Submission by Mark Zanker, Private Citizen to the Senate Economics References Committee inquiry into Governance and operation of the Northern Australia Infrastructure Facility (NAIF).

The road to the development of Northern Australia is littered with billions of dollars of wasted taxpayers money. The Northern Australia Infrastructure Facility seems to be yet another mechanism to waste more taxpayers money. Although its website states that its board of directors has extensive experience and expertise in northern Australia, an examination of publicly available information about those directors shows that all of their expertise is in relation to law, investment banking, finance and mining, such as for fossil fuels. Completely absent from the board are representatives of traditional owners, pastoralists, scientists, environmentalists, the tourism industry, and historians. These groups also have significant expertise in northern Australia – pastoral, cultural, spiritual, historical and scientific – but that it would seem counts for nothing. The NAIF was not established to carefully consider proposals for developing northern Australia. It was created with a mandate to fund mining and related resource extraction activities, whether or not these activities contribute to the welfare of the people of that region, by way of job creation, social amenity or wealth creation.

Who are these board members? They are Sharon Warburton, Barry Coulter, Justin Mannolini, Khory Mccormick, Sally Pitkin, Bill Shannon and Karla Way-Mcphail.

On the NAIF website, one of Barry Coulter's claims to fame is that he was previously executive chair of Sherwin Iron Ore. In August 2013 when I was temporarily resident in the NT, I wrote to the then Minister responsible for mining activities Willem Westra van Holthe inquiring why it was that the Sherwin project had been given the go-ahead when adequate infrastructure for the transportation of the ore was not in place. In particular, I wanted to know why it had not been a pre-condition of this operation that Sherwin had a contract in place with Genesee and Wyoming railway to transport the ore from Mataranka, or another suitable location to Darwin port, instead of using road trains that would substantially damage the Roper and Stuart Highways. I received a reply from the then Chief Executive of the Department of Mines and Energy in the NT, which amongst other things said:

> As it is an expensive and cumbersome option road transport is not a first choice option, so Sherwin Iron has been involved in negotiations with Genesee Wyoming for the transport of their ore by rail for some time. As a result, negotiations are continuing in relation to construction of a new rail siding and stockpile yards at

> Mataranka. Rail transport of ore cannot commence until this infrastructure is built. With the transition to full scale mining, we anticipate that there will be a consequent move to rail transport.
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> You correctly state in your email that tourism brings great benefit to the NT. I would like to point out that revenues from mining operations also bring great benefit and it is through this income that we can afford the normal Government services that you and other people of the NT enjoy. The NT Government, through my Department is committed to ensuring that this development brings revenue benefit while other risks such as environmental and social risk are minimised.

Less than 12 months later, in July 2014, the Sherwin project collapsed, going into voluntary administration. I do not wish to be taken to be suggesting any fault on the part of Mr Coulter over the collapse of Sherwin Iron Ore. However, from an outside point of view, it looked like a scramble to develop a resource rather than a well planned project that took account of community interests, commodity prices and such issues before it started. There is a serious risk that NAIF funding will be squandered if projects that come before it for assessment are not properly planned. The absence of commercial finance for a project is an indicator of lack of planning.

It is instructive to look at other big dollar infrastructure projects in the north from the past, like Humpty Doo Rice project. The Humpty Doo rice project kicked off in 1955 when a company called Territory Rice Ltd were granted agricultural leases over 303,000 square kilometres of the floodplain. In 1953, Harold Holt, then Minister for Labour and National Service and later Prime Minister of Australia, was travelling the world negotiating trade deals. In the United States, he attended a party held by one Allen Chase and was spruiking the great potential opportunities in the Northern Territory for rice farming on a large scale on the floodplains east of Darwin. I think it is fair to say that Holt didn't really know what he was talking about.

Nevertheless, this fellow Chase came to Australia and was very impressed when he saw the area, apparently saying that he thought it was twice as good as the Nile Valley. He was convinced that rice cultivation would be a goer, and organised a syndicate to pioneer rice growing. Territory Rice Ltd was incorporated, and Chase was chairman, Major General Paul Cullen, deputy chair and others including well known barrister Jack Cassidy QC were board members. Cullen had established the merchant bank Mainguard Australia, and it contributed significant capital to the project, as a result of which it ultimately collapsed.

This project failed because of unrealistic expectations and absence of knowledge about almost every aspect of the natural environment on the escarpment floodplains. Only preliminary research had been done about the prospects of rice farming, and that was not particularly optimistic. The country is extremely difficult to access in the wet season, and the use of heavy machinery is pretty much out of the question. The rice seeds were washed away into the ocean by the roaring rivers. The subsoils are saline, and that poses significant difficulties for any sort of crop production. Aerial sowing of seeds, which was attempted because of the difficulties with access to the land, failed because magpie geese could gobble up the seeds even before they hit the ground. The venture was undercapitalised and could never have even gotten off the ground without significant Commonwealth funding. All the money invested was wasted really.

It is true that some of the legacies of this project, apart from derelict and rusting machinery dotted here and there about the place have been positive. The Fogg Dam Conservation Park is a significant wetland and habitat for birds. It is one of the most visited national parks in the country. The escarpment floodplain is an area of wonderful natural beauty that hopefully will remain that way. There is now a successful industry there in the form of the Humpty Doo barramundi farm. Aquaculture is an industry that can thrive, but we shouldn't always fall for the idea that bigger is better, because there are other non economic values that are very important to our society as well as to the traditional owners of the lands.

Another white elephant scheme has been the Ord Irrigation Scheme. Kununurra, which is the principal town in the area - and an extremely remote one - was established in 1961. It took a few years to get the Argyle Dam built. The Ord River in its natural state apparently was a vey fast flowing river, particularly in the wet season. It pretty much always had water in it and didn't run dry during the dry season. In 1996, the Kununurra area was a bit like a market garden, and also reminiscent of parts of north Queensland where sugar cane was grown. There was any amount of beautiful fresh vegetables available at the local market, and the whole area presented as a lush garden of almost biblical conception.

In 1996, it seemed clear that the whole irrigation scheme was a bit of a white elephant, because this particular area of WA could at times be completely cut off to road transport for months during the wet season. There was no place to take the produce as economical transportation was really impossible. Wyndham is the closest sea port, had one wanted to send produce out by ship, but there were still formidable difficulties associated with land transport.

By 2011, the irrigation area had completely changed from the biblical garden of Eden of 15 years previously. The major crop being grown was sandalwood, a parasitic tree from which can be extracted aromatic oils for perfume and soaps. Chia was a new crop. There were still some citrus and melons, but sugar cane and pretty much all the stuff that had been growing in the area in 1996 had disappeared. The former sugar mill had closed down. The Mount Romance Company of Albany had established an outlet there for their products of soap, candles and perfumes.

The sandalwood story itself has now run into difficulties. The Quintis company – formerly known as Tropical Forestry Services – came under attack, as they put it, from US short sellers Glaucus Research Group. However, even before the Glaucus assessment, the value of Quintis shares had been steadily declining, and it remains unclear whether it will be able to find a substantial market for its product.

In the second reading of the NAIF bill, the Minister said:

> The expert, transparent and arms-length design of the board established by this bill will cultivate credibility in financial markets, while ensuring that the government invests in projects which are viable, provide public benefits and unlock the potential of the North.

However, the NAIF is set up to provide funding for projects that commercial financiers have identified as non-viable, which suggests that in many cases, it may be optimistic to think that the Commonwealth will recoup its expenditure.

In Australia, there is no track record of private sector investment in public infrastructure projects, except under government guidance or with significant government funding, as for example in the case of the Alice Springs to Darwin railway. Recently the Prime Minister announced that the Commonwealth would construct the second Sydney international airport, as the owners of the existing airport decided not to exercise their option to do so. This was entirely predictable, as private investors are after relatively quick returns on capital, rather than returns many years down the track after very large capital outlays. These considerations taken together make the NAIF legislation as a whole look like bad public policy.

On the NAIF website, it is stated that within 30 days of making an investment decision, the NAIF will publish information about the name of the project proponent, the goods/services involved, the location, the type of financing mechanism and the amount of the financing mechanism. However, this information will only be available after an investment decision has been made, not before, and then subject to whatever commercial confidentially considerations there may be. It will not be possible therefore for any person outside the investment process to make any assessment about potential conflicts of interest by board members. The system is set up to be non-transparent.

It is known that the Adani corporation has made a proposal to the

NAIF, but in relation to exactly what aspect of its proposed mining operations in Queensland is not clear. What is clear is that there appears to be little or no appetite among private investors to provide financing for new coal mines or associated infrastructure. Why should a government agency step into the breach given the distinct possibility that the mine and its associated railway will be stranded assets, and will have no public benefit at all. Absent coal mining, all the existing railways in Queensland that are part of the Aurizon coal railway network will have no value.

One might ask why would a private company want to build a road like the Stuart Highway in the NT or the Landsborough Highway in Queensland. They could only benefit from such an investment if the road were a toll road and there were no public roads that could be used as an alternative route. Whilst such a thing may be possible in densely populated urban areas, it is simple fantasy to imagine such a thing in the back blocks of northern Australia

On the face of the constituent documents of the NAIF, there seems to be no basis for "political" intervention in investment decisions, but it would be unrealistic to believe that political considerations will not influence the decisions of what is after all a government agency. The Commonwealth and Queensland governments have demonstrated a sort of religious fervour in the belief that coal is good for humanity, that there can be such a thing as clean coal. Ministers have attacked banks that are reluctant to invest in coal and universities over decisions to divest fossil fuel assets. However, NAIF potentially provides cover for governments to appear to be legitimately trying to assist "new and exciting" big projects that will supposedly involve job creation in circumstances where no prudent investor would fund the project concerned, and where even the project proponent does not believe there will be vast numbers of jobs created, or that they will be long lasting employment opportunities.

The NAIF is bad policy and will lead to poor outcomes to the detriment of taxpayers. No amount of window dressing in the constituent documents, or in the policies relating to corruption and conflict of interest can prevent those poor outcomes. Moreover the fact that the NAIF board is comprised exclusively of persons with a background in resource industry financing and development will necessarily give the board a very narrow vision indeed.

This renewed push on to "develop the north", will not be successful, because all of its focus is likely to be on developing fossilized industries of the past such as fossil fuel extraction. Any money invested by the NAIF in such projects will go the way of the billions of dollars of taxpayer money hitherto wasted. No further attempts should be made by governments to try to pick winners or pander to powerful vested interests like the Minerals Council of Australia and its constituent members to develop the north. The Committee should recommend that the NAIF legislation be repealed and the agency abolished.