of a railway can often be expanded significantly at a relatively low incremental cost through discrete additions of capacity in the form of passing loops and upgraded signalling. Once incremental expansion options are exhausted (typically this occurs once passing loops are around 10 kilometres apart) the track must be duplicated or multiple-tracked. This involves a much more substantial investment, but delivers a disproportionately large increase in capacity compared to the construction of a similar length of track on a stand-alone basis. The OECD (2001) reported, for example, that expanding from single to double track roughly quadruples capacity with a less than doubling of costs. Figure 5-1 provides an illustration of the relationship between investment costs and selected capacity expansion options.
- 5.61 Heavy haul railways appear to have relatively high capital costs relative to variable costs and investment tends to be of a discrete and 'lumpy' nature. It appears that heavy haul rail systems are able to achieve significant economies of scale that persist as output levels increase. These features of heavy haul railways suggest that the Goldsworthy Railway is likely to be a natural monopoly—such that a single below rail operator is likely to be able to deliver services at lower cost than two or more track operators over a wide range of demand levels and that it is only when the use of a railway approaches the maximum scope of its potential capacity that it would become economical to develop another facility.

**Figure 5-1 Relationship between investment and capacity by type of railway expansion**

Source: Adapted from Queensland Rail (2006).

### **Demand for the Goldsworthy Service**

5.62 Demand for the Goldsworthy Service will arise from the haulage requirements of the Goldsworthy Service Providers. Other parties with iron ore resources in the vicinity of the Goldsworthy Railway may also have demand for the Goldsworthy Service. Such parties could include a mining company that wishes to access the Goldsworthy Service to haul on its own account or a mining company that seeks to use haulage services offered by other rail freight operators that have access to the Goldsworthy Service—this potentially includes the Applicant and other iron ore haulers or specialised rail freight operators.

5.63 There are currently many companies that are exploring and developing tenements in the vicinity of the Goldsworthy Railway. Realistically, however, only some of the tenements in the area will contain sufficient iron ore to be viably mined and only a proportion of the total ore resource will be extracted and sold in any given period. Only a proportion of the companies in the vicinity of the Goldsworthy Railway will seek to transport ore using the Goldsworthy Service.

5.64 Over the past few years iron ore production in the Pilbara has significantly outstripped expectations because actual demand for iron ore exports and the price of iron ore has been much higher than expected. A range of industry forecasts and planned investment activity in the Pilbara indicate that demand for iron ore is expected to grow at a relatively rapid rate and prices remain high for a sustained period.

- 5.65 The Council accepts there are difficulties in determining with precision likely future demand for the Goldsworthy Service. The Council agrees with Professors Ordovery and Kalt that the all points service sought by the Applicant and a lack of specificity as to sources, levels and route requirements of demand for haulage services (and hence access to the Goldsworthy Service) make numeric estimates of demand requirements and comparisons with achievable capacity and the costs of expanding the Goldsworthy Railway, problematic. However, the Council does not believe that such a calculation is an essential requirement of criterion (b).
- 5.66 The Council believes that even broad indicative estimates of demand will assist it to consider criterion (b) by informing the overall judgment required in assessing whether the criterion is met. That is, the Council does not accept that if precise calculations cannot be made then criterion (b) can never be satisfied and the application must fail.
- 5.67 As noted at paragraph 5.45, BHP Billiton Iron Ore is the exclusive manager and operator of the Goldsworthy and Mt Newman railways. BHP Billiton Iron Ore is thus the exclusive user of the Goldsworthy Service on behalf of the Goldsworthy Service Providers. BHP Billiton Iron Ore submitted that it plans:
- to transport 2 mtpa on the Yarrie section of the Goldsworthy Railway for the next five years (BHPBIO, Sub 1 at [8.12]), and
  - to operate the Finucane Island section at its capacity limit of 14 rake occupancies per day each way (that is, approximately one rake occupancy every hour). At present this allows about 39 mtpa of ore to be transported on the Finucane Island section (BHPBIO, Sub 1 at [8.46]).
- 5.68 In addition to BHP Billiton Iron Ore's demand for the Goldsworthy Service, the Applicant and other parties have indicated that there are a number of iron ore explorers and developers in the vicinity of the Goldsworthy Railway that may have demand for the Goldsworthy Service in the reasonably foreseeable future.
- 5.69 The Council accepts that an all points service, as sought by the Applicant, would allow access seekers to offer a range of haulage services between different locations. Indeed the ability to offer a service from, or between, a range of locations seems necessary in order for a haulage service to be of value to different customers with mines in different locations.
- 5.70 While there are a range of ways access seekers might seek to use the Goldsworthy Service the Council considers that the economics of transporting bulk minerals, particularly relatively low value bulk minerals such as iron ore, suggest that iron ore producers will generally look for the quickest and cheapest means of getting their ore to port. Therefore the Council considers that the most likely pattern of demand for the Goldsworthy Service will be for transport between a mine in the vicinity of the Goldsworthy Railway and facilities located within the port of Port Hedland.

- 5.71 The Council considers that it is most likely that any processing of ore in Australia would occur at the mine or the port and therefore this activity would not substantially change the pattern of third party demand for the Goldsworthy Service. Further the Council considers that the economics of transporting bulk minerals are such that it is unlikely that anyone would seek a backhaul service for an extended distance on the Goldsworthy Railway.
- 5.72 In order to estimate third party demand for the Goldsworthy Service in the short and medium term, the Council has sought to identify the parties who could potentially use the Goldsworthy Service (directly or indirectly) over the next five to ten years. This approach appears to be supported by BHP Billiton Iron Ore, the NWIOA and Atlas Iron.
- 5.73 The Council considers that only producers of iron ore are likely to seek access to the Goldsworthy Service. Other mineral producers are unlikely to operate at the scale required to justify the use of rail haulage and would likely be deterred from sharing a rail haulage service where there is potential for contamination between one type of mineral and another. In any case, the volumes of other ores are unlikely to be significant.
- 5.74 The information available to the Council (as published in submissions and by iron ore explorers) indicates that while there are many tenements being actively explored in the vicinity of the Goldsworthy Railway, there are relatively few companies that have announced plans to produce iron ore. The Council is able to identify only two projects—Atlas Iron’s Pardoo and Ridley projects—which represent potential drivers of demand for the Goldsworthy Service over this time period.
- 5.75 As indicated by the NWIOA there is potential further demand for the Goldsworthy Service arising from mining projects in the vicinity of the Mt Newman Railway cross tracking to use part of the Goldsworthy Railway. The Council has not included this demand in its consideration of the Goldsworthy Service. The Mt Newman Service has not been declared, as the application for declaration was deemed to be declined when the then Treasurer did not make a decision within the required time period. That deemed decision is under review by the Tribunal. Even if the Mt Newman Service is declared, as recommended by the Council in 2006, access under that declaration would relate to a point to point service from near Mindy Mindy to Port Hedland. As noted at footnote 4, the Council regards the precise points of interconnection at Port Hedland and near Mindy Mindy as matters for negotiation or arbitration in the event of an access dispute. While access at the junction of the Mt Newman and Goldsworthy railways (at Port Hedland) may fall within the Mt Newman Service, for the Applicant or other access seekers to offer a haulage service from points along the Mt Newman Railway, they would require *all points* access to the Mt Newman Railway. This might be achieved through negotiation with the Mt Newman Service Providers or possibly through a new declaration application.

5.76 Table 5-1 sets out the Council's estimate of potential demand over the next five to ten years.

**Table 5-1 Potential demand for the Goldsworthy Service**

| Source of demand     | Yarrie section |                             | Finucane Island section |                             |
|----------------------|----------------|-----------------------------|-------------------------|-----------------------------|
|                      | mtpa           | Trains per day <sup>a</sup> | mtpa                    | Trains per day <sup>a</sup> |
| <b>BHP BIO</b>       |                |                             |                         |                             |
| Short term           | 2              | 1                           | 32-39 <sup>b</sup>      | 14                          |
| Medium term          | 2              | 1                           | 32-39 <sup>b</sup>      | 14                          |
| <b>Third parties</b> |                |                             |                         |                             |
| Short term           | 1-10           | 1-3 <sup>c</sup>            | 1-10                    | 1-3 <sup>c</sup>            |
| Medium term          | 3-13           | 1-4 <sup>c</sup>            | 3-13                    | 1-4 <sup>c</sup>            |
| <b>Total</b>         |                |                             |                         |                             |
| Short term           | 3-10           | 2-4                         | 33-49                   | 15-17                       |
| Medium term          | 5-15           | 2-5                         | 35-52                   | 15-18                       |

<sup>a</sup> Approximate number of train movements or occupancies per day each way. <sup>b</sup> Based on train movements (occupancies) for the first three quarters of 2007-08, and includes a period in which there was a maintenance shutdown. <sup>c</sup> Based on operating 8 800 to 12 000 tonne trains 345 days a year.

Source: Council estimates based on Atlas, Sub 1; BHPBIO, Sub 1; and NWIOA, Sub 2.

5.77 There is scope for demand to grow beyond these levels in the longer term and for other sources of demand to emerge given continuing high demand for iron ore and consequent price increases but at this stage it is unclear where this demand might occur and at what levels.

5.78 The Council would not necessarily expect each access point that may be used by an access seeker to be negotiated on a case by case basis. The Council envisages that services on parts of the Goldsworthy Railway may involve particular issues and give rise to higher costs, and hence higher access charges, than others. In particular, access prices may be relatively higher and the terms of access more restrictive for services on congested sections of the track where the use of 'installed capacity' is already high. It may be that access to services on some parts of the railway will not be available where congestion is acute and allowing third party access would reduce a service provider's ability to meet its own requirements.<sup>29</sup> While this may preclude the Applicant or another access seeker from providing haulage to/from certain points, this appears consistent with the requirements of Part IIIA of the TPA (including in particular section 44W(1)(a)). Such terms or limitations might be negotiated

<sup>29</sup> This may require the development of an alternative facility to provide part of the service for which declaration is sought. This issue is discussed in chapter 9.

between the service provider and an access seeker. Should an access dispute arise it could also be considered by the ACCC in the context of the specific situation.

### **Capacity of the Goldsworthy Railway**

5.79 BHP Billiton Iron Ore stated that there are significant differences in the operation, use, structural condition and capacity of the Yarrie and Finucane Island sections of the Goldsworthy Railway. The longer Yarrie section is a single line with four sidings, two of which are single ended.<sup>30</sup> According to BHP Billiton Iron Ore the Yarrie section is in relatively poor condition, which has required a number of operating restrictions to be imposed on trains that run on the section. These restrictions include:

- decreased axle loads for locomotives and ore cars
- decreased tonnages for ore cars
- strict speed limitations on many segments of the section, and
- a lower train speed than permitted on the Finucane Island section or Mt Newman Railway.

5.80 BHP Billiton Iron Ore stated that the Yarrie section has historically been able to accommodate up to 8 mtpa. It is confident that capacity of the Yarrie section could be increased to 8 mtpa with additional maintenance. While BHP Billiton Iron Ore had not undertaken any formal assessment it considered that the Yarrie section could likely accommodate more tonnages by changing some operating parameters and undertaking other significant expenditures, such as more frequent replacement of sleepers and refurbishment or replacement of bridges (BHPBIO, Sub 1 at [8.16]). As noted at paragraph 5.15 the tender for construction of the Goldsworthy Railway was for transportation and shipment of up to 15 mtpa.

5.81 The Finucane Island section, while only a single track of 17 kilometres in length, is maintained to a relatively high standard consistent with the Mt Newman Railway. BHP Billiton Iron Ore stated that it operates the Finucane Island section at its current maximum limit of 14 train movements (and occupancies) a day each way. The current limit to capacity is affected by BHP Billiton Iron Ore using the track as a queuing yard to minimise the time its car dumper operations at Finucane Island are unused or waiting idle. This means that on the Finucane Island section there is usually at least one train stationary ('occupying' the capacity of the track), which prevents the movement of any other trains through that section. Using the track in this way permits BHP Billiton Iron Ore to move 14 trains a day in each direction, which means that it will haul around 32-39 million tonnes of iron ore on the Finucane Island section in 2007-08.

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<sup>30</sup> Trains must reverse onto the mainline to exit a single ended siding.

- 5.82 BHP Billiton Iron Ore anticipated continuing to operate the Goldsworthy Railway in the future in much the same way as it does currently. It anticipated increasing exports of iron ore, in part, by constructing a new railway line off the Mt Newman Railway to connect to Finucane Island. It noted, however, that it could alter these plans under later stages of its 'rapid growth program'.
- 5.83 The information provided by BHP Billiton Iron Ore indicates that current capacity of the Goldsworthy Railway over the short to medium term is likely to be about:
- 1-2 trains movements (or about 2-8 mtpa) on the Yarrie section, and
  - 14 train movements (or about 32-39 mtpa) on the Finucane Island section.
- 5.84 Over the short term it may be possible to accommodate additional third party demand on the Yarrie section of the Goldsworthy Railway within the existing capacity. However, over the medium to longer term it is unlikely that demand for the Goldsworthy Service can be accommodated on this section of track as currently configured.
- 5.85 There would appear to be little or no spare capacity on the Finucane Island section of the railway as currently configured or as the result of currently planned expansions. Although some capacity might be made available by developing alternative facilities to serve as a 'queuing yard' for trains waiting to unload at BHP Billiton Iron Ore's Finucane Island unloading facilities.
- 5.86 Where likely demand outstrips installed capacity, Part IIIA envisages that it may be necessary for a facility to be expanded to meet demand for a service arising from access. Under the provisions of Part IIIA, where a facility needs to be expanded to meet demand for a declared service, access seekers must negotiate with the service provider for the required capacity expansion. The access seekers are required to fund that expansion.<sup>31</sup>
- 5.87 The Applicant acknowledged that it would need to negotiate and pay for necessary expansions. In its application, the Applicant stated that:

[i]n the event that capacity constraints impinge on Goldsworthy's operations as a result of the service being offered by TPI, then as part of any negotiations or arbitration subsequent to declaration, TPI would expect to have to invest in expanding the capacity of the Goldsworthy Railway or to compensate Goldsworthy for any loss of efficiency that resulted. (Goldsworthy Application, Part 1 at [7.21])

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<sup>31</sup> Section 44W(1)(e) of the TPA states that in determining an arbitration the ACCC must not require the provider to bear some or all of the costs of extending the facility or maintaining extensions of the facility. Section 44V(2)(c) states that the ACCC may specify terms and conditions of the third party's access to the service.

5.88 As with other terms relating to access, an inability for access seekers and service providers to reach a commercial arrangement for provision and funding of expansions may give rise to an access dispute that is subject to arbitration by the ACCC. If necessary the ACCC can determine that a service provider should expand a facility and that access seekers must meet the costs of this expansion.<sup>32</sup>

### **The cost of expansion compared to duplication**

5.89 In the previous section the Council found that the Goldsworthy Railway, as currently configured, may not accommodate the likely demand for the Goldsworthy Service over the medium to long term. In these circumstances it will still be uneconomical to duplicate a facility where an existing facility can continue to be expanded to meet the additional demand at a lower cost than building a new railway could. In these situations criterion (b) requires an assessment of whether it is less costly to meet the demand for the service sought to be declared by expanding the existing facility or by developing and operating another facility.

5.90 The Applicant submitted that based on the construction costs for the TPI Railway, the cost of constructing a railway in the Pilbara is around \$3.5-4.5 million per kilometre—or roughly \$12-20 million per loop/siding of 3-5 kilometres in length (Goldsworthy Application, Part 1, at [7.19]). Using these estimates, the cost of replicating the Goldsworthy Railway would be about:

- \$682-900 million for the Yarrie section, and
- \$72-120 million for the Finucane Island section.

5.91 This assumes that any new railway constructed is built to the standards of the TPI Railway. It also assumes a single track configuration with minimal sidings and therefore represents the minimum requirement for providing a good quality all points service between mines located near Yarrie and Finucane Island. A dedicated railway servicing Atlas Iron's projects, which are located within about 50-100 kilometres from Port Hedland would cost about \$187-490 million.

5.92 The Council considers that costs of the order of \$187-490 million provide a reasonable guide to the likely cost of constructing a duplicate facility to provide a service that could cater to demand for the Goldsworthy Service over the short to medium term.

5.93 The alternative to constructing a new facility is to expand the existing Goldsworthy Railway to accommodate third party demand. Given the nature of iron ore operations in the Pilbara there are a range of options available for expanding capacity. The options include changes to below and above rail to enhance capacity, as well as changes at the mine and port that have an impact on the railway network.

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<sup>32</sup> Sections 44W(1)(e) and 44V(2)(c) of the TPA.

- 5.94 The least costly and most efficient option for expanding the Goldsworthy Railway will depend on a range of considerations, including the existing configuration of the railway and the available land easement. Importantly planning the most appropriate expansion will also need to take account of the source of increased demand—the location and production rate of the mines—and the likely destination point—existing or new port facilities. Without this information it is impractical to specify precisely how the Goldsworthy Railway might be expanded to meet likely demand, and the costs of doing so.
- 5.95 As discussed earlier in this chapter, railways generally exhibit natural monopoly characteristics. As such, continued expansion of an existing facility will involve less cost than construction of a new facility across a wide range of demand levels. This is because expansion will generally involve construction of additional sidings or passing loops, or in some cases double or multiple tracking of relatively short sections of track. It is unlikely that the size and costs of an expansion project will approach those involved in constructing a new railway to provide the Goldsworthy Service. Because some of the major construction costs of a railway, such as the acquisition of land for the railway easement, earthworks, signalling infrastructure, and construction of bridges and tunnels are avoided when expanding an existing railway, it is likely that expansion will almost always be cheaper than duplicating a facility. As noted in the previous section construction costs can account for over half the cost of a heavy haul railway over its life. It is only when a railway is at or approaching the maximum scope of its capacity that economies of scale are exhausted and it becomes economical to develop a duplicate facility. In addition, expansion of the Yarrie section rather than development of a new railway would avoid developing a new land easement, which could potentially involve unnecessary environmental, heritage and other social costs.
- 5.96 There is no evidence to suggest that the Yarrie section of the Goldsworthy Railway is close to or at maximum potential capacity. Most railways (and sections of railways) in the Pilbara are typically estimated to have capacity well in excess of 50 mtpa. There would therefore appear to be scope to upgrade, improve and expand the capacity of the Yarrie section. The Council therefore considers that expanding the Goldsworthy Railway to accommodate third party demand is likely to be more economical than duplicating that part of the facility.
- 5.97 The Finucane Island section of the Goldsworthy Railway may be at or near full capacity as currently configured and used. The scope for another facility to be developed to provide this part of the Goldsworthy Service is considered in chapter 10. There appears to be greater difficulty in expanding this section of the track than the Yarrie section, given its location relative to the town of Port Hedland and related facilities, environmental and hydrological challenges and possible community objections to further development of the area. These locational and related factors may limit the amount and nature of access available to the Finucane Island section of the Goldsworthy Railway. As a result there may be higher access charges (and more restrictive terms generally) for using this part of the railway.

### **Conclusion on criterion (b)**

- 5.98 The Council considers that, although in its existing and planned configurations the Goldsworthy Railway, and in particular the Finucane Island section of the railway, may not have sufficient capacity to meet likely demand for the Goldsworthy Service, the costs of expanding the existing railway to meet likely demand is likely to be significantly less than that associated with duplicating the facility.
- 5.99 The Council is satisfied that it would be uneconomical to develop another facility to provide the Goldsworthy Service and therefore considers that the Goldsworthy Application satisfies criterion (b).

## 6 Criterion (c) – National significance

### Legal requirements

- 6.1 Section 44G(2)(c) of the TPA (**criterion (c)**) seeks to ensure that only those facilities that the Council is satisfied are of national significance can be the subject of a declaration under Part IIIA of the TPA. The Council must be satisfied that the facility is of national significance, having regard to one or more of the following matters specified in criterion (c):
- the size of the facility
  - the importance of the facility to constitutional trade or commerce, or
  - the importance of the facility to the national economy.
- 6.2 While declaration focuses on access to a service rather than a facility, criterion (c) relates to national significance of the facility providing the service. Given that section 44G(2)(c) specifies ‘or’ after each of the specific matters it is clear that criterion (c) will be satisfied if any one of the three factors is met.<sup>33</sup>
- 6.3 Section 44G(2)(c)(ii) refers to the importance of the facility to constitutional trade or commerce. Section 44B of the TPA defines ‘constitutional trade or commerce’ to mean any of the following:
- trade or commerce among the States
  - trade or commerce between Australia and places outside Australia, or
  - trade or commerce between a State and a Territory, or between two Territories.

### Application and submissions

- 6.4 The Applicant submitted that the facility in question is around 210 kilometres in length, and that accordingly, the Goldsworthy Railway is of national significance based on its size and cost alone (Goldsworthy Application Part 1, at [9.2]). The Applicant stated that the approximate cost of replicating the Goldsworthy Railway is \$750 million (Goldsworthy Application Part 1, at [9.2]).
- 6.5 The Applicant submitted that the Goldsworthy Railway is also important to constitutional trade or commerce, on the basis that it has a capacity of at least 30 mtpa, which equates to potential export revenue of approximately \$1.5 billion (Goldsworthy Application Part 1, at [9.3]). The Applicant also submitted that the Goldsworthy Railway is of national significance due to its impact on the national economy.

<sup>33</sup> See *Re Services Sydney Pty Limited* [2005] ACompT 7 at [180].

6.6 The Western Australian Government submitted that the Goldsworthy Railway is of national significance on the basis of all three factors listed in criterion (c). The Western Australian Government noted that the Pilbara region is the source of the majority of iron ore produced in Western Australia, and the whole of Australia. The Pilbara region accounts for 95 per cent of Australia's iron ore production.

6.7 The Western Australian Government stated that in 2006-07, the value of Western Australian iron ore increased to a new record of \$15.75 billion (WA Gov, Sub 1 at [4.2]). During this period, Western Australia produced more than 250 million tonnes of iron ore. The Western Australian Government submitted that the iron ore industry is a major contributor to Western Australia's economy, employment and regional development (WA Gov, Sub 1 at [4.2]). As stated by the Western Australian Government:

[The iron ore industry] is the second largest industry contributor to the State's economy, behind only the petroleum sector. Royalties received by the State from this industry amounted to approximately \$851 million for the financial year 2006/07. The industry generates significant export revenue, pays substantial taxes to the Australian Government and is a major driver of regional development in the north west of Australia through the significant employment and social benefits it brings to communities in the Pilbara. (WA Gov, Sub 1 at [4.3])

6.8 The AMEC also submitted that the Goldsworthy Railway is of national significance on the basis of all three factors listed in criterion (c). The AMEC stated that the volume of iron ore exported, together with the export value of that iron ore, highlights the economic importance of the railway infrastructure (AMEC, Sub 1 at [2.3.8]).

6.9 Atlas Iron submitted that criterion (c) is satisfied, and stated that it supports the Applicant's submissions in relation to criterion (c) (Atlas, Sub 1 at [9.1]). Atlas Iron stated:

The Goldsworthy Service is of increasing national significance by reason of the growing number of iron ore companies in the Pilbara region moving toward a production stage. The Goldsworthy Service has the capacity to transport billions of dollars of iron ore per annum, as well as generating revenue through incidental services such as haulage.

The Goldsworthy Railway is also significant in that it stretches over 210 km and is geographically isolated from any other infrastructure of its kind which services the industries in that region...

A competitive and efficient mining industry is an important part of the continued development of the Australian economy. The mining industry has an important role in international trade and securing access to cheap and efficient transport is critical to the broader economy. (Atlas, Sub 1 at [9.3]-[9.5])

6.10 Atlas Iron also submitted that the Goldsworthy Railway generates significant employment and allows for diversity of employment in the Pilbara region (Atlas, Sub 1 at [9.6]).

### **The Council's assessment**

6.11 The Council received a number of submissions outlining the reasons why the Goldsworthy Railway is a facility of national significance. The Council did not receive any submissions stating that the Goldsworthy Railway is not a facility of national significance.

6.12 The Council is satisfied that the Goldsworthy Railway is of national significance having regard to the size of the facility, the importance of the facility to constitutional trade or commerce and its importance to the national economy.

### **Conclusion on criterion (c)**

6.13 The Council considers that the Goldsworthy Application satisfies criterion (c).

## 7 Criterion (d) – Health and safety

### Legal requirements

- 7.1 Section 44G(2)(d) of the TPA (**criterion (d)**) requires that the Council be satisfied that access to the Goldsworthy Service can be provided without undue risk to human health or safety. This involves a consideration of:
- the nature of the potential risks associated with access, and
  - whether access can be provided in a manner that removes or appropriately manages any such risks.

### Application and submissions

- 7.2 The Applicant stated that if the Goldsworthy Service is declared, it will operate in accordance with best practice and comply with all relevant safety and other legislation (Goldsworthy Application Part 1, at [10.1]). The Applicant also stated that it will ensure that its operations are safely and effectively integrated with existing safety and operating procedures in a manner that ensures there will be no undue risk to human health or safety as a result of access being made available. The Applicant anticipated that if the Goldsworthy Service were declared, it would be operating a rail haulage service on its own railway by the time access became available, meaning that it would be familiar with the health and safety requirements of the Western Australian Government (Goldsworthy Application Part 1, at [10.2]). Finally, the Applicant anticipated that the terms of access agreed or negotiated would include terms to ensure a similar standard of safety as currently applies to the facility (Goldsworthy Application Part 1, at [10.3]).
- 7.3 The Western Australian Government, the AMEC and Atlas Iron were of the view that track access can be provided without undue risk to human health or safety (WA Gov, Sub 1 at [5.3]; AMEC, Sub 1 at [2.4.1]; Atlas, Sub 1 at [10.1]). The Western Australian Government confirmed that all access seekers' rail operations would be subject to regulation under the *Rail Safety Act 1998* (WA). The AMEC suggested that access might reduce risks to human health and safety due to reduced transport of ore by road, although in the Council's view this factor is more relevant to criterion (f) than criterion (d).
- 7.4 The Council did not receive a submission from BHP Billiton Iron Ore in relation to criterion (d).
- 7.5 Rio Tinto Iron Ore argued in relation to the Hamersley and Robe railways that the Council cannot be satisfied that access can be provided without undue risk to health and safety because the Applicant had not outlined a specific safety regime. It submitted:

TPI has made no attempt to describe the manner in which its operations are capable of being 'safely and effectively integrated with the provider's safety and operating procedures' in light of the legislative and operational requirements outlined above. (RTIO, Sub 1 at [8.4])

- 7.6 Rio Tinto Iron Ore also considered that allowing multiple users would give rise to a decline in safety (RTIO, Sub 1 at [8.7]-[8.9]). Specifically, Rio Tinto Iron Ore stated:

Heavy haul railways are specialist infrastructure...

...maintenance and other regimes to protect track and consist integrity must be scrupulously planned and adhered to. Further they need to be consistent...

...because of miscommunications, different standards of skill levels or training regimes, or different approaches to maintenance, accidents are far more likely to occur if there is more than one operator on a railway line... (RTIO, Sub 1 at [8.7]-[8.9])

### **The Council's assessment**

- 7.7 Criterion (d) is concerned with the potential for access to be provided in a manner that does not impose undue risks to health and safety. The Council does not accept Rio Tinto Iron Ore's submission that the Applicant must describe or document specific arrangements concerning safety issues before the Council can be satisfied that access can be provided without undue risk to health and safety. Such an approach is inconsistent with the language of criterion (d) and would impose a requirement that applications for declaration include an unrealistic level of specificity and detail. It should also be noted that the language of criterion (d) suggests that it is not concerned with whether the proposed use of the service by a specific third party would impose risks to health and safety, except insofar as a third party's proposal may provide evidence of the ability of an access agreement to avoid such risks. In this respect, the Applicant has stated that it anticipates that the terms of access agreed or negotiated would include terms to ensure a similar standard of safety as currently applies to the Goldsworthy Railway.
- 7.8 There are a number of potential risks to human health and safety inherent in operating all heavy haul railways as well as many other facilities of the type that are likely to be subject to declaration applications. Such risks have led to a significant emphasis on occupational health and safety by the service providers and also to significant regulatory interventions to mandate and enforce a high standard of safety and safety procedures. In the Council's view it is reasonable to expect that it would be a requirement of any access arrangement, whether resulting from declaration or otherwise, that these standards and procedures are maintained.
- 7.9 The Council is of the view that negotiations between the relevant parties, and if necessary the determinations of the ACCC, in relation to appropriate access terms

and conditions are capable of satisfactorily addressing the likely risks which might arise from the presence of a third party's trains on the Goldsworthy Railway. For example, access terms can provide for:

- specifications of locomotives and rolling stock to be used by the third party
- requisite skills, qualifications and training requirements for personnel involved in the operation and maintenance of a third party's locomotives and rolling stock
- maintenance standards and systems which are compatible with the standards and systems of the service provider
- use of appropriate safety equipment and systems, and
- use of safety monitoring systems.

7.10 The Council notes that pursuant to section 44(X)(1)(f) of the TPA the ACCC is specifically required to take into account the operational and technical requirements necessary for the safe and reliable operation of any facility in determining access disputes.

7.11 There is no evidence to suggest that the Goldsworthy Railway control system would be unable to safely accommodate an increase in the number of trains. There is no evidence of any significant difficulties experienced in integrating additional trains into the control system of the Goldsworthy Service in the past, and there are proposals to introduce additional trains in the future.

7.12 The Council is not persuaded by Rio Tinto Iron Ore's argument that multiple users will result in undue risk to health and safety. While this might arguably introduce an added degree of complexity to the control and scheduling operations, there can only be one controller on any rail facility and the provision of access under Part IIIA of the TPA would not change that situation. Declaration of the Goldsworthy Service will not result in any changes in the management and control of the Robe Railway.

7.13 Continuing to have a single controller would manage operational risks associated with multiple users because one party would remain responsible for control of the Goldsworthy Railway and, therefore, the management and coordination of all train pathways including scheduling and signalling. An access seeker's trains would be required to follow operational instructions in the same manner as a service provider's own trains.

7.14 The Goldsworthy Railway is currently regulated under the *Mines Safety and Inspection Act 1994 (WA)*, as it is exempt from the *Rail Safety Act 1998 (WA)*, on the basis that it is part of a continuous chain of ownership from mine to port.<sup>34</sup>

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<sup>34</sup> Section 5(2) of the *Rail Safety Regulations 1999 (WA)*.

- 7.15 However, the Western Australian Government stated that if the Goldsworthy Railway were to become subject to a third party haulage or track access arrangement, it would have to comply with the *Rail Safety Act* (WA Gov, Sub 1 at [5.1]). The *Rail Safety Act* would require the owner and operator of the Goldsworthy Railway to be accredited under that Act, and any access seeker would also need to be accredited as an operator.
- 7.16 Accreditation requires, among other things, owners and operators to put in place a documented rail safety management plan and ensure the proper maintenance of rail infrastructure and proper operation of train control, signalling and communication systems. Accreditation provides assurance that railway organisations have in place the competency, capacity and systems necessary to operate safely.
- 7.17 In addition to the *Rail Safety Act*, the owners and operators of all trains using the Goldsworthy Railway are governed by specific occupational health and safety legislation.
- 7.18 The Council noted the Applicant's submission that it is likely to be familiar with Western Australian health and safety requirements, which would include the *Rail Safety Act*, as it is operating its own railway in the Pilbara, which is also subject to that Act. This may assist this particular access seeker in meeting its obligations under the *Rail Safety Act*.
- 7.19 The Council is of the view that the requirement that any access seeker seeking to operate trains on the Goldsworthy Railway be accredited under, and comply with, the *Rail Safety Act* will ensure that its operations will be carried out in a manner which ensures no undue risk to health or safety. Regulation of complex and potentially hazardous infrastructure in multiple user situations is not an uncommon situation facing safety regulators, and the Council is unaware of any evidence to suggest that the regulation of rail safety would be made less effective as the result of access.

### **Conclusion on criterion (d)**

- 7.20 The Council considers that the Goldsworthy Application satisfies criterion (d).

## 8 Criterion (e) – Effective access regime

### Legal requirements

- 8.1 Section 44G(2)(e) of the TPA (**criterion (e)**) provides that the Council must not recommend that a service be declared unless it is satisfied ‘that access to the service is not already the subject of an effective access regime’.
- 8.2 In deciding whether a regime established by a state or territory constitutes an effective access regime, the Council must apply the ‘clause 6 principles’,<sup>35</sup> must have regard to the objects of Part IIIA,<sup>36</sup> and, subject to section 44DA,<sup>37</sup> not consider any other matter (section 44G(3) of the TPA).
- 8.3 Where a service is the subject of an access regime that has been certified as an effective access regime by the relevant Commonwealth Minister under Part IIIA, the Council must follow that decision unless it believes that, since certification, there have been substantial modifications to the access regime or to the clause 6 principles (section 44G(4)). Similar provisions bind the designated Minister in relation to certified access regimes (section 44H(6)).

### Access undertakings

- 8.4 The Council must not recommend declaration of a service that is subject to an access undertaking that has been accepted by the ACCC under section 44ZZA of the TPA (section 44G(1)). Neither may the designated Minister declare such services (section 44H(3)).
- 8.5 The ACCC has not accepted any access undertakings in relation to the Goldsworthy Service. Therefore, the Council is not prevented in this regard from recommending that the Goldsworthy Service be declared.

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<sup>35</sup> The ‘clause 6 principles’ are set out in clause 6 of the Competition Principles Agreement between the Commonwealth and all states and territories of Australia, initially entered into on 11 April 1995, and amended several times, most recently on 13 April 2007.

<sup>36</sup> The objects of Part IIIA are set out in section 44AA of the TPA. (See paragraph 3.9 of this draft recommendation.)

<sup>37</sup> Section 44DA of the TPA provides that the Council, in applying the clause 6 principles, must treat each individual relevant principle as having the status of a guideline rather than a binding rule.

## Application and submissions

### Applicant

- 8.6 The Applicant made submissions regarding criterion (e) in relation to the *Railways (Access) Act 1998* (WA) and the *Railways (Access) Code 2000* (WA) (together, the **WA Rail Access Regime**) (Goldsworthy Application Part 1, at [11.8]-[11.9]), the *Iron Ore (Mt Goldsworthy) Agreement Act 1964* (WA) (**Goldsworthy Agreement Act**) (Goldsworthy Application Part 1, at [11.10]-[11.11]) and a State-based regime currently being developed by the Western Australian Government for access to rail haulage services for iron ore in the Pilbara (**Proposed Pilbara Rail Haulage Regime**) (Goldsworthy Application Part 2, at [8.1]-[8.5]).
- 8.7 The Applicant submitted that none of these access regimes is effective in respect of the Goldsworthy Service.
- 8.8 The Applicant stated that the WA Rail Access Regime has not been certified as an effective access regime under Part IIIA, and in any case does not apply to the Goldsworthy Railway.
- 8.9 The Applicant submitted that the Goldsworthy Agreement Act (unlike the Goldsworthy Service) does not provide for access to the below rail service provided by the Goldsworthy Railway; it does not allow third parties to access the Goldsworthy Railway to transport goods using the third parties' own rolling stock.
- 8.10 Regarding the Proposed Pilbara Rail Haulage Regime, the Applicant submitted that it is not known whether it will ever commence operation and, if it does, whether it will operate effectively to give third parties access to haulage services on Pilbara railways. The Applicant further submitted that the proposed regime could not be an effective access regime for the Goldsworthy Service under criterion (e) given that it would require BHP Billiton Iron Ore to provide a haulage service and would not provide for third parties to access the relevant rail tracks to enable third parties to run trains or provide haulage services.

### Western Australian Government

- 8.11 The Western Australian Government referred to the Goldsworthy Agreement Act and similar agreements entered into between the State and mining companies in the 1960s collectively as the 'State Agreements'. It noted the adoption of third party access clauses in the State Agreements requiring haulage be provided for third parties' freight (and passengers), citing the following from the Goldsworthy Agreement Act:

[the State Agreement companies must] ... operate their railway in a safe and proper manner and where and to the extent that they can do so without unduly prejudicing or interfering with their operations hereunder carry freight and

transport the passengers of the State and of third parties on the railway subject to and in accordance with by-laws. (WA Gov, Sub 1 at [6.2])

- 8.12 The Western Australian Government stated that clauses in the State Agreements such as the clause above ‘clearly demonstrate the Government’s long sought policy objective that State Agreement companies carry third party freight, provided that it does not unduly prejudice, or interfere with, their operations’ (WA Gov, Sub 1 at [6.2]). The Western Australian Government went on to note:

However, to date, no independent access seeker has been able to negotiate satisfactory access arrangements with these [State] Agreement companies. It is difficult to conclude therefore, that these State Agreement rail access provisions have been effective.

These State Agreement Acts were executed well before access regulation had developed to any material degree in any industry in Australia. The third party access provisions contain relatively high-level obligations and lack the detail required to bring about third party access. It is, therefore, not surprising, in hindsight, that those State Agreement access provisions have not proven to be an effective vehicle for any new market entrants. (WA Gov, Sub 1 at [6.3]-[6.4])

- 8.13 The Western Australian Government also discussed the Proposed Pilbara Rail Haulage Regime. It submitted that it ‘is undertaking the development of a State-based haulage regime for the Pilbara iron ore carrying railways’ (WA Gov, Sub 1 at [1.12]). The Western Australian Government intends that the Proposed Pilbara Rail Haulage Regime be certified as an effective access regime under Part IIIA of the TPA, but noted that there is no guarantee that either legislative enactment or certification of the regime will occur (WA Gov, Sub 1 at [1.20]). Furthermore, the Western Australian Government noted that it is not anticipated that the Proposed Pilbara Rail Haulage Regime will be unilaterally implemented across all rail infrastructure in the Pilbara and that therefore it will require the mutual consent of the State Agreement companies (WA Gov, Sub 1 at [6.7]).

### **Other parties**

- 8.14 The AMEC submitted that the Goldsworthy Application satisfies criterion (e), citing the Applicant’s submissions in support (AMEC, Sub 1 at [2.5]). Atlas Iron also submitted that criterion (e) is satisfied, similarly citing the Applicant’s submissions, and submitting that ‘an application under the TPA is the only legal recourse Atlas has to pursue access to the Goldsworthy Service’ (Atlas, Sub 1 at [11.6]).
- 8.15 None of the other parties who made submissions to the Council on the Goldsworthy Application made submissions in relation to criterion (e).

## **The Council's assessment**

8.16 The Council has considered whether the Goldsworthy Service is already subject to an effective access regime in terms of general rail regulation in Western Australia, the Goldsworthy Agreement Act, or the Proposed Pilbara Rail Haulage Regime. In doing so, it is necessary first to note the distinction between the Goldsworthy Service and rail haulage services.

### **The Goldsworthy Service is a rail track service**

8.17 As discussed earlier, the Goldsworthy Service is an all points 'rail track' or 'below rail' service, which would enable the Applicant or other access seekers to run their own trains along the Goldsworthy Railway (see paragraph 2.5).

8.18 Rail track services may be distinguished from 'haulage' or 'above rail' services, in which a service provider offers haulage services including the provision of locomotives and rolling stock. This is a conventional distinction that underpins economic and legal analysis of railway services in Australia and elsewhere.

8.19 The Applicant seeks access to the Goldsworthy Service to enable it to offer a rail haulage service to third parties seeking to move bulk minerals between any two points on the Goldsworthy Railway.

8.20 The distinction between rail haulage and rail track services, and the fact that the market for haulage services on the Goldsworthy Railway is distinct from the market for the Goldsworthy Service, is discussed in chapter 4 in relation to criterion (a).

### **Western Australian Rail Access Regime**

8.21 Currently, the only access regime that applies to rail track services in Western Australia is the WA Rail Access Regime. Pursuant to section 4(2) of the *Railways (Access) Act* and section 5(1) of the *Railways (Access) Code*, the railways to which the WA Rail Access Regime applies are those listed in schedule 1 of the Code. As noted by the Applicant, the Goldsworthy Railway is not listed in that schedule.

8.22 Given the WA Rail Access Regime does not apply to the Goldsworthy Service, the Council finds that the WA Rail Access Regime is not an effective access regime for it.

### **Goldsworthy Agreement Act**

8.23 The Goldsworthy Agreement Act includes a provision regarding the operation of the Goldsworthy Railway that requires the railway operator to carry the freight of third parties in certain circumstances, including where to do so would not unduly prejudice the operations of the joint venturers (section 9(2)(a) of schedule 1, parts of which are quoted at paragraph 8.11).

- 8.24 The Goldsworthy Agreement Act has not been certified as an effective access regime under Part IIIA. Moreover, as noted by the Western Australian Government, 'no independent access seeker has been able to negotiate satisfactory access arrangements with these [State] Agreement companies' (WA Gov, Sub 1 at [6.2]).
- 8.25 In any case, any access rights provided under the Goldsworthy Agreement Act are haulage rights, not rail track access rights. The Goldsworthy Agreement Act does not, in any circumstances, place any obligation on the State Agreement companies to allow third parties to use the tracks to transport freight using third parties' own trains.
- 8.26 Accordingly, the Council finds that the Goldsworthy Agreement Act does not provide an effective access regime for the Goldsworthy Service.

### **Proposed Pilbara Rail Haulage Regime**

- 8.27 On 10 June 2008 the Western Australian Government released for public comment its draft Pilbara Railways (Third Party Haulage) Regime and a public consultation paper, with a view to seeking submissions from industry participants and the public generally. Following the six week public consultation process, the Western Australian Government plans to consider the outcomes of the consultation, the preferred format of the regime and how it could be implemented.
- 8.28 At this time the Council cannot be confident as to the content and timing of the Proposed Pilbara Rail Haulage Regime. As the Western Australian Government recognises, considerable barriers exist to the regime's ultimate implementation.
- 8.29 In any event, were the Proposed Pilbara Rail Haulage Regime in effect, the intention is that it would apply to haulage services, not rail track services. As discussed in chapter 4, the Council considers that haulage services are functionally distinct from rail track services, such that a regime providing effective access to the former does not provide effective access to the latter for the purposes of criterion (e).
- 8.30 The Council notes, however, that the operation of a demonstrably effective regime regulating the availability and pricing of haulage on the Goldsworthy Railway would be a significant factor in considering criterion (f). Such a situation may also be relevant to criterion (a). To the extent that haulage is an acceptable substitute for running trains and meets the requirements of mine operators to transport ore for export, it may be that the additional competition that would arise from access may be immaterial if haulage is already available and subject to appropriate regulation. Alternatively it may be that access to rail track services is properly viewed as a complementary to a regime relating to haulage services. At this stage, however these issues are speculative at most.

### **Conclusion on criterion (e)**

8.31 The Council considers that the Goldsworthy Service is not subject to an effective access regime and that the Goldsworthy Application satisfies criterion (e).

## 9 Criterion (f) – Not contrary to the public interest

### Legal requirements

9.1 Section 44G(2)(f) of the TPA (**criterion (f)**) provides that the Council cannot recommend that a service be declared unless it is satisfied ‘that access (or increased access) to the service would not be contrary to the public interest’.

9.2 When applying the equivalent test in section 44H(4)(f) of the TPA, the Tribunal stated in *Re Services Sydney Pty Ltd* [2005] ACompT 7 at [192]:

This criterion does not require the Tribunal to be affirmatively satisfied that declaration would be in the public interest. Rather it requires that it be satisfied that declaration is not contrary to the public interest. It enables consideration of the overall costs and benefits likely to result from declaration and the consideration of other public interest issues which do not fall within criteria (a)-(e).

9.3 The term ‘public interest’ is not defined in the TPA but the Council considers that this term allows a consideration of a broad range of issues, including but not limited to:

- ecologically sustainable development
- social welfare and equity considerations, including community service obligations<sup>38</sup>
- government legislation and policies relating to matters such as occupational health and safety, industrial relations, and access and equity
- economic and regional development, including employment and investment growth
- the interests of consumers generally or of a class of consumers
- the competitiveness of Australian businesses, and
- the efficient allocation of resources.

9.4 Consideration of criterion (f) does not revisit the issues considered under the other declaration criteria. Rather it draws on the Council’s conclusions in relation to those criteria. For example, where the Council has concluded that access will promote a material increase in competition in one or more dependent markets, this will in all likelihood give rise to benefits that should be included in the assessment of criterion (f). Similarly, where access will aid in avoiding duplication of a facility that

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<sup>38</sup> Community service obligations are common in relation to supply of infrastructure services especially to consumers; although there are no explicit community service obligations applying to Pilbara railways.

exhibits natural monopoly characteristics, this too will lead to benefits that are appropriately considered under criterion (f).

- 9.5 In the Goldsworthy Application, the Applicant submitted that '[w]here criteria (a) to (e) are satisfied, there is a presumption that access is in the public interest'. (Goldsworthy Application Part 1, at [12.1]) and that there is no reason to rebut this presumption in relation to this matter.
- 9.6 In its submission on the Robe and Hamersley applications, Rio Tinto Iron Ore rejected the suggestion that there was a presumption of the kind suggested by the Applicant.
- 9.7 If the Applicant is suggesting that the benefits arising from the satisfaction of the other declaration criteria flow through to be considered along with other matters in assessing criterion (f), then the Council agrees. If by the use of the term 'presumption' the Applicant intends that special status or weight should be given to these factors, then that would be more than the Council's approach involves.
- 9.8 The Applicant also submitted that in considering whether access would be contrary to the public interest, the Council should not take into account any costs that may flow from declaration. The Applicant based this submission on the Full Court of the Federal Court's finding in *Sydney Airport Corporation v Australian Competition Tribunal* [2006] FCAFC 146<sup>39</sup> that the word 'access' in section 44H(4)(a) (and therefore in criterion (a)) should take its ordinary English meaning and the Full Court's rejection of an approach 'whereby "access" becomes "declaration under Part IIIA"'. Although this finding arose in the context of the Full Court's consideration of criterion (a), the Applicant noted that words are presumed to have a consistent meaning throughout a statute (Goldsworthy Application, Part 1 at [12.2]).
- 9.9 Rio Tinto Iron Ore rejected the Applicant's submission that the Full Federal Court's finding that 'access means access' in the *Sydney Airport Corporation v Australian Competition Tribunal* also applies to criterion (f), and therefore the costs of regulation should not be counted in considering criterion (f).
- 9.10 While the Council accepts that words ordinarily have the same meaning throughout a statute, the Council does not accept that regulatory and other costs that flow from the declaration of a service are excluded from the consideration of criterion (f). The Council does, however, accept that the costs of making and dealing with an application for declaration arise from the enactment of Part IIIA and would be incurred irrespective of whether the application succeeds and declaration, or more broadly access, occurs and therefore these costs are not a factor in considering criterion (f).
- 9.11 In the Council's view, the purpose of criterion (a) is different to criterion (f). As the Tribunal has noted, criterion (f) 'enables consideration of the overall costs and

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<sup>39</sup> See also paragraphs 4.7-4.8 of this draft recommendation.

benefits likely to result from declaration and the consideration of other public interest issues which do not fall within criteria (a)-(e)' (*Re Services Sydney Pty Limited* at [192]). The Council considers that this must include consideration of any regulatory or other costs that flow from the declaration of a particular service.

- 9.12 Rio Tinto Iron Ore also submitted that paramount importance should be given to the efficient operation of and investment in infrastructure under criterion (f), because of the introduction of the objects clause in section 44AA of Part IIIA.
- 9.13 The Council agrees with Rio Tinto Iron Ore that the effects of access on the efficient operation of infrastructure, including a service provider's operations, should be considered under criterion (f), as should any effects on investment that might result from access to the Goldsworthy Service. The Council does not, however, accept that these factors should be given extra weight in that consideration.
- 9.14 A number of other parties submitted that criterion (f) should be interpreted in a particular way in relation to the Goldsworthy Application, or that novel qualifications or additions to the criterion should be adopted. A number of these policy related submissions appeared to address what the submitter considers the law relating to access should be, rather than what it necessarily is. These submissions are addressed in chapter 3 of this draft recommendation and are not considered further here.
- 9.15 The Council also notes the proposition that the consideration of criterion (f) requires a quantitative cost benefit analysis. In the Council's view this is unrealistic. Quantitative information and estimates may assist in assessments of the type the Council is required to undertake under criterion (f), but in practice many important cost and benefit factors that need to be considered do not lend themselves to quantification. In such situations attempts to provide quantification require assumptions to be made in relation to key issues and judgments. An excessive focus on quantification can lead to complex and largely irrelevant arguments about the numbers while the substantive issues are overlooked.
- 9.16 The Council considers that in answering criterion (f) it is required to be satisfied that the overall costs to the Australian public that arise from access to, in this case, the Goldsworthy Service do not exceed the overall benefits.
- 9.17 If the likely costs exceed the likely benefits then access would be contrary to the public interest, so criterion (f) is not satisfied and the Council would be required to recommend against declaration. This assessment is necessarily on the basis of 'likely' costs and benefits, as the access (or increased access) is prospective. The assessment also involves consideration of likelihood in the sense that the Council must consider the chance that certain outcomes (and associated costs or benefits) will occur. For example, a very costly outcome with a low chance of occurring may not outweigh a smaller benefit which is more certain.

## Application and submissions

### Applicant

- 9.18 In the Goldsworthy Application the Applicant set out a number of benefits to the public that would result from access. The Applicant also addressed a range of issues that might be seen to give rise to costs and why in its view such costs would not occur.
- 9.19 The Applicant submitted that the Goldsworthy Service would enable rail haulage services to be offered to potential users of the Goldsworthy Railway, possibly in competition with any rail haulage services that might be offered by the Goldsworthy Service Providers. Competition for these services would result in more competitive terms being offered for rail haulage on the Goldsworthy Railway, in turn promoting competition in the market for iron ore tenements in the Pilbara, which the Applicant stated is in the public interest (Goldsworthy Application Part 1, at [12.3]).
- 9.20 The Applicant submitted that access would not result in an adverse impact on incentives to invest in railways:
- because the terms of access should ensure that the Provider receives a commercial return for granting such access which will increase the return on existing infrastructure and ensure that any additional investment required in infrastructure as a result of access is paid for by the access seeker. (Goldsworthy Application Part 1, at [12.4])
- 9.21 The Applicant submitted that access would not have a net adverse effect on the efficient use of the Goldsworthy Railway, stating that railways enjoy economies of scale such that increased throughput would lower the average cost of transporting bulk materials on it. To the extent the Goldsworthy Service Providers suffered a loss of efficiency as a result of access by third parties, the Applicant submitted that such lost efficiency could be restored as a result of additional investment in the railway by the access seeker or compensated for in the access price (Goldsworthy Application Part 1, at [12.5]).
- 9.22 The Applicant submitted that '[i]t is in the public interest to see existing rail infrastructure utilised to its full capacity before the environmentally damaging impact of building an alternate railway is considered' (Goldsworthy Application Part 1, at [12.6]).
- 9.23 The Applicant made a public interest argument in relation to native title rights, stating that it is 'in the public interest to see existing rail infrastructure utilised to its full capacity before adversely impacting native title rights by constructing a new railway over land over which existing Native Title Rights are enjoyed' (Goldsworthy Application Part 1, at [12.7]).

## BHP Billiton Iron Ore

9.24 BHP Billiton Iron Ore submitted that the declaration of the Goldsworthy Service would be contrary to the public interest.

9.25 BHP Billiton Iron Ore submitted that regulatory intervention in relation to access to its Pilbara railways would lead to very large costs resulting from a number of adverse consequences that are summarised below. In quantifying those costs, BHP Billiton Iron Ore referred to a paper it submitted entitled ‘Costs of delays to investment in infrastructure as a result of regulatory intervention’ (BHPB, Sub 1 Annexure 14). This paper estimated the following costs to BHP Billiton Iron Ore.

- The cost of delaying its ‘RGP4’ expansion project by one year is in the order of \$900 million.
- The cost of delaying its subsequent likely expansion project by two years has a net present value of \$1 737 million.
- The cost of delaying later expansion projects by one year each (on the assumption that one expansion project of similar scope to RGP4 is approved each year) has a net present value of some \$2 000 million.

9.26 BHP Billiton Iron Ore concluded that the ‘total cost to BHPBIO of the delays caused by the introduction of a Regulator would be in excess of \$4 600 million’, ignoring the cost of delays post 2015, assuming all expansions would be delayed by ‘a Regulator’, and assuming that regulation would not cause any of the potential expansions to become uneconomic (BHPB, Sub 1 Annexure 14 at [10]-[23]).

9.27 BHP Billiton Iron Ore included with its submission a paper it had authored entitled ‘Regulation for the future of Australia’s natural resources sector’ (**BHPBIO White Paper**).<sup>40</sup> In this paper BHP Billiton Iron Ore argued that mandating third party infrastructure access is beneficial only where:

- sharing access does not introduce material inefficiency for the overall system, net of additional transaction and ‘friction’ costs<sup>41</sup>
- capacity is sufficient, or incentives are sufficient for ongoing timely and efficient investment in capacity to meet future needs, and

<sup>40</sup> BHPBIO, Sub 1 at Annexure 1.

<sup>41</sup> Shared access was argued not to introduce material inefficiency into the overall system for operations requiring ongoing investment in capacity expansion where seven conditions were met, namely, (i) the operation is vertically separable, (ii) sharing assets does not impede operational efficiency, (iii) all key operational and commercial terms are ‘contractable’, (iv) the asset is a natural monopoly, (v) capacity requirements can be forecast with low uncertainty, (vi) the returns offered to the infrastructure provider are market-based, and (vii) beneficial competition is enabled.

- facility owners are able to—in the absence of such regulation—exercise market power and foreclose beneficial competition.
- 9.28 BHP Billiton Iron Ore submitted that none of the conditions for the first criterion above is met for export oriented bulk commodity industries, and implied, therefore, that declaration of the Goldsworthy Service is not in the public interest.
- 9.29 BHP Billiton Iron Ore submitted that the potential benefits of access to the Goldsworthy Service are small and unlikely to be realised, and would be outweighed by the costs to Australia of access, because:
- the amounts of ore that might be produced by third parties using the Goldsworthy Service would total less than 1 per cent the Goldsworthy Service
  - Fortescue’s Mindy Mindy project is not economically viable and does not require access to the Goldsworthy Service to be exploited, and other projects identified by the Applicant as potential users of the service do not require access to the service to be exploited, and
  - projects in the vicinity of the Goldsworthy Railway are economically viable without access as they can use road transport to get to Port Hedland (BHPBIO, Sub 1 at [17.10]).
- 9.30 BHP Billiton Iron Ore identified a number of costs it submitted would arise from access to the Goldsworthy Railway. The costs identified relate to:
- costs and feasibility of expanding the Goldsworthy Railway
  - regulatory costs
  - loss of production
  - deterring or delaying optimisation of rail operations
  - deterring or delaying efficient investment
  - environmental costs
  - loss of ‘facilities-based competition’
  - diseconomies and inefficiencies of multi-user systems compared to single-user systems, and
  - impacts of regulation.

*Costs of expanding the Goldsworthy Railway*

- 9.31 BHP Billiton Iron Ore submitted that at least the Finucane Island section of the Goldsworthy Railway would need to be double tracked in order to accommodate third party access to the Goldsworthy Service. It submitted that the costs of doing so

‘if it were to be feasible, would be in the order of \$100-\$120 million’ (BHPBIO, Sub 1 at [13.4]).

9.32 BHP Billiton Iron Ore submitted that there are feasibility issues associated with double tracking the Finucane Island section. It stated that:

- there is no land available to the south of the railway given the location of the Boodarie workshop, and therefore expansion would need to occur to the north
- hydrological challenges would be involved, for example traversing South West Creek would require resolution of flood level issues
- environmental issues would arise, such as dust and noise pollution, and traffic interference and congestion, given the section crosses two public roads, and
- electricity, gas, water infrastructure and a road are close to the railway.

#### *Regulatory costs*

9.33 BHP Billiton Iron Ore submitted that the Council should consider regulatory costs, including the direct costs of the Part IIIA access regime and opportunity costs. It submitted that the costs of regulation are likely to be very significant given the range and complexity of issues that can arise under an access dispute, the availability of appeal mechanisms and ‘the opportunity to “game” the system’ (BHPBIO, Sub 1 at [13.6]).

#### *Loss of production*

9.34 BHP Billiton Iron Ore submitted that third party access to the Goldsworthy Service would result in a loss of operational flexibility on both the Goldsworthy Railway and the Mt Newman Railway, because its ability to adjust its operations ‘within real time’ to capitalise on circumstances of high demand spikes would be restricted. It submitted this would result in lost production and potentially indirect costs related to reduced reliability of supply. It further submitted that operational failures by third party users would occur from time to time, which would lead to further lost production.

#### *Deterring or delaying optimisation of rail operations*

9.35 BHP Billiton Iron Ore submitted that third party access would deter or delay optimisation of railway operations because third parties with smaller operations would have no incentive to agree to investments in new technologies or innovative operating practices. Such delay and deterrence would be likely because of the need for consultation, and the lack of agreement and regulatory intervention between

third party users such as the Applicant and BHP Billiton Iron Ore, who would be likely to have different commercial objectives.

*Detering or delaying efficient investment*

- 9.36 BHP Billiton Iron Ore submitted that the likely differing commercial objectives of it and third party users such as the Applicant would also deter or delay investments in export infrastructure. It submitted that such delays in responding to increased demand for iron ore would result in substantial opportunity costs. The potential for such costs would enable the Applicant to 'game' the regulatory process for its own ends increasing the potential for opportunity costs, inefficient investment and regulatory error.
- 9.37 BHP Billiton Iron Ore referred to the ACCC's determination of 23 April 2008 regarding the Capacity Balancing System (CBS) for the Hunter Valley coal chain, arguing it supported its view that access would reduce incentives to invest in infrastructure. It submitted that the ACCC had indicated its concerns with the CBS were that 'the common user obligations restricted the environment underpinning long term investment in infrastructure' and 'the focus on individual or component capacity without reference to the coal chain as a whole or system capacity resulted in the imbalance', and that the ACCC found that if the CBS were implemented in the long term, it would 'reduce incentives to invest and lead to the inefficient use of infrastructure' and 'generate a significant public detriment involving "several billion dollars in lost export revenue"' (BHPBIO, Sub 1 at [13.15]-[13.16]).
- 9.38 BHP Billiton Iron Ore's submissions in relation to the quantity of costs that would result from delayed investment are discussed at paragraphs 9.25-9.26 above.

*Loss of 'facilities-based competition'*

- 9.39 BHP Billiton Iron Ore submitted that in addition to reducing incentives to invest in export infrastructure, third party access would create an additional cost in the form of lost 'facilities-based competition', which, it argued would otherwise provide an incentive for an increase in production. It submitted that, therefore, '[a]llowing use of another producer's railway line is likely to have a dampening effect on that party's production' (BHPBIO, Sub 1 at [13.20]).

*Diseconomies and inefficiencies of multi-user systems compared to single-user systems*

- 9.40 Like Rio Tinto Iron Ore, BHP Billiton Iron Ore argued that '[t]here is a wealth of evidence that production and logistics systems which are integrated single-user systems under unified control are markedly more efficient than multi-user systems' (BHPBIO, Sub 1 at [13.22]). It included with its submission affidavits filed in the Tribunal proceeding concerning the Mt Newman Railway (or extracts or non-

confidential versions of them) affirmed by Mr Michael Van Der Worp,<sup>42</sup> Manager of Rail Operations for BHP Billiton Iron Ore's Pilbara operations, Mr Andrew Neal,<sup>43</sup> a consultant who gave evidence for BHP Billiton Iron Ore as an expert in the rail industry and Mr Stephen O'Donnell,<sup>44</sup> a consultant who gave expert evidence for BHP Billiton Iron Ore in relation to issues that arise in common user supply chain systems when compared to single user systems.

9.41 Mr Van Der Worp intends to give evidence in the Mt Newman Tribunal proceedings relation to BHP Billiton Iron Ore's road and rail operations in the Pilbara, his opinion as to the capacity of the Mt Newman Railway and the impact that third party access may have on the operation of the Mt Newman Railway. Mr Van Der Worp stated the following.

- (a) The Mt Newman Railway was operating at high tonnage levels, and would have no spare capacity following implementation of BHP Billiton Iron Ore's RGP4 project (BHP Billiton Iron Ore's current expansion project for its Pilbara operations). He argued that third party access may result in less capacity for BHP Billiton Iron Ore, and may also result in reduced capacity of the Mt Newman Railway as a whole if third party users transport a lower amount of ore per train. He further argued that these matters would have an asymmetric impact on BHP Billiton Iron Ore as the main user of the Mt Newman Railway.
- (b) Access to the Mt Newman Railway was likely to reduce the flexibility with which BHP Billiton Iron Ore, as the current sole user of the railway, is able to operate its system. He stated it was likely BHP Billiton Iron Ore would have a lower degree of control over the railway, which may reduce its ability to trial new operational methods and respond to problem scenarios in a manner which maximised the capacity of the system in the short, medium and long terms.
- (c) Access to the Mt Newman Railway may increase maintenance costs because third party users do not use the same wheel profile and materials as BHP Billiton Iron Ore, or if third parties operate their trains in an inappropriate manner.
- (d) Third party users of the Mt Newman Railway would need to use a communication system compatible with BHP Billiton Iron Ore's including using radio frequencies for which BHP Billiton Iron Ore owns the licence.
- (e) BHP Billiton Iron Ore's control over its operations enables it to manage safety and train protection issues effectively. It was not clear to Mr Van Der

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<sup>42</sup> BHPB, Sub 1 at Annexure 3.

<sup>43</sup> BHPB, Sub 1 at Annexure 15.

<sup>44</sup> BHPB, Sub 1 at Annexure 16.

Worp how third parties could operate in accordance with, or without adversely affecting, those management systems.

- (f) Train breakdowns occur daily on the Mt Newman Railway and third party breakdowns may not be dealt with as quickly as third parties may have less incentive to deal as soon as possible, and BHP Billiton Iron Ore locomotives may not be able to couple with and remove broken down third party trains. If this occurred, it would reduce the efficiency of the railway.
- (g) BHP Billiton Iron Ore's rate of research and innovation may be reduced by access where third parties were reluctant to adopt new technologies for cost or other reasons.
- (h) Access would result in the regulation of the safety of BHP Billiton Iron Ore's rail operations moving from the *Mine Safety and Inspection Act 1994 (WA)* to the *Rail Safety Act 1998 (WA)*. As the latter act requires compliance with Australian Standard AS4292, is more 'directive' as to how specific risks are dealt with and requires the Regulator to be advised of and investigate safety incidents, the company would have less flexibility in managing rail safety.
- (i) Third party users would have an incentive to load their trains with maximum loads, without regard to loading in a manner that reduces rail wear, and it would be difficult for BHP Billiton Iron Ore to quantify this added cost.

9.42 Mr Neal also intends to give opinion evidence as to the impact that third party access may have on the operation of the Mt Newman Railway. Mr Neal's opinions as to the impact of access on the Mt Newman Railway were consistent with those of Mr Van Der Worp, and were summarised by him as follows.

In my view, the key impacts of third party access sought by Fortescue are likely to include:

- (a) BHPBIO's ability to operate and maintain its railroad in a way that achieves high levels of efficiency will be significantly impacted. In particular, third party access is likely to impact on the ability of BHPBIO to maintain its wheel and rail profiles, which would in turn affect its ability to run heavy axle loads, and may ultimately lead to:
  - (i) increased wear on the rails, which may lead to dynamic instability and hunting on the line. In severe instances, this may result in derailment; and
  - (ii) increased metal stress in the wheel/rail interface, which could result in subsurface defects and cracking in the rail, which is difficult to detect. This may also lead to derailment.
- (b) BHPBIO's ability to undertake experimentation and research, and to continuously improve its operations may be compromised.

- (c) BHPBIO's operations are likely to move toward acceptance of a "lowest common denominator approach" as a result of one or more third parties being unwilling to invest in development or expansion of operations.
- (d) For each additional party operating on BHPBIO's system, there will be a disproportionate increase in the complexity and potentially adverse impacts of third party access. (BHPBIO, Sub 1 Annexure 15 at [300])

9.43 Mr O'Donnell intends to give evidence in relation to a review he undertook of the Goonyella coal supply chain and his opinion as to issues in relation to common user and single user rail systems. Mr O'Donnell stated:

Based on my experience working with multi-user systems, it is my view that as a result of the rigid timetable operation which usually exists in a multi-user system it is generally necessary to build an additional 10 to 20% capacity into the system to achieve the same throughput as could be achieved with flexible operation of that system, under the control of a single user and operator. (BHPBIO, Sub 1, Annexure 16 at [25])

9.44 Mr O'Donnell further argued that expansions and investment in multi-user systems are inhibited or delayed when compared to single-user systems.

#### *Impacts of regulation*

9.45 BHP Billiton Iron Ore submitted that the most significant cost of access was that associated with regulation, which it argued would:

- (a) have an adverse impact on Australia's global competitiveness in resources during a time of high demand;
- (b) introduce economic inefficiencies in the operation and use of, and investment in, export infrastructure; and
- (c) reduce social surplus for Australia. (BHPBIO, Sub 1 at [13.27])

9.46 BHP Billiton Iron Ore referred the Council to the BHPBIO White Paper in support of its argument on the impact of regulation. It set out BHP Billiton Iron Ore's arguments as to why the conditions for beneficial access referred to at 9.27 above are not met, and the consequences of that.

9.47 The BHPBIO White Paper annexed a paper<sup>45</sup> by Professor Jerry Hausman entitled 'Economic Analysis of Mandatory Access Provision'. Professor Hausman argued for the existence of 'three failures of regulation of access infrastructure that lead to under investment by the incumbent', being:

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<sup>45</sup> BHPBIO, Sub 1, Annexure 01-A2.

- asymmetric risk: ‘the incumbent investments are irreversible so they will exist in good times or bad times but the access seeker only purchases access in good times’
- mispriced options to invest: ‘regulation uses a measure of “total service long run incremental cost” ... so it misprices the option to invest by failing to take into account the option to wait’
- free option to access seekers: ‘[an access regime] grants a “free option” to the access seeker who has the option to demand service if times are good but to cease to buy the service if time[s] turn bad’. (BHPBIO, Sub 1 Annexure 01-A2 at p 14)

### **Rio Tinto Iron Ore**

9.48 Rio Tinto Iron Ore made extensive submissions in support of its argument that the Council should not be satisfied under criterion (f) in relation to the Hamersley Service and the Robe Service. The Council has considered these arguments when assessing whether the Goldsworthy Application satisfies criterion (f), to the extent Rio Tinto Iron Ore’s arguments are relevant to the Goldsworthy Application.

9.49 Rio Tinto Iron Ore submitted that its rail and port infrastructure is among the most efficient in the world, and that this efficiency would be jeopardised by allowing third parties access. Rio Tinto Iron Ore submitted that ‘changing the RTIO Rail Network from a single user vertically integrated facility, to a regulated multi-user facility’ would give rise to very large costs that should be considered by the Council in assessing criterion (f).

9.50 Rio Tinto Iron Ore submitted a report from Port Jackson Partners (RTIO, Sub 1 Annexure 5) modelling the economic impact of expansion delays Rio Tinto Iron Ore say would arise from its rail network becoming a multi-user facility.

9.51 Port Jackson Partners was instructed by Rio Tinto Iron Ore to assume that delays to expansion projects would occur, and then to quantify the economic impact of such delays over a 20 year period. Three ‘alternative impeded expansion path scenarios’ were modelled:

- Rio Tinto Iron Ore experiences ongoing delays that cause every two-year expansion to take six months longer than planned and of the company’s total lost production, 80 per cent is captured by offshore producers.
- Rio Tinto Iron Ore experiences ongoing delays that cause every two-year expansion to take eighteen months longer than planned and of the company’s total lost production, 80 per cent is captured by offshore producers.
- Rio Tinto Iron Ore experiences ongoing delays that cause every two-year expansion to take six months longer than planned and of the company’s

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total lost production, 50 per cent is captured by offshore producers. (RTIO, Sub 1, Annexure 5 at [4.4.2])

- 9.52 Port Jackson Partners concluded that these scenarios would lead to a net revenue loss with a net present value of between \$11.7 billion and \$31.2 billion, depending on the scenario chosen.<sup>46</sup>
- 9.53 Rio Tinto Iron Ore also engaged Access Economics to provide a report assessing ‘the economy-wide impact of the RTIO Rail Network becoming a multi-user facility’ for the Western Australian economy and the Australian economy over 20 years (RTIO, Sub 1 Annexure 6). This report drew on the conclusions of Port Jackson Partners in quantifying the costs of delayed capacity expansions (see paragraphs 9.50-9.52) and the costs arising from lost system capacity that Rio Tinto Iron Ore submitted would arise if the Hamersley Service and the Robe Service are declared (see paragraphs 9.72-9.74). In the scenario where each Rio Tinto Iron Ore expansion project is delayed by 12 months, and 80 per cent of lost sales are captured by overseas competitors, Access Economics estimated that over 20 years Western Australia’s Gross State Product (**GSP**) would be reduced by \$13.4 billion and that Australia’s Gross Domestic Product (**GDP**) would be reduced by \$14.1 billion. If, further, a 15 per cent loss in system capacity occurred as a result of the multi-user inefficiencies Rio Tinto Iron Ore submitted will arise, Access Economics estimated the losses would increase to \$28.9 billion (to the Western Australian GSP) and \$29.6 billion (to the Australian GDP) (RTIO, Sub 1 at [5.97]-[5.98]).
- 9.54 Rio Tinto Iron Ore grouped the costs arising from its railway network becoming a multi user facility into four categories:
- delays to expansion
  - displacement costs
  - loss of system capacity, and
  - disincentives to invest.
- 9.55 These cost categories are discussed further starting at paragraph 9.58.
- 9.56 Rio Tinto Iron Ore further submitted that access to the Hamersley Service or the Robe Service ‘would not promote competition in any market or generate any other public benefits’,<sup>47</sup> that the Applicant had not articulated any tangible benefits that would flow from access to the Hamersley Service or the Robe Service<sup>48</sup> and that the benefits

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<sup>46</sup> RTIO, Sub 1 at [5.43].

<sup>47</sup> RTIO, Sub 1 at [5.2].

<sup>48</sup> RTIO, Sub 1 at [5.104].

that the Applicant had claimed would arise from access to either service in fact would not do so.<sup>49</sup>

9.57 In relation to possible benefits from access, Rio Tinto Iron Ore submitted that:

- the Applicant has not provided any evidence that it will provide a rail haulage service on the Hamersley and Robe railways, in the form of a business case for that service or the identity of customers who would purchase it
- any rail haulage services offered by the Applicant would not increase competition in any market
- its railways are already at full capacity and will continue to be so for the foreseeable future which negates the Applicant's argument that it is in the public interest for the Hamersley and Robe railways to be used to their full capacity before alternative railways are developed
- no public interest benefit would arise from haulage services being made available to companies holding 'stranded ore' reserves because there are alternatives to the Hamersley and Robe railways for transporting viable deposits to port
- where deposits are not sufficiently viable to support construction of their own infrastructure or extension of TPI's open access infrastructure, they would also not be viable if they had to bear the diseconomy costs that Rio Tinto Iron Ore submitted would arise from third party access and therefore access would amount to subsidisation by Rio Tinto Iron Ore, which would be economically inefficient and against the public interest, and
- if a deposit would be viable only with access to the Hamersley Railway or the Robe Railway, and Rio Tinto Iron Ore could carry the ore without impeding its operations, then it would have an incentive to reach a commercial agreement with the owner of the deposit.

#### *Delays to expansions*

9.58 Rio Tinto Iron Ore submitted that:

The single-user integrated infrastructure facilities that have been a feature of the Pilbara iron ore industry have been widely acknowledged as the reason that the iron ore industry has been able to be so responsive to the surge in demand that was triggered by the unexpectedly rapid rise in the industrialisation of China from 2001 ... By contrast the coal industry has failed to capture the same opportunity, which was equally available to it. (RTIO, Sub 1 at [5.19])

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<sup>49</sup> RTIO, Sub 1 at [5.104]-[5.121].

9.59 In support of this submission Rio Tinto Iron Ore referred to a report it had commissioned from Dr Brian Fisher (**Fisher Report**) (RTIO, Sub 1 Annexure 4). Rio Tinto Iron Ore noted the Fisher Report included a comparison of the performance of Australia's iron ore and coal industries between 1998 and 2006. The company noted that for both iron ore and coal, there was a significant upswing in price during that period from around 2002 onward, underpinned by the industrial transformation of China. However, while Australia's seaborne iron ore exports accelerated from a growth rate of 4.4 per cent per annum between 1998 and 2002 to 10.5 per cent per annum between 2002 and 2006, the growth rate of Australia's seaborne coal exports 'remained on a relatively steady path of 4.5% per annum, notwithstanding the significant surge in demand and price' (RTIO, Sub 1 at [5.22]).

9.60 Rio Tinto Iron Ore stated that:

Dr Fisher concludes that the reason for the difference in response is the fact that coal exporters had to rely on 'multi-user, regulated infrastructure whereas iron ore exporters utilise single-user, owner operated integrated infrastructure' (RTIO, Sub 1 at [5.24], citing Annexure 4 at p 6).

9.61 Rio Tinto Iron Ore stated that the above proposition is supported by conclusions in the report to the Prime Minister by the 'Exports and Infrastructure Taskforce' (**Taskforce Report**).<sup>50</sup> Dr Fisher was the chair of this taskforce. In the context of criterion (f), Rio Tinto Iron Ore identified a number of statements made in the Taskforce Report in relation to capacity problems in Australia's infrastructure for the coal export industry, and comparing the performance of that industry with the performance of Australia's iron ore export industry.

9.62 Rio Tinto Iron Ore cited parts of the Taskforce Report that, similarly to the Fisher Report, noted historical differences between the performance of Australia's export industries for coal from the east coast and iron ore from the Pilbara, emphasising that the iron ore export industry's export chains are vertically integrated, with single users making investment and capacity allocation decisions with little regulatory intervention, and positing these characteristics as causes of that industry's superior performance when compared to Australia's coal industry (RTIO, Sub 1 at [5.25]).

9.63 Rio Tinto Iron Ore concluded that 'expansions to multi-user infrastructure are not undertaken, or are delayed, when compared with expansions to a single-user integrated operation' (RTIO, Sub 1 at [5.31]).

9.64 Rio Tinto Iron Ore then went on to argue why access will cause delays in expansions. It stated that 'delays are inevitable in a multi-user environment', arising out of what it called the 'consent requirement' and the 'consultation/participation requirement'.

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<sup>50</sup> RTIO, Sub 1, Annexure 13.

9.65 The 'consent requirement' arises from the need for an access provider to obtain an access-seeker's consent or acquiescence before there is any expansion or modification to a facility. Rio Tinto Iron Ore submitted that the need to obtain an access seeker's consent arises in practice even if the terms of access do not require the access provider to obtain it, and further stated that 'terms of access will always guarantee each user certain minimum rights to obtain track access' (RTIO, Sub 1 at [5.33]). By way of example Rio Tinto Iron Ore submitted that:

- project works will commonly involve a reduction in the capacity of the affected areas, which access seekers could delay if they had an absolute right to capacity or rights around the timing and extent of such works
- changes to the physical rail infrastructure, such as to the rail gauge, axle loads or communications systems would affect users and any rights to capacity
- changes to network operating practices such as: a move to automated trains; a change in train equipment or new track protection equipment; a move to a flexible scheduling system which requires larger stockpiling systems; changes to train lengths which may also require consequential changes to loading or unloading systems; would affect rights to capacity and therefore require access seekers' approval.

9.66 Rio Tinto Iron Ore submitted that where there are changes that affect the right of a third party user, and it is in the user's interests to object, then the user would invariably do so, and that the resolution of such disputes would likely delay the expansion project. It submitted that such disputes and delays would occur even where the access provider had the right to make decisions as to expansions under the terms of access where those rights were subject to a reasonability criterion, because third party users would argue that expansions are unreasonable where it suits them. Rio Tinto Iron Ore submitted that '[i]t is most unlikely that access terms would allow the provider to act unilaterally and thereby affect the rights of users or impose costs on users if the action was unreasonable' (RTIO, Sub 1 at [5.36]).

9.67 The 'consultation/participation requirement' is one Rio Tinto Iron Ore submitted would arise from access for similar reasons as the 'consent requirement'. Rio Tinto Iron Ore submitted that it could be expected that access terms would allow 'co-users' the right to be consulted or to request or consider participation in expansions, and therefore the decision making process is likely to take longer than in a single user situation. Rio Tinto Iron Ore submitted that the consultation/participation requirement would likely arise irrespective of access terms given the right of co-users to trigger an access dispute under Part IIIA, noting section 44V(2)(d) of the TPA (which states that the ACCC's general power to make determinations on an access dispute includes the power to require the service provider to extend the facility). Rio Tinto Iron Ore submitted that, because of this 'right', 'as a practical matter, the facility owner would need to coordinate its own expansions with any third party users ... who

require expansions' (RTIO, Sub 1 at [5.37]). Rio Tinto Iron Ore stated that, for various reasons, divergent interests are likely to arise within a set of multi-users as to when and how capacity should be expanded, and that the process of resolving these interests is likely to delay expansions.

- 9.68 Rio Tinto Iron Ore submitted that '[i]t is axiomatic that when a number of parties need to be involved in, or can be affected by, a decision, that decision will take longer and be more difficult than if there is only one interested party' (RTIO, Sub 1 at [5.38]).

#### *Displacement costs*

- 9.69 Rio Tinto Iron Ore submitted that it is expanding its rail and port facilities as fast as possible to cater for its needs and that therefore, any access rights given to third parties to use the Hamersley and Robe rail network, or expansions done for their benefit, would occur at the expense of capacity or expansion plans that would otherwise be used for the benefit of Rio Tinto Iron Ore.

- 9.70 Rio Tinto Iron Ore submitted there is 'ample evidence' to support the proposition that it is expanding as fast as it can. It stated that it and its contractors currently have significant vacancies for engineering staff, that it will need to increase its Pilbara workforce by about 1800 employees between 2008 and 2013 under current expansion plans, and that such staff 'will need to be obtained in an environment of acute skilled labour shortages in Western Australia' (RTIO, Sub 1 at [5.47]). Rio Tinto Iron Ore submitted that these problems are exacerbated by long lead times for obtaining equipment and facilities.

- 9.71 Rio Tinto Iron Ore further asserted that its displaced ore would result in losses to Australia because 'it is highly likely that the quality ... of the new product will be lower than the high quality RTIO ore that it displaces'. It submitted that a 10 per cent reduction in the quality of the displaced ore would result in a cost to Australia over 20 years of approximately \$2 billion (RTIO, Sub 1 at [5.51]-[5.52]).

#### *Loss of system capacity*

- 9.72 Rio Tinto Iron Ore submitted that multi-party usage of a rail network results in operating inefficiencies and therefore lost overall capacity when compared to single-usage. Like BHP Billiton Iron Ore, it cited in support of this proposition paragraph 25 of Mr O'Donnell's affidavit (see 9.43 above).

- 9.73 Rio Tinto Iron Ore noted the Applicant's submission that it would accept flexible operating arrangements and work to ensure that its access does not unduly prejudice the service providers. Rio Tinto Iron Ore stated that even without fixed timetables, some degree of coordination, scheduling, negotiation and interaction between the service providers and the Applicant, and significant loss of system capacity, is inevitable. Rio Tinto Iron Ore submitted such losses would result from a reduced rate

of information flow between users in a multi-user system, and the fact that users' incentives will differ. While a single user has an incentive to maximise the throughput of the entire system, in a multi-user system each user is only concerned to maximise throughput of its own ore. In Rio Tinto Iron Ore's view, this would create responses to issues, for example a train breaking down, that are comparatively less efficient.

9.74 Rio Tinto Iron Ore attempted to quantify the costs of lost system capacity. It submitted that any capacity lost would need to be replaced by capacity expansions, which would occur at the expense of expanded capacity that would otherwise be available to itself. Given Mr O'Donnell estimated that 10-20 per cent additional capacity would be required to maintain throughput in the situation described at 9.72 above, Rio Tinto Iron Ore estimated the costs based on a 15 per cent loss of its production over a 20 year period. It submitted that, based on extrapolation from the Port Jackson Partners report, this would result in forgone sales of 923 million tonnes, representing revenue with a net present value of \$31.4 billion. If 80 per cent of the loss were captured by non-Australian producers, Rio Tinto Iron Ore submitted the cost to Australia would be 738 million tonnes, or lost revenues with a net present value of \$25.1 billion.

#### *Disincentives to invest*

9.75 Rio Tinto Iron Ore submitted that access to the Hamersley Service or the Robe Service would create a disincentive to future investments in infrastructure. This would arise, Rio Tinto Iron Ore submitted, from changing from single-user, vertically integrated infrastructure to a multi-user system. It cited a number of sources in support of this argument, including the following.

- The views expressed in the Taskforce Report (cited at paragraph 9.61 above).
- The Productivity Commission's 2000 report *Progress in Rail Reform*, in which the Commission stated:

Mandated access to the privately owned integrated railways supporting large export operations (like the Pilbara iron ore operations) may benefit new mining operations but this may be at the expense of incumbents and the national interest as a whole. When incumbent track owners lose their ability to act in their own commercial interest they may withdraw from future investment. (RTIO, Sub 1 at [5.81])

and further:

Regulation may diminish incentives for business to invest in infrastructure facilities. The negative impacts on investment are particularly important in the rail industry since the lack of suitable investment in rail infrastructure is a major factor limiting the industry's growth and future prospects. (RTIO, Sub 1 at [5.81])

- Dr Fisher, who stated in his report:

Any access granted ex post to an existing firm's transport or handling infrastructure will reduce the incentive of the incumbent to invest in additional capacity to manage market fluctuations. Further it will add to the risk of taking advantage of the cost savings associated with making a larger initial infrastructure investment to meet planned development needs. (RTIO, Sub 1 at [5.83])

- 9.76 Rio Tinto Iron Ore again highlighted the differences between the performance of Australia's coal and iron ore industries as evidence supporting its argument that multi-user transport chains are ineffective in promoting investment in infrastructure, submitting that owners and users with competing interests reduce investment confidence.
- 9.77 Rio Tinto Iron Ore referred to the ACCC's determination in relation to the CBS for the Hunter Valley coal chain, highlighting the statements that were also referred to by BHP Billiton Iron Ore (see 9.37 above) (RTIO, Sub 1 at [5.85]-[5.86]).
- 9.78 Rio Tinto Iron Ore argued that it is vital for Australia's economy that there is sufficient investment in infrastructure, and cited comments from the Taskforce Report, the Reserve Bank of Australia and the Australian Government in support of this view (RTIO, Sub 1 at [5.74]-[5.77]). Rio Tinto Iron Ore also submitted that the Hilmer Report noted that an access regime needed to provide appropriate protection to facility owners to avoid undermining incentives for investment (RTIO, Sub 1 at [5.78]-[5.80]).

### **The Western Australian Government**

- 9.79 The Western Australian Government stated that its view is that the Hamersley, Robe and Goldsworthy applications satisfy the criteria for declaration in Part IIIA.
- 9.80 In relation to criterion (f), the Western Australian Government submitted:

As in previous submissions, the Government believes that third party access will ensure that the Pilbara iron ore industry maintains its competitive edge internationally, and strengthen its share of the global market. Effective access arrangements may contribute to an increase in the volume of iron ore available for the export market by helping avoid unnecessary infrastructure duplication and facilitating investment in production. (WA Gov, Sub 1 at [7.1])

- 9.81 The Western Australian Government further stated:

Effective third party access to existing infrastructure is conducive to improved efficiency and competitiveness, by avoiding sub-optimal development and economic duplication of rail infrastructure. This takes into consideration the adverse environmental and social impacts of unnecessary duplication of rail infrastructure, including land corridors, in the Pilbara. (WA Gov, Sub 1 at [1.4])

- 9.82 The Western Australian Government stated that it is concerned that owners of monopoly infrastructure such as the Goldsworthy Service Providers have ‘a clear and rational incentive to exercise market power and provide access to the market only on the monopoly provider’s terms and conditions’ (WA Gov, Sub 1 at [1.5]). It submitted that the Hamersley, Robe, and Goldsworthy railways are natural monopolies when considering the transportation of bulk ores from the Pilbara hinterland to Pilbara ports.
- 9.83 The Western Australian Government noted that the State Agreements under which the Hamersley, Robe, and Goldsworthy railways were developed were intended to allow third parties to use the railways, although access seekers have not been able to negotiate satisfactory arrangements under them. The Western Australian Government stated it supports the development of a third party access regime for Pilbara railways that adopts a negotiate/arbitrate procedure. It noted its preference for a haulage regime such as the Proposed Pilbara Haulage Regime over a track access regime such as the Goldsworthy Service, noting that in a haulage model ‘the infrastructure owner remains the sole railway operator to ensure overall system efficiency’ (WA Gov, Sub 1 at [1.7]). It noted, however, that there are barriers and uncertainties connected with the implementation of its Proposed Pilbara Haulage Regime (see chapter 8 on criterion (e) for further discussion of this regime).
- 9.84 The Western Australian Government did however note ‘the significant concerns expressed by infrastructure owners with respect to the possibility of providing track access’ (WA Gov, Sub 1 at [1.11]).

### **Atlas Iron Limited**

- 9.85 Atlas Iron stated that it considers ‘there are compelling economic, environmental and social benefits to be derived from a declaration of the Goldsworthy Service under Part IIIA of the TPA’ (Atlas, Sub 1 at p 1). It submitted that ‘the current use of the Goldsworthy Railway is not in the national or public interest having regard to the importance of the iron ore industry to Australia and the current underutilisation of the infrastructure, particularly east of the junction of the Goldsworthy and Newman railways...’ (Atlas, Sub 1 at p 1).
- 9.86 Atlas Iron noted that it is proposing to transport its ore by road because this is the only mode of transport currently available to it. While Atlas Iron considered this to be an acceptable option, it stated that transport by rail would be preferable, among other things, because the general public does not use the Pilbara railways and because this mode of transport would cause less disruption to local communities.
- 9.87 Atlas Iron further considered that promoting competition in the iron ore market would have a positive effect on employment, which would boost regional development and promote ecologically sustainable development.

### **Association of Mining and Exploration Companies**

9.88 The AMEC submitted that the Goldsworthy Application satisfied criterion (f). It considered that the public interest would be served by increased access to the Goldsworthy Service because it would stimulate iron ore mining activity in the Pilbara, which in turn would increase employment and raise additional taxes and royalties for the State of Western Australia and the Australian Government (AMEC, Sub 1 at [2.6.3]). It believed that it would be more efficient for access seekers to use the existing infrastructure rather than replicate that infrastructure.

### **North West Iron Ore Alliance**

9.89 The NWIOA stated that if access to the Goldsworthy Service is not allowed the only alternative for its members for delivering iron ore from mine to port would be road transport and that if its members had to rely on road transport, production would be significantly restricted with a consequent loss in revenue to affected members and royalty payments to Western Australia. The NWIOA submitted, regarding the Goldsworthy Application:

[t]he road transport option is uneconomical because iron ore is a relatively low value product per unit volume and mass. In addition the current Western Australian State Government and Minister for Planning and Infrastructure Hon. Alannah MacTiernan have articulated a clear preference for rail over road haulage and it is unclear whether the necessary Government approvals (including environmental) will be forthcoming for huge tonnages of ore by road. (NWIOA, Sub 2 at p i)

9.90 The NWIOA noted that reducing the rate at which iron ore resources could be exploited would reduce incentives for further exploration and development of other prospective tenements. It further stated that if sufficient revenue is generated through exporting iron ore the income can be directed towards the development of new tenements for the long term sustainability of the individual mining companies (NWIOA, Sub 2 at p 13).

### **Minerals Council of Australia**

9.91 The MCA stated it does not support the declaration of the Goldsworthy Service or of the services provided by any privately-owned iron ore railway in the Pilbara. It considered that the declaration of the Goldsworthy Service would be inconsistent with the objects clause of Part IIIA. In particular, the MCA considered that mandated third party access would not be beneficial where the gains from competition resulting from access are small, if not inconsequential, relative to the efficiency losses that access entails. It considered that in this case, access to the Goldsworthy Service would severely disrupt BHP Billiton Iron Ore's complex integrated production process leading to an inefficient outcome. The MCA stated that third party access to the Goldsworthy Service would:

- reduce the operational efficiency and system capacity of the Goldsworthy Railway by around 10-20 per cent, citing the affidavit of Mr O'Donnell (see paragraph 9.43 above)
- have a chilling effect on the incentive to invest in infrastructure, such as the Goldsworthy Railway, both from the perspective of the access provider that is required to share its facility with rivals and by reducing or eliminating the access seeker's incentive to invest because they are able to 'free ride' on the service provider's investment
- reduce productivity through a decrease in operational efficiency on account of lower throughput, higher unit costs, and reduced capacity and flexibility in 'accumulating and blending' various grades of ore to meet product specifications
- lead to a loss in Australia's market share of seaborne trade in iron ore, as a consequence of international producers expanding output in response to anticipated reductions in Australian exports, and
- result in a significant loss in Australian wealth and revenue (MCA, Sub 1 at p 2).

### **Chamber of Commerce and Industry Western Australia**

9.92 The CCIWA submitted that:

Businesses should have legal avenues to pursue the use of nationally significant infrastructure services owned and operated by others on commercially negotiated terms. Where commercially negotiated terms and conditions are not possible, implementing authorities must be sensitive to the implications of their decisions including possible disincentives to future investment that may result from mandated access and it is important that where access is given it is on 'reasonable' terms and conditions and at 'fair' prices. (CCIWA, Sub 1 at p 1)

### **The Council's assessment**

#### **Benefits from access**

9.93 From its consideration of criterion (a) in chapter 4 of this draft recommendation the Council has concluded that access to the Goldsworthy Service would promote a material increase in competition in the market for haulage services for iron ore on the Goldsworthy Railway and the market for iron ore tenements in the Pilbara.

9.94 Given current demand and prices for iron ore it may be commercially viable (although undesirable in a social cost benefit sense) to construct railway facilities to support the development of larger, higher quality or more fortuitously located iron ore deposits. Arguably the benefits flowing from enhanced competition in relation to these tenements may be small. However, as discussed at paragraphs 4.91 to 4.93 there are

significant numbers of tenements for which access to existing rail infrastructure is essential for competition and will produce significant benefits.

- 9.95 In relation to criterion (b), in chapter 5, the Council concluded that it would be uneconomical to develop another facility to provide the Goldsworthy Service, and that should it be necessary to expand the existing railway to meet likely demand such an expansion is likely to involve significantly less cost than building a new railway to duplicate the facility that provides the Goldsworthy Service. Access will, therefore, assist in avoiding inefficient and wasteful investment in unnecessary additional railway infrastructure.
- 9.96 Both these outcomes will produce benefits that are in the public interest. Based on its assessments in relation to criteria (a) and (b) the Council agrees with the submissions of the Applicant that access to the Goldsworthy Service will enable haulage services to be offered on the Goldsworthy Railway by persons other than the Goldsworthy Service Providers, which would result in more competitive terms for rail haulage on the Goldsworthy Railway and increased competition in the market for iron ore tenements in the Pilbara. The Council also accepts the submissions of the NWIOA, the AMEC, Atlas Iron and the Western Australian Government identifying the role that access would play in accelerating development of mines and adding to Australia's iron ore exports, while avoiding economically inefficient duplication of infrastructure.
- 9.97 The Council also considers that access will produce benefits to the public in terms of less use of relatively costly and inefficient road transport and in terms of the associated reduction in the adverse environmental and social consequences of road transport compared to rail. The Council agrees with the submissions of the NWIOA that rail transport of iron ore is environmentally and socially preferable to road transport of iron ore, given the comparatively greater environmental impact of road transport and the impact of increased traffic congestion from road trains and their attendant road safety and maintenance impacts. As noted by the NWIOA and Atlas Iron, the Western Australian Minister for Planning and Infrastructure has articulated a preference for rail over road haulage for these reasons. Transporting iron ore by rail is more efficient than road haulage in almost all circumstances.
- 9.98 The Council agrees with the Applicant that minimising unnecessary duplication of rail infrastructure in the Pilbara will create a public interest benefit in the form of a reduced impact on native title rights. Avoiding unnecessary duplication will also reduce the effects on the environment associated with developing additional infrastructure.
- 9.99 Based on its conclusions on criteria (a) and (b) above, the Council does not accept the arguments of BHP Billiton Iron Ore and Rio Tinto Iron Ore that access will not give rise to public interest benefits.

9.100 The Council rejects Rio Tinto Iron Ore's suggestion that the Council should draw an adverse inference from the fact that the Applicant had not submitted a business plan or identified customers who would purchase its haulage service. The Council has previously taken the view that it is not necessary for an applicant for declaration to present a detailed business plan as to its proposed use of the relevant service to make out a case for declaration.<sup>51</sup> The task of the Council is not to assess the viability of an applicant's business plan, but to assess whether the service sought meets the criteria for declaration. This has also been consistently held by the Tribunal.<sup>52</sup> In the Council's view it would frustrate the purpose of Part IIIA if an applicant is required to develop a full business model before the availability of access to the service has reached a sufficient level of certainty. Indeed under the provisions of Part IIIA it is entirely possible that a party which ultimately obtains access resulting from a declaration application may not be the applicant.

9.101 The Council does not accept Rio Tinto Iron Ore's submission that access would not increase competition in any market. Such a submission is contrary to the Council's conclusions in relation to criterion (a) that access would increase competition in the market for rail haulage services on the Goldsworthy Railway and in the market for iron ore tenements in the Pilbara. Similarly, given the Council's conclusions under criterion (b), it does not accept arguments that no benefits can arise from access in light of Rio Tinto Iron Ore's view that the Goldsworthy Railway is operating at full capacity and that this will continue to be the case for the foreseeable future. If required, expansion of the Goldsworthy Railway to meet an access seeker's needs (and at an access seeker's expense) is preferable to the construction of new railways from an overall economic and social perspective. Further, access would only be granted to access seekers who can establish that capacity is available for the particular access rights they seek (either upon current configuration of the railway or under an expansion funded by the access seeker), and where such access would not displace existing users, as discussed further below.

9.102 The Council accepts that in some limited situations there may be alternatives to access to the Pilbara railways to enable some currently stranded iron ore reserves to be exploited, such as road transport or the construction of alternative railways. However, the Council notes that rail transport is a considerably more efficient and socially preferable option for transporting iron ore than road transport. The Council also notes that in respect of some iron ore reserves in the vicinity of the Goldsworthy Railway road will not be a viable option. Therefore, the Council considers that access to those railways would create a material public interest benefit by enabling exploitation of a greater range of stranded ore reserves.

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<sup>51</sup> See for example NCC (2004) at [10.7].

<sup>52</sup> *Re Sydney International Airport* [2000] ACompT 1 at [19]; *Re Services Sydney Pty Limited* [2005] ACompT 7 at [136].

9.103 The Council does not agree that iron ore deposits not justifying the construction of dedicated railways would necessarily not be viable where the owner had to bear the diseconomy costs to the incumbent users of providing access, and that access therefore amounts to economically inefficient subsidisation of new deposits by the service providers. As discussed below, the Council considers that the service providers have over-estimated the diseconomy costs of access. In any event under the provisions of Part IIIA the terms and prices for access must include a commercial return on a service provider's rail infrastructure investments and compensation to the service provider for costs arising from access. Part IIIA does not require any form of subsidisation of access seekers or their customers. As discussed below, the Council considers it likely that new deposits could be efficiently exploited via access to the Goldsworthy Service, at prices and on terms that include compensation to the Goldsworthy Service Providers for diseconomy costs, in a manner that involves less overall cost to the Australian economy than would be the case without access. This is a public interest benefit to the Australian economy.

9.104 Rio Tinto Iron Ore submitted that it has a commercial incentive to reach agreement with iron ore tenement holders whose ore it could carry without impeding its operations. Given the company's interests and involvement in the dependent markets this is not the case. As discussed in chapter 4 the Goldsworthy Service Providers have an ability and an incentive to limit competition in these markets. Furthermore, the Council notes that both Rio Tinto Iron Ore and BHP Billiton Iron Ore have not to date reached a commercial agreement to carry iron ore without acquiring a substantial ownership interest in the tenement or the revenue from its exploitation and despite the intention that such haulage occur under the relevant State Agreement Act. The Council also notes that declaration does not preclude parties negotiating and agreeing terms for haulage of iron ore.

### **Costs from access**

9.105 Rio Tinto Iron Ore and BHP Billiton Iron Ore have set out a range of consequences arising from access to the Goldsworthy Service (and to their Pilbara railways generally) that they submitted would lead to costs from access, such that access would be contrary to the public interest. Rio Tinto Iron Ore submitted reports from Port Jackson Partners and Access Economics, and BHP Billiton Iron Ore submitted an internally generated report, that predicted the costs to the companies and Australia from access to their railways would be tens of billions of dollars.

9.106 The Council considers that such claims are based on improbable scenarios and unsubstantiated or overly pessimistic assumptions and fail to recognise the range of safeguards within Part IIIA that seek to prevent adverse consequences from access.

9.107 Rio Tinto Iron Ore did not instruct either Port Jackson Partners or Access Economics to critically analyse the key premises on which their modelling was based; instead, the firms were instructed to assume that access would result in substantial expansion

delays and lost production. This is unfortunate as it does not address a key issue to be considered by the Council, which is whether such delays are likely.

9.108 In the Council's view the results of the modelling undertaken by Port Jackson Partners and Access Economics, and the various internal analyses, are an inevitable consequence of the assumptions they were instructed to apply or did apply, and are unlikely to in fact result. These assumptions are examined in detail below.

9.109 Rio Tinto Iron Ore grouped the adverse consequences of access into four categories:

- delays to expansion (see paragraphs 9.58 to 9.68)
- displacement costs (see paragraphs 9.69 to 9.71)
- loss of system capacity (see paragraphs 9.72 to 9.74), and
- disincentives to invest (see paragraphs 9.75 to 9.77).

9.110 A number of the adverse consequences identified by BHP Billiton Iron Ore also fall within these categories, but in addition BHP Billiton Iron Ore envisaged costs of access arising from:

- costs of expansion to meet access seekers demand
- regulatory costs
- deterrence or delay in optimisation of rail operations
- environmental costs, and
- loss of facilities based competition.

9.111 The Council assesses each of the categories of costs identified by Rio Tinto Iron Ore and/or BHP Billiton Iron Ore below.

9.112 More generally the Rio Tinto Iron Ore, BHP Billiton Iron Ore and other submissions which draw on or repeat the companies' claims that declaration would be contrary to the public interest suggested that access will convert single vertically integrated infrastructure operations into a regulated multi user facility with 'inevitable losses in efficiency'. Rio Tinto Iron Ore and BHP Billiton Iron Ore illustrated this loss in efficiency with repeated references to comparisons between what they see as the effective response of their iron ore export facilities to the sudden upturn in demand from China and the uncoordinated and ineffective response of eastern Australian coal exporters to a similar upturn in demand for coal. The companies drew on parts of public reports and submissions to suggest the key cause of the difference in responses relates to access regulation and multiple users of infrastructure in the coal industry.

9.113 The reasons for the problems in Australia's east coast coal export chain are varied and complex and there is no single reason for the apparently poor performance of the east coast coal industry in responding to a sudden unexpected increase in demand.

There are some common features of this industry and the Pilbara iron ore industry—for example they both involve relatively complex logistics—but there are a range of differences including ownership structures, public sector involvement, planning arrangements and the form of regulation. Notably no part of the east coast coal supply chain is regulated under Part IIIA.

9.114 The Council has considered the views of the service providers and their consultants that access to Pilbara railways under Part IIIA would transfer the problems of the east coast coal industry to the Pilbara iron ore industry. However, the Council fundamentally disagrees, and considers these arguments are based upon simplistic assumptions and are unconvincing.

9.115 In this case, no party arguing against declaration acknowledged or considered the safeguards for service providers in Part IIIA, or explained how the costs alleged to arise from Part IIIA access could occur despite those safeguards. Part IIIA contains a range of provisions governing arbitration of access disputes and specific limitations on arbitration determinations by the ACCC which are designed to ensure the availability, prices and other conditions of access balance the interests of service providers and access seekers and achieve a positive national benefit. Some of the most relevant provisions are extracted in appendix C. Notably, when the ACCC is making a determination on an access dispute regarding a declared service, it:

- does not have to allow access
- cannot prevent an existing user from obtaining a sufficient amount of the service to meet its current and reasonably anticipated future requirements, as at the time of the dispute
- must have regard to the service provider’s legitimate business interests
- cannot make the service provider pay for extensions or interconnections to the facility
- must, in setting any access price, take into account the need to give a return on investment commensurate with relevant regulatory and commercial risks, the direct costs of providing access and the economically efficient operation of the facility
- can make a determination dealing with any matter relating to the dispute, and
- must use its best endeavours to resolve the dispute within six months.

9.116 The TPA also includes provisions allowing the ACCC to terminate arbitrations of vexatious or trivial disputes.

9.117 Many of the provisions outlined above are directly aimed at avoiding the outcomes that Rio Tinto Iron Ore and BHP Billiton Iron Ore submitted will result from the

declaration of Pilbara railways. These provisions also apply in circumstances where the Tribunal is reviewing the ACCC's determination of an access dispute.

9.118 In the absence of evidence as to why these safeguards are generally ineffective or would be ineffective in this particular situation the Council must accept that the TPA will operate as intended and that the ACCC in undertaking arbitrations and making access determinations (and the Tribunal in conducting reviews and 're-arbitrating' disputes) will act in accordance with these provisions.

9.119 In relation to the specific categories of costs that were submitted would arise from Part IIIA access, the Council makes the following assessments.

#### *Delays to expansions*

9.120 It was argued that access to the Pilbara railways under Part IIIA would inevitably result in delays to expansions. Rio Tinto Iron Ore argued that delays would result because it would need to obtain the consent of access seekers before conducting expansions, either because terms of access would require the consent of other users, or because access terms would 'always' guarantee other users minimum track access rights, which would result in a de facto requirement for consent for any expansion or optimisation plan that affects those rights.

9.121 The Council considers that access under Part IIIA would be unlikely to have these effects given the legislative scheme of Part IIIA. The Council considers the extent and impact of any such delays to have been over estimated by the service providers. To the extent that access disputes and the need for arbitration may require time to resolve, the Council notes that the TPA provides for arbitrations to be conducted within a six month period. The Council also notes various comments, including those by the service providers, as to the planning and commercial evaluation that is associated with expansion and development of infrastructure projects. It seems clear that any access related issues can be dealt with in parallel with other activities and within overall planning timeframes so as to minimise delay.

9.122 There is no requirement in Part IIIA for access terms set by ACCC determination to require the consent of third party users before expansions are conducted; there is no 'consent requirement'. Neither is there any requirement in Part IIIA for access terms to guarantee minimum access rights, nor anything preventing a determination that, for example, provides that access is subject to the expansion and optimisation plans of the service provider notified to third party users. Such access terms are entirely possible, where necessary and appropriate, given the arbitration protections for the service provider discussed above.

9.123 Further, the preferred option for allowing access to a declared service is through commercial negotiation. Access seekers must negotiate in good faith before bringing an access dispute to the ACCC for determination. Expansions to railways and related

infrastructure are necessarily planned many years in advance of work commencing. For example, BHP Billiton Iron Ore has currently announced and approved expansion plans for its Pilbara infrastructure extending over three years into the future, with further (unapproved) expansion plans extending to 2015. Given these time frames, the Council considers it feasible for parties negotiating in good faith to resolve issues relating to the impact of any third party access on expansion and optimisation plans before the commencement of those plans is delayed, or at least, that Rio Tinto Iron Ore's and BHP Billiton Iron Ore's estimates of the extent of any delays to expansions are overestimated.

9.124 In relation to the 'consultation/participation requirement' that Rio Tinto Iron Ore submitted would exist following access, it is not clear to the Council if this would exist in the manner submitted, nor that it would result in delayed expansions. The Council accepts that service providers would likely need to give notice of expansion plans to other users, and consult other users in relation to them. However, this does not necessarily imply that those expansion plans would be subject to veto or undue delay, especially given the time frames in which such expansions are planned.

9.125 These arguments are premised on a particular view as to the differences between, on the one hand, a situation where a single party is involved in a decision and, on the other hand, a situation where multiple parties are involved in the decision and 'axiomatically', the outcome of the decision is delayed. This view ignores the fact that expansion decisions currently made by the service providers necessarily take place over substantial time periods and already involve a number of parties, both those within the service provider groups who have competing internal priorities, and outside the service providers, such as planning, safety and environmental regulatory agencies. The Council does not consider that access under Part IIIA on appropriate conditions would necessarily delay expansion or optimisation outcomes if the process is managed appropriately.

9.126 The evidence cited by the service providers in support of the view that Part IIIA access would result in delays to expansions is the contrasting performances of Australia's east coast coal and Pilbara iron ore industries. As noted above, the Council considers this to be an unconvincing comparison given the differences between two industries and the differences between regulation under Part IIIA and the regulatory arrangements applicable to the east coast coal chain. The Council does not accept that the performance of the east coast coal industry establishes that access under Part IIIA would result in expansion delays.

#### *Displacement costs*

9.127 No service providers explained to the Council how access to their railways by third parties under Part IIIA would displace the service providers' capacity in circumstances where the ACCC is prohibited from making a determination on an access dispute that prevents an existing user from obtaining a sufficient amount of the declared service

to meet its current and reasonably anticipated future requirements. If a particular third party seeks particular access rights to a declared service that would have the effect of displacing the service provider, the service provider would presumably not agree. If the third party wished to persist with seeking access, the matter would be taken to arbitration. Where a service provider establishes that access would prevent it obtaining sufficient access for itself, such access could not be granted. Whether such a situation would arise in the circumstances of a particular access dispute is a matter to be determined on the facts of that particular case by the ACCC.

9.128 The Council accepts the service providers' submissions that labour and facility shortages currently prevailing in the Pilbara will have an impact on their ability to expand rail and other infrastructure, but the Council does not see how forcing access seekers to add to demand for such resources by constructing unnecessary additional facilities would assist with that issue. If the supply of necessary resources is such that additional expansion projects to meet access seekers' needs cannot be accommodated, and that can be established in a particular case, then it seems to the Council that any resulting access dispute is unlikely to be resolved in favour of an access seeker.

9.129 The Council finds that displacement costs are unlikely to arise from access to the Goldsworthy Service.

*Loss of system capacity*

9.130 The Council accepts that access to a railway by third parties is likely to result in some costs to the service providers in the form of lost system capacity and other diseconomies. These costs will be incorporated in likely charges either as a result of negotiated terms of access or if needs be an arbitration. If these costs are large, then it is likely that the costs of access will be correspondingly high and the demand for access lower. In some cases the costs and hence access charges may be so large that access will not occur.

9.131 Generally, the Council considers that the figure of 10-20 per cent capacity impact referred to in Mr O'Donnell's affidavit is unlikely to occur as a result of access to the Goldsworthy Service. Mr O'Donnell bases his 10-20 per cent estimate on his experiences in working on the Goonyella coal chain capacity review. BHP Billiton Iron Ore and Rio Tinto Iron Ore submitted, on the basis of Mr O'Donnell's evidence, that Part IIIA access to the Pilbara railways would lead to a 10-20 per cent loss of throughput.

9.132 Mr O'Donnell's evidence is not that Part IIIA access to the Goldsworthy Service, or to single user railways, would result in a 10 to 20 per cent impact on throughput, but that this impact may result from 'rigid timetables' that 'usually' exist in a multi-user system. Both Rio Tinto Iron Ore and BHP Billiton Iron Ore cited paragraph 25 of Mr O'Donnell's affidavit. Mr O'Donnell then went on to say:

It may be possible to run a multi-user rail system in a flexible manner, but it would require a sophisticated operational framework, and it would be difficult to implement in a system that was capacity constrained. In addition, the commercial and contractual arrangements governing a flexible operational framework in a multi-user system would be extremely complex. (BHPBIO, Sub 1, Annexure 16 at [26])

9.133 In Mr O'Donnell's opinion, flexible scheduling arrangements are possible, but would be difficult and complex to implement. The Council notes that, if access rights are granted through negotiation or arbitration, it is entirely possible, given the protections provided to the service provider and the conditions prevailing in the Pilbara iron ore chains, that arrangements for access could require the access seeker to accept flexible scheduling arrangements under the overall control of the service provider. Such arrangements may be more complicated but given the sophistication with which BHP Billiton Iron Ore and Rio Tinto Iron Ore operate the Council considers it is entirely possible that such arrangements could be implemented and access seekers may have to operate within such an environment or risk access being unavailable in a particular situation.

9.134 The Council considers that generally the costs to the service provider resulting from lost system capacity and diseconomies of scope that would occur as a result of a particular third party's access to the Goldsworthy Service are capable of being anticipated and compensated through access pricing. It further considers that third party access seekers can be incentivised to minimise their impact on the service provider through access terms, which, to take a hypothetical example, could provide for penalty payments where a train breaks down and the third party fails to clear it within periods currently achieved by the service provider.

9.135 There may be some residual risk of capacity and efficiency losses that would result from access to the Goldsworthy Service that access terms and pricing cannot entirely anticipate or ameliorate, and the Council has considered this cost in assessing criterion (f). However, the Council does not accept that the extent of these costs is likely to be near the quantum argued by the service providers.

#### *Disincentives to invest*

9.136 The Council of course accepts submissions that it is important for Australia's economy that there is sufficient investment in infrastructure. This is consistent with the objectives of Part IIIA as set out in section 44AA of the TPA. The Council accepts that the enactment of Part IIIA by the Australian Parliament, and the possibility of declaration of services provided by facilities that are uneconomical to duplicate, created some additional risk for investors in these kinds of facilities that they may not receive the same level of return from their investment that they otherwise would have. This 'regulatory risk' is attendant on the establishment of the Part IIIA regime. Some similar risk would likely have followed from any form of intervention aimed at addressing the policy issues underlying Part IIIA. It is reasonable to assume that the

Government and Parliament considered that these costs were outweighed by the benefits to Australia from effective regulation of access in the circumstances allowed for under Part IIIA. As noted at paragraph 9.10 costs that arise merely from the enactment of Part IIIA would be incurred irrespective of whether the application succeeds and declaration, or more broadly access, occurs, and therefore these costs are not a factor in considering criterion (f).

9.137 Part IIIA provides for service providers to receive a risk-adjusted commercial return on declared infrastructure. Investors in infrastructure can therefore expect that if infrastructure is declared and a third party access seeker successfully seeks mandated access through arbitration, they will receive an appropriate return on their investment. This fact will form the background to access negotiations and encourage a negotiated access arrangement that allows an appropriate return on investment.

9.138 There is one possible element of the return on a particular investment for which Part IIIA does not seek to compensate an infrastructure investor that is required to provide access, and that is any monopoly profits arising from its power in a dependent market. To quote the Hilmer Report:

If there are indeed profit implications associated with the application of an access regime, the revenues in question will have been obtained at the expense not only of consumers but of a more efficient economy generally. (Hilmer Report at p 263)

9.139 Access under Part IIIA is designed to eliminate such monopoly profits. To the extent that the application of Part IIIA discourages investment that is predicated on such profits, this is not a cost as it does not discourage *efficient* investment in infrastructure.

9.140 The ACCC is a sophisticated regulatory body. The ACCC in a range of decisions across a range of industries has accepted the importance of maintaining appropriate commercial returns for investment lest such investment be inefficiently deterred. In any event it is obliged to allow appropriate commercial returns and to consider investment effects in determining access prices and other terms in any arbitration of an access dispute.

9.141 BHP Billiton Iron Ore argued that mandatory access provision results in a less than commercial return because it fails to properly recognise and price the 'real option' available to infrastructure investors from being able to determine whether and when to expand an existing facility or undertake some similar investment, and the ability to defer such a decision. This is another way of approaching some of the arguments discussed above regarding the costs from access. This approach to stating some of the potential costs of access is becoming more common in consideration of regulatory issues. There is ongoing debate as to the validity of this approach, and in particular the circumstances where it may be relevant and its significance. In principle it appears to the Council that the costs of a lost opportunity to undertake a railway

expansion for its own benefit, because that expansion opportunity is used to meet the requirements of an access seeker, is able to be incorporated in access prices and terms where appropriate. In practice, this may involve difficulties in determining the amount involved. In the Council's view this is an issue that can only be properly considered within a particular factual context and is appropriately a matter for consideration between parties in a negotiation or in an ACCC arbitration if one or other party seeks to address this matter.

9.142 Regarding Rio Tinto Iron Ore's submission that the ACCC had accepted the capacity balancing system for the Hunter Valley coal chain is having an adverse impact on investment in the coal chain, the Council does not accept that this is relevant to its consideration of the Robe, Hamersley or Goldsworthy applications.

9.143 In relation to incentives to invest in the Pilbara iron ore railways the Council considers that there is likely to continue to be an incentive for the incumbent owners to invest in railway construction, expansion and optimisation if Part IIIA access is available. Iron ore exporters are currently generating large profits given unprecedented and sustained demand and prices for iron ore, and have expansion plans extending several years to further profit from high demand and prices. The Council does not believe that Part IIIA access would cause the service providers to act against their interests by ceasing expansion and forgoing further profits, especially given that access rights can only be such as not to displace the service providers' use and guarantee them commercial returns where they have spare capacity. Of course, it is not certain that the current high level of demand for iron ore will continue into the future, however, to the extent that it does not, it is reasonable to expect that demand for access will also reduce.

*Costs of expansion to meet access seekers' demand*

9.144 BHP Billiton Iron Ore appeared to suggest that the costs of railway expansions to meet the needs of access seekers should be considered as a cost in assessing criterion (f). While these are costs that might flow from access, in the circumstances where declaration might be available these costs will be less than the costs of building an alternative railway facility or the benefits forgone if access is unavailable. Rather than giving rise to a cost to be considered in criterion (f) the avoidance of the cost of the alternatives is a benefit as described at paragraph 9.95.

9.145 In relation to BHP Billiton Iron Ore's submissions that there would be particularly large costs associated with increasing the capacity of the 17 kilometre segment of the Goldsworthy Railway extending to Finucane Island, it seems to the Council that similar challenges could well be faced in building an alternative railway to provide this part of the Goldsworthy Service, and that such a railway would likely be longer. In any case, any expansion costs incurred to allow an access seeker to use this section of the Goldsworthy Railway would have to be built into the access price and paid for by a successful access seeker. Furthermore, if it is true that expanding the capacity of this

particular section would be costly, then this would have a dampening effect on the demand for access to that section of the railway.

#### *Regulatory costs*

9.146 The Council accepts that declaration and Part IIIA access create regulatory costs that must be considered under criterion (f). These are the costs that service providers may incur in conducting negotiations with access seekers and responding to the arbitration of access disputes. They also include the costs of the ACCC and other public bodies in carrying out their functions in relation to a declared service.

9.147 BHP Billiton Iron Ore submitted that regulatory costs are potentially very high given, among other things, ‘the opportunity to “game” the system’ (BHPBIO, Sub 1 at [13.6]). In this regard the Council notes there is provision to limit the costs of unnecessary or repeated arbitrations. The ACCC has the ability under section 44Y of the TPA to terminate arbitrations where the access seeker has not negotiated in good faith, where the request for arbitration is vexatious, misconceived or lacking in substance, or where the access sought has already been considered by the ACCC or is governed by an existing agreement.

9.148 More generally unless and until an access seeker has achieved agreement with the service provider, or has received an ACCC determination or court order in its favour, the service provider is free to do what it chooses with the service and the facility. If a court ordered an interim injunction against a service provider restricting its freedom of action in relation to the facility the usual practice would be to only do so where the access seeker gave an undertaking as to damages. The Council considers that this would substantially ameliorate the risks of gaming through engagement with the legal process.

#### *Deterrence or delay in optimisation of rail operations*

9.149 The Council does not accept BHP Billiton Iron Ore’s argument that Part IIIA access to Pilbara railways is likely to deter or delay the optimisation of rail operations and investment in new forms of technology. It is not true that third parties with smaller operations than the service providers would have no incentive to make investments in new technologies or innovative operating practices. All users of the railways are likely to have some incentive to maximise the quantity of ore they carry and minimise the cost of doing so, or at least to minimise the costs of their gaining access and hence the access charges they face. This is likely to provide access seekers with incentives to support operational optimisations and technological advances.

9.150 Further, as noted above in the context of arguments regarding lost system capacity, given the legislative protection of the service providers’ capacity and interests, as well as the circumstances existing in the Pilbara iron ore export chains, any access rights given could be flexible rights preserving the service providers’ overall control of the

system. For similar reasons, it seems to the Council that prudently negotiated or arbitrated terms of access would provide for the possibility of operational optimisations and technological advances, obligations to pay for them or to otherwise provide commercial incentives for all users to contribute towards maximising the efficiency of the system, and would give the service provider a leadership role in this process.

#### *Environmental costs*

9.151 The Council does not agree with BHP Billiton Iron Ore's submission that access to the Goldsworthy Service, or to the Pilbara railways in general, will lead to environmental costs in the form of construction of expansions and increased train traffic on the railways. While it is true that expansions to existing railways and increased rail traffic are likely to have some adverse environmental impact, in the Council's view such impacts are likely to be substantially lower than the environmental impacts of constructing entirely new railways.

9.152 Similarly, while increased train traffic on a railway may lead to adverse environmental impacts, the Council considers that such impacts are likely to be much lower than the environmental and social costs of using road transport to move equivalent amounts of iron ore. An increase in rail transport that lowers the volume of road transport is a public interest benefit, as discussed above at paragraph 9.97.

#### *Loss of 'facilities-based competition'*

9.153 The Council does not agree with BHP Billiton Iron Ore's view that Part IIIA access leads to a cost in the form of lost 'facilities-based competition'. Part IIIA access is only provided to facilities that are uneconomical to duplicate. The Council has concluded under criterion (b) that it is uneconomical to develop another facility to provide the Goldsworthy Service. In these circumstances any facilities based competition would be from an inefficient source. It is economically inefficient and wasteful for Australia to duplicate such facilities; avoiding this outcome is a purpose of Part IIIA. The 'loss' of multiple and competing 'natural monopoly' facilities is a public interest benefit to Australia, not a cost.

## **Conclusion**

9.154 The Council has considered the benefits and costs that are likely to result from access to the Goldsworthy Service. In the Council's view benefits arise from:

- a material promotion of competition in the market for haulage services for iron ore on the Goldsworthy Railway and in the market for iron ore tenements in the Pilbara
- accelerated development of iron ore mines in the Pilbara by smaller mining companies and resulting additional iron ore exports

- avoiding unnecessary and inefficient duplication of railway facilities
- avoiding use of inefficient road haulage or other transport options
- avoiding additional impacts on native title rights associated with development of new railway facilities, and
- reduced adverse impact on the environment.

9.155 While most of these forms of benefit will only arise in relation to a relatively small but significant component of the Pilbara iron ore industry, given that the two largest participants (BHP Billiton Iron Ore and Rio Tinto Iron Ore) already have access to their own railways, the Council considers the benefits from access are significant.

9.156 The Council has considered the costs of access suggested by Rio Tinto Iron Ore, BHP Billiton Iron Ore and other parties making submissions under the categories suggested by one or other of these companies:

- costs and feasibility of expanding the Goldsworthy Railway
- regulatory costs
- loss of production
- deterring or delaying optimisation of rail operations
- deterring or delaying efficient investment
- environmental costs
- loss of ‘facilities-based competition’
- diseconomies and inefficiencies of multi-user systems compared to single-user systems, and
- impacts of regulation.

9.157 In the Council’s view a number of the costs put forward are unlikely to result from access to the Goldsworthy Service as they are precluded from arising by provisions of the TPA that specifically address the concerns raised. Other costs are overstated or are based on unrealistic assumptions.

9.158 Commercial considerations will also militate against costs arising from access to the Goldsworthy Service. If in any particular situation where access is sought the levels of disruption to a service provider’s operations are excessive then it is highly likely that the price of access would be high and other terms would be significantly restricted. In these circumstances an access seeker is likely to pursue other opportunities rather than seek access, thus avoiding the costs that are of concern.

9.159 The Council considers that access to the Goldsworthy Service will give rise to some costs in complying with regulatory requirements and participating in regulatory processes that follow from declaration and/or access to the service.

9.160 There will also be a cost arising from the risk of regulatory error and in particular the risk that arbitrated access prices or terms may encourage inefficient outcomes. These outcomes could result from access prices or other terms being set too low or too high. It may be that the consequences should the former situation arise may be of more concern given the relative contribution of the service providers to Australia's iron ore exports. However in the Council's view the quite specific provisions that govern access determinations, and in particular those that establish specific requirements regarding the interests of service providers, and the review and oversight arrangements in relation to these determinations are such that the risk of regulatory error is small.

9.161 When proper consideration is given to the safeguards against adverse outcomes from access in specific situations provided for in Part IIIA, the Council considers the costs of access that are not adequately dealt with through the arbitration process are likely to be low.

9.162 The Council considers that the likely benefits of access to the Goldsworthy Service will outweigh the likely costs and access is not contrary to the public interest.

9.163 The Council is satisfied that the Goldsworthy Application satisfies criterion (f).

## 10 Section 44F(4) – Develop a facility for part of the service

### Legal requirements

10.1 Section 44F(4) of the TPA provides that:

In deciding what recommendation to make [in relation to an application for declaration], the Council must consider whether it would be economical for anyone to develop another facility that could provide part of the service. This subsection does not limit the grounds on which the Council may decide to recommend that the service be declared or not be declared.

10.2 The designated Minister must also consider this issue in deciding whether or not to declare a service (section 44H(1) of the TPA).

### Application and submissions

10.3 Both BHP Billiton Iron Ore and Rio Tinto Iron Ore suggested that other railway lines or the construction of new links to existing railway lines (such as the TPI Railway) and road transport provide alternatives to the services for which declaration is sought.

10.4 BHP Billiton Iron Ore noted that the operation of the Finucane Island section of the Goldsworthy Railway is different to the Yarrie section. In particular, the Finucane Island section is used to transport ore originating along both the Goldsworthy and Mt Newman railways to port facilities at Finucane Island. The capacity of the section has been expanded to a greater extent than the rest of the Goldsworthy Railway. BHP Billiton Iron Ore submitted that the Finucane Island section of the Goldsworthy Railway is heavily congested and further expansion of its capacity may be difficult or costly.

10.5 In discussions with the Council, BHP Billiton Iron Ore suggested that as a result of these factors, it may be economical for third parties to develop an alternative railway link for the Finucane Island section of the Goldsworthy Service. It advised that it had sought approval to develop a new section of railway linking its Mt Newman Railway (from a point south of the junction between the Mt Newman and Goldsworthy railways) to its Finucane Island port facilities. The company submitted that in the event that the Council considered that it would be economical for anyone to develop another facility that could provide part of a service for which declaration was sought, the Council should decline to recommend declaration of that service. In discussions, the company pointed to the Competition Policy Reform Bill 1995 Explanatory Memorandum as supporting this view.

10.6 Rio Tinto Iron Ore suggested that a similar situation arises in respect of the eastern section of the Robe Railway running into Cape Lambert, which carries ore originating

from mines adjacent to the Robe Railway and increasingly also ore from mines along the Hamersley Railway.

### **The Council's assessment**

- 10.7 The Council considered in chapter 5 whether alternative railways or new railway links amount to alternative facilities to provide the Goldsworthy Service and concluded that they do not (paragraphs 5.35 to 5.42).
- 10.8 The Council also considered the viability of road transport and rejected this as an alternative to the Goldsworthy Service except in limited circumstances.
- 10.9 The Council considered whether there are likely to be specific mines for which an alternative track access service could be economically developed that would, either in its own right or in conjunction with another facility, provide an alternative to the Goldsworthy Service.
- 10.10 To the extent that allowing a train to be run to a mine to uplift ore might be regarded as part of the Goldsworthy Service, this may be a possibility. However it seems unlikely that a track access facility that is seen as an 'alternative' would then enable the train to run to another point on the Goldsworthy Railway. In this sense the alternative would provide only part of the Goldsworthy Service. Furthermore the scope for such alternative facilities to be economically developed appears very limited and at best these would allow for a possible alternative service for a few of the points within the all points service sought from the Goldsworthy Facility.
- 10.11 It is also unclear how the costs of developing a facility to provide an alternative track access service would compare to the costs of accessing the Goldsworthy Service and whether the alternative is economical to develop. The Council notes that as with criterion (b), 'economical' needs to be considered in a social cost benefit context. The fact that a commercial party may find it viable to develop such a facility in a particular situation does not necessarily mean it is economical from a national interest view point.
- 10.12 The situation that arises in relation to the Finucane Island section of the Goldsworthy Railway is somewhat different. It may be that congestion on this section of railway, and costs and limits on further expansion will require the development of a new facility. If a part of a facility that provides a service for which declaration is sought is more congested than other parts then it may be more likely to require expansion as a result of access being available. In itself this is not a barrier to declaration. As noted elsewhere, Part IIIA anticipates that facilities may need to be expanded to accommodate access seekers and provides for this expansion to be undertaken and the cost met by those seeking access.

- 10.13 It would only be where the costs of expanding the particular part of a facility were so large that it became viable (in a social cost benefit sense) to develop and then use a new facility, instead of expanding and using the existing facility, that an issue would arise.
- 10.14 In this case it appears that the Finucane Island section of Goldsworthy Railway is more heavily used than the Yarrie section of the railway and may at some point require expansion to meet the needs of access seekers. As noted at paragraph 5.78 the Council anticipates this may give rise to higher access charges and a greater likelihood that access seekers will need to meet the costs of expansion. This may limit the demand for access to this part of the Goldsworthy Service.
- 10.15 At this stage it is not clear to the Council that opportunities for, and the likely costs of, any necessary expansion of the Finucane Island section of the Goldsworthy Railway are such that it is economical to develop an alternative facility to provide that part of the Goldsworthy Service.
- 10.16 It also appears likely that the higher access charges that would likely be associated with using this part of the Goldsworthy Service will limit the use access seekers make of this part of the Goldsworthy Service in favour of transporting ore to new port facilities that may be accessible without using this part of the Goldsworthy Service.
- 10.17 In the Council's view even if these circumstances described above were able to be properly considered to amount to the development of facilities to provide part of the Goldsworthy Service, and it might be economical to develop another facility to bypass the eastern section of the Goldsworthy Railway, they would not necessarily give rise to a circumstance where the Council should not recommend declaration when the declaration criteria are otherwise met.
- 10.18 The Council has considered the explanatory memorandum referred to by BHP Billiton Iron Ore (see paragraph 10.5). This states that:
- [i]f the Council decides that it would be economical for someone to develop a facility that could provide part of the service, it could decline to recommend declaration of the service as defined by the applicant. The applicant could then seek declaration of the service redefined to exclude that part that is economical for someone to provide. (Competition Policy Reform Bill 1995 Explanatory Memorandum at [180])
- 10.19 While this explanation identifies one course of action open to the Council it is clear from the words used in the explanatory memorandum, and the second sentence of section 44F(4), that the Council is not obliged to follow that particular course. In the event that the Council were to come to the view that a part of the facility used to provide the Goldsworthy Service is economical to duplicate, the exercise of the Council's discretion should accord with the objects of Part IIIA.

### **Conclusion on section 44F(4)**

10.20 The Council does not consider that it is economical for anyone to develop another facility to provide part of the Goldsworthy Service.

## 11 Section 44H(8) – Duration of declaration

### Legal requirements

- 11.1 Section 44H(8) of the TPA requires that if the designated Minister declares the service, the declaration must specify the expiry date of the declaration. This can be a specified date and/or can involve a specified event that triggers expiry of a declaration. The expiry date determines the duration of declaration, which can vary according to the circumstances of each application.
- 11.2 In considering the appropriate duration of declaration, the Council has regard to the importance of long term certainty for business—including access seekers, service providers and other affected parties. It also considers that declaration should apply for long enough to ensure that the benefits expected from declaration are able to be realised. This requires that the rights granted by declaration be in place long enough to influence the pattern of competition in relevant upstream or downstream markets.
- 11.3 Against these considerations must be balanced the potential for technological development, reform initiatives (such as changes in legislation governing access to the relevant service) and future market evolution. Further, the Council considers that access regulation governing services, including the right granted by declaration, should be reviewed periodically. The expiry of a declaration provides such an opportunity. The Council notes that any declaration can be revoked on the recommendation of the Council (section 44J of the TPA). The Council may make such a recommendation if it considers that the declaration criteria are no longer met. This would allow the Council to reconsider a declaration recommendation in the event of a significant development that impacted on the basis for its recommendation. For example, if the Proposed Pilbara Rail Haulage Regime was implemented and observed to have led to the introduction of haulage services by the Robe Service Providers, the Council could revisit whether criteria (a) and (f) continue to be satisfied.

### Application and submissions

- 11.4 The Applicant seeks declaration for a period of 20 years. It submitted that this would provide sufficient time to:
- explore for and develop resources that are suitable for transport using the Goldsworthy Service, and
  - enter into long term contracts for the transport of bulk products (Goldsworthy Application Part 1, at [13.1]).
- 11.5 The Western Australian Government supported the Applicant’s claim for a declaration of 20 years duration. It submitted that:

[t]his timeframe encompasses an average mine life, provides for long-term security to both infrastructure owner and third parties, and allows for the write down of large capital expenditures.

Within this timeframe access seekers and infrastructure providers should be able to negotiate the term of the agreement appropriate to a case-by-case assessment. (WA Gov, Sub 1 at [8.1]-[8.2])

- 11.6 Atlas Iron supported the Applicant's request for declaration for a period of 20 years. It considered that this 'would provide sufficient certainty for it to undertake investment and other decisions in response to declaration of the [Goldsworthy] Service' (Atlas, Sub 1 at [13.2]).
- 11.7 No other party commented on the duration of declaration.

### **The Council's assessment**

- 11.8 Declaration, should it occur, may result in the development of competitive rail haulage services, greater exploration and development efforts and new investment in below rail infrastructure and associated above rail mine and port infrastructure in the Pilbara. Such commitments generally require a long time to plan and execute. It may potentially take new and emerging producers longer than the existing players to undertake such projects because of their lack of experience, greater difficulty in raising finance and because of the greenfield nature of some of the investments required.
- 11.9 In the Mt Newman Recommendation the Council supported the applicant's request for declaration for a period of 20 years. The Council considered that 20 years would provide sufficient certainty for all parties to undertake investment and implement other decisions in response to declaration.
- 11.10 The Council considers that the circumstances are not substantially different in this case. Further, the Council notes that under section 44J of the TPA any party can apply to the Council for a declaration to be revoked. In considering an application for revocation the Council must have regard for the objects of Part IIIA and would assess whether competitive circumstances have changed such that the declaration criteria are no longer satisfied.

### **Conclusion on section 44H(8)**

- 11.11 The Council recommends that the Goldsworthy Service be declared for a period of 20 years.

## Appendix A Public consultation

- A.1 The Council conducted a public consultation process in preparing its draft recommendations on the Goldsworthy, Hamersley and Robe applications. On 5 February 2008 the Council published a notice in *The Australian* newspaper calling for submissions on each of the Goldsworthy, Hamersley and Robe applications. The Council received nine submissions in response to its call for submissions (Table A-1).
- A.2 Most submitters provided one submission covering all three applications. Atlas Iron provided a submission in response to the Goldsworthy Application only. The NWIOA provided a separate submission on each of the Hamersley and Goldsworthy applications. BHP Billiton Iron Ore provided a submission in response to the Goldsworthy Application and asked that the Council take that submission into account where relevant in its consideration of the Hamersley and Robe applications. Similarly, Rio Tinto Iron Ore provided a submission in response to the Hamersley and Robe applications and asked that the Council take that submission into account where relevant in its consideration of the Goldsworthy Application.
- A.3 The Council also met with the Applicant, the service providers and several other parties and organisations.

**Table A–1 Submissions received in response to the Goldsworthy, Hamersley and Robe applications**

| Submission reference | Submitter/details  |
|----------------------|--|
| AMEC, Sub 1          | The Association of Mining and Exploration Companies  |
| Appendix A           | Tenements within 100 km of existing Pilbara rail infrastructure  |
| Atlas, Sub 1         | Atlas Iron Limited (re the Goldsworthy Application)  |
| Attachment A         | Atlas Iron’s Pilbara projects  |
| BHPBIO, Sub 1        | Supplied by Blake Dawson on behalf of BHP Billiton Iron Ore Pty Ltd and BHP Billiton Minerals Pty Ltd      |
| Annexure 1           | BHP Billiton 2008, <i>Regulation for the future of Australia’s natural resources sector</i> , White paper  |
| Annexure 01-A1       |  |
| Annexure 01-A2       | Hausman, J (MacDonald Professor of Economics, MIT) 2008, ‘Economic analysis of mandatory access provision’ |

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**Table A–1 continued**

| Submission reference          | Submitter/details  |
|-------------------------------|--|
| Annexure 01-A3                | Fitzgerald, V (The Allen Consulting Group) 2008, 'Issues posed by infrastructure regulation in Australia's bulk commodity export sectors'            |
| Annexure 2                    | Map of the Goldsworthy Railway Line, Pilbara   |
| Annexure 3                    | Affidavit of Michael Van De Worp, Australian Competition Tribunal, File no. 5 of 2006, affirmed on 14 December 2007                                  |
| Annexure 4                    | Railroad locality South Hedland and surrounding areas, existing infrastructure   |
| Annexure 5                    | Application for Mining Tenement (WA), Miscellaneous licence, 7 March 2008  |
| Annexure 6                    | Railroad locality FMG Yarrie Railroad connection to existing railroad options  |
| Annexure 7                    | Affidavit of Richard Anthony Harmsworth, Australian Competition Tribunal, File no. 5 of 2006, affirmed on 20 December 2007                           |
| Annexure 8                    | Affidavit of Richard Derek Miller, Australian Competition Tribunal, File no. 5 of 2006, sworn on 20 December 2007                                    |
| Annexure 9                    | Maps showing the Kennedy railway line, the TPI Railway line and the proposed rail spur to the Glacier Valley tenement                                |
| Annexure 10                   | Location of the five projects identified by TPI Pilbara  |
| Annexure 11<br>Annexure 11-A1 | 'Comments on the projects/prospects identified by The Pilbara Infrastructure Pty Limited', Report of Richard Anthony Harmsworth                      |
| Annexure 12                   | Ripper, E MLA (Deputy Premier, WA), 'Fortescue Metals Group application to access BHP Billiton's Mount Newman Railway line', Pers. Comm., 2 May 2006 |
| Annexure 13                   | 'Port Hedland Harbour', Orthophoto map, 2005   |
| Annexure 14                   | 'Costs of delays to investment in infrastructure as a result of regulatory intervention'   |
| Annexure 15                   | Affidavit of Andrew Laurie Neal, Australian Competition Tribunal, File no. 5 of 2006, affirmed on 16 November 2007                                   |

Continued on the next page

**Table A–1 continued**

| Submission reference                              | Submitter/details   |
|---|---|
| Annexure 16,<br>Annexure 16-A1,<br>Annexure 16-A2 | Affidavit of Stephen O'Donnell, Australian Competition Tribunal, File no. 5 of 2006, affirmed on 21 December 2007                                       |
| Annexure 17                                       | Concept Economics 2008, <i>On Gans' evaluation of criterion (b) in long-haul rail services</i>  |
| Annexure 18                                       | The Allen Consulting Group, <i>Comment on Joshua Gans, The evaluation of criterion (b) in long-haul rail services</i>                                   |
| CCI, Sub 1  | Chamber of Commerce and Industry Western Australia  |
| Attachment A                                      | CCIWA 2006, <i>Competition Policy in Western Australia</i> , A discussion paper, Business leaders series, Perth   |
| MCA, Sub 1  | Minerals Council of Australia   |
| NWIOA, Sub 1                                      | North West Iron Ore Alliance (re the Hamersley Application)   |
| Appendix A  | Background information on members of the NWIOA  |
| Appendix B  | Map of the Hamersley Railway  |
| NWIOA, Sub 2                                      | North West Iron Ore Alliance (re the Goldsworthy Application)   |
| Appendix A  | Background information on members of the NWIOA  |
| Appendix B  | Map of the Goldsworthy Railway and Mount Newman Railway   |
| Appendix C  | Map of Port Hedland   |
| Appendix D  | Projects near Goldsworthy Railway   |
| Appendix E  | Projects near Mount Newman Railway  |
| Appendix F  | Map of tenements near Goldsworthy Railway and Mount Newman Railway  |
| RTIO, Sub 1                                       | Supplied by Allens Arthur Robinson on behalf of Rio Tinto Iron Ore (re the Hamersley and Robe applications) (general release and confidential versions) |
| Annexure 1  | Information about third party developments and tenements in the Pilbara   |
| Annexure 2  | Tenements review  |

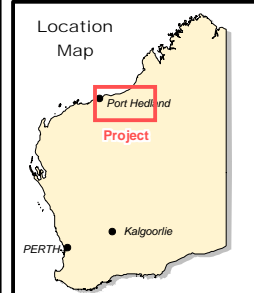
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**Table A–1 continued**

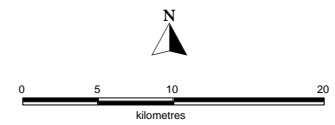
| Submission reference | Submitter/details  |
|----------------------|--|
| Annexure 3           | Market for tenements (changes in ownership/joint ventures/offtake agreements/new applications)   |
| Annexure 4           | Report by Brian Fisher (Fisher, B 2008, <i>Economic evaluation of the relative efficiencies of multi-user and single user rail and port facilities</i> )   |
| Annexure 5           | Report of Port Jackson Partners (PJP 2008, <i>Economic Evaluation of the Impact of Lost Iron Ore Production and Share</i> )  |
| Annexure 6           | Report of Access Economics   |
| Annexure 7           | Report of Professor Joseph Kalt  |
| Annexure 8           | Report of TSG Consulting (general release and confidential versions)   |
| Annexure 9           | Report of Professor Janusz Ordover   |
| Annexure 10          | Report of CANAC Railway Services (general release and confidential versions)   |
| Annexure 11          | Report of Dr Philip Williams (Williams, P 2008, <i>TPI application for declaration of the Hamersley and Robe rail track service —criterion (a)</i> , A report prepared for Allens Arthur Robinson) |
| Annexure 12          | Report of Dr Brian Fisher and Roger Rose, 'Export infrastructure and access: key issues and progress', <i>Australian commodities</i> (June Quarter 2006)   |
| Annexure 13          | Report to the Prime Minister by the Exports and Infrastructure Taskforce, 'Australia's Export Infrastructure' (May 2005)   |
| WA Gov, Sub 1        | Government of Western Australia  |
| Attachment 1         | Application of track access versus haulage regime  |
| Attachment 2         | Letter from Ripper, E MLA (Deputy Premier, WA) to the Hon. P H Costello MP (Treasurer) re Fortescue Metals Group application to access BHP Billiton's Mount Newman Railway line                    |
| Attachment 3         | 'Major new iron ore port planned for the Pilbara', Government media statement (Planning and Infrastructure, 17 January 2007)   |
| Attachment 3         | Predonivnik 2008, 'Pressure mounts on port facilities', <i>WA Business News</i> , 13 March   |


## **Appendix B Map of the Goldsworthy Railway**

CAUTION: THIS MAP IS NOT TO BE USED FOR MARITIME NAVIGATION PURPOSES



-  Goldsworthy Rail Alignment
-  Other Rail Networks
-  Select Major Mines
-  Select Localities



|   |                  |
|---|------------------|
|  <b>Fortescue Metals Group Ltd</b> |                  |
| <h3>Goldsworthy Railway</h3>  |                  |
| Author: J Tapp  | Date: 15/11/2007 |
| Drawn By: Jen Thomson   | Revision:        |
| Dwg No: 07_437_1115_COR   | Report No:       |
| Projection: Long/Lat (GDA94)  | Scale: 1:500000  |

## Appendix C Arbitration of access disputes under Part IIIA

C.1 Part IIIA of the TPA sets out a number of provisions governing how the ACCC (the Commission) must arbitrate an access dispute. The key provisions relevant to considering the Goldsworthy Application are: sections 44V(2)-44V(5); section 44W; section 44X; section 44XA; section 44Y; and section 44ZZCA.

### Section 44V(2)-44V(5): Determination by Commission

- 44V(2) A determination may deal with any matter relating to access by the third party to the service, including matters that were not the basis for notification of the dispute. By way of example, the determination may:
- require the provider to provide access to the service by the third party;
  - (a) require the third party to accept, and pay for, access to the service;
  - (b) specify the terms and conditions of the third party's access to the service;
  - (c) require the provider to extend the facility;
  - (d) require the provider to permit interconnection to the facility by the third party;
  - (e) specify the extent to which the determination overrides an earlier determination relating to access to the service by the third party.
- 44V(3) A determination does not have to require the provider to provide access to the service by the third party.
- 44V(4) Before making a determination, the Commission must give a draft determination to the parties.
- 44V(5) When the Commission makes a determination, it must give the parties to the arbitration its reasons for making the determination.

### Section 44W: Restrictions on access determinations

- 44W(1) The Commission must not make a determination that would have any of the following effects:
- (a) preventing an existing user obtaining a sufficient amount of the service to be able to meet the user's reasonably anticipated requirements, measured at the time when the dispute was notified;
  - (b) preventing a person from obtaining, by the exercise of a pre notification right, a sufficient amount of the service to be able to meet the person's actual requirements;
  - (c) depriving any person of a protected contractual right;
  - (d) resulting in the third party becoming the owner (or one of the owners) of any part of the facility, or of extensions of the facility, without the consent of the provider;

- (e) requiring the provider to bear some or all of the costs of extending the facility or maintaining extensions of the facility;
- (f) requiring the provider to bear some or all of the costs of interconnections to the facility or maintaining interconnections to the facility.

**Section 44X: Matters that the Commission must take into account**

44X(1) The Commission must take the following matters into account in making a final determination:

- (aa) the objects of this Part;
- (a) the legitimate business interests of the provider, and the provider's investment in the facility;
- (b) the public interest, including the public interest in having competition in markets (whether or not in Australia);
- (c) the interests of all persons who have rights to use the service;
- (d) the direct costs of providing access to the service;
- (e) the value to the provider of extensions whose cost is borne by someone else;
- (ea) the value to the provider of interconnections to the facility whose cost is borne by someone else;
- (f) the operational and technical requirements necessary for the safe and reliable operation of the facility;
- (g) the economically efficient operation of the facility;
- (h) the pricing principles specified in section 44ZZCA.

44X(2) The Commission may take into account any other matters that it thinks are relevant.

**Section 44XA: Target time limits for Commission's final determination**

44XA(1) The Commission must use its best endeavours to make a final determination within:

- (a) the period (the standard period ) of 6 months beginning on the day it received notification of the access dispute; or
- (b) if the standard period is extended—that period as extended.

**Section 44Y: Commission may terminate arbitration in certain cases**

44Y(1) The Commission may at any time terminate an arbitration (without making a final determination) if it thinks that:

- (a) the notification of the dispute was vexatious; or

- (b) the subject matter of the dispute is trivial, misconceived or lacking in substance; or
- (c) the party who notified the dispute has not engaged in negotiations in good faith; or
- (d) access to the service should continue to be governed by an existing contract between the provider and the third party.

44Y(2) In addition, if the dispute is about varying an existing determination, the Commission may terminate the arbitration if it thinks there is no sufficient reason why the previous determination should not continue to have effect in its present form.

**Section 44ZZCA: Pricing principles for access disputes and access undertakings or codes**

44ZZCA The pricing principles relating to the price of access to a service are:

- (a) that regulated access prices should:
  - (i) be set so as to generate expected revenue for a regulated service or services that is at least sufficient to meet the efficient costs of providing access to the regulated service or services; and
  - (ii) include a return on investment commensurate with the regulatory and commercial risks involved; and
- (b) that the access price structures should:
  - (i) allow multi-part pricing and price discrimination when it aids efficiency; and
  - (ii) not allow a vertically integrated access provider to set terms and conditions that discriminate in favour of its downstream operations, except to the extent that the cost of providing access to other operators is higher; and
- (c) that access pricing regimes should provide incentives to reduce costs or otherwise improve productivity

## References

- Hilmer Report. See Independent Committee of Inquiry into a National Competition Policy.
- Independent Committee of Inquiry into a National Competition Policy (Chair: Prof F G Hilmer) 1993, *National Competition Policy*, AGPS, Canberra.
- Kendall, R 2007, *Australian commodities*, December Quarter, ABARE, Canberra.
- Mt Newman recommendation. See NCC 2006.
- NCC (National Competition Council) 2004, *Application by Services Sydney for declaration of sewage transmission and interconnection services provided by Sydney Water*, Final recommendation, Melbourne
- 2006, *Final recommendation: Fortescue Metals Group Ltd application for declaration of a service provided by the Mt Newman railway line under section 44F(1) of the Trade Practices Act 1974*, Melbourne.
- OECD 2001, *Railway reform, regulation of freight transport markets*, European Conference of Ministers of Transport, Paris.
- Queensland Rail 2006, *Review of the economic costs of freight infrastructure and efficient approaches to transport pricing*, QR submission to Productivity Commission, Sub. no. 53.
- WorleyParsons 2007, *Port planning study and ultimate development plan, Update 2007*, report prepared for the Port Hedland Port Authority.

## Tribunal and court decisions

- Re Services Sydney Pty Limited* [2005] ACompT 7
- Billiton Iron Ore Pty Ltd v National Competition Council* [2007] FCAFC 157
- Pacific National v Queensland Rail* [2006] FCA 91
- Queensland Co-operative Milling Association Ltd and Defiance Holdings Ltd* (1976) 25 FLR 169
- Sydney Airport Corporation Ltd v Australian Competition Tribunal* [2006] FCAFC 146
- Re Sydney International Airport* [2000] ACompT 1

## Acts and other instruments

- Competition Policy Reform Bill 1995 (Cth), Explanatory Memorandum
- Iron Ore (Mt Goldsworthy) Agreement Act 1964* (WA)
- Mines Safety and Inspection Act 1994* (WA)
- Rail Safety Act 1998* (WA)
- Rail Safety Regulations 1999* (WA)
- Trade Practices Act 1974* (Cth)
- Trade Practices Amendment (National Access Regime) Act 2006* (Cth)
- Trade Practices Amendment (National Access Regime) Bill 2005 (Cth), Explanatory Memorandum