

WOOD PROCESSING (WESFI) AGREEMENT BILL 2000

Second Reading

Resumed from 19 October.

MR GRILL (Eyre) [9.47 am]: The Opposition is more than happy to support this legislation, which will ratify an agreement between the Government and WESFI Limited signed by those parties on 8 August this year. It replaces the Wesply (Dardanup) Agreement Authorization Act that was enacted in 1975. As we all know, this legislation is about the softwood industry in this State, which includes plantations of both *Pinus radiata* and *Pinus pinaster*. The WESFI company is a particle board manufacturer at Dardanup. It also produces medium-density fibreboard at a Welshpool facility and it has a 50 per cent interest in a pine log sawmill. It is a vertically-integrated industry with a number of very important products being produced in Western Australia. It is an evaluation company and we should be very proud of it.

The main purpose of this legislation is to secure the continuation of that activity, to extend it into new activities in an expanding market. When that happens, this agreement will ensure the achievement of a contract for the supply of softwood timber, mainly *Pinus radiata*, for the next 25 years. The contract will be for 330 000 cubic metres of thinnings per annum, on a take-or-pay basis. The company will require more than that for its operation, but that will secure the base and the necessary amount to underwrite new investments and to carry on with the old activities. In return, WESFI is to put \$1m into the planting of new *Pinus radiata* per annum. This is fairly new. Some private investments have been made in private pine plantations in the past and WESFI has played a part in that, but not a major part. Bunnings is the bigger player. However, the overwhelming player is the State Government. WESFI Limited will now be putting \$1m per annum into the *Pinus radiata* program. We should also reflect on the fact that WESFI pays about \$30m per annum for the pine that it takes from the State; in that sense it plays a very good role. In addition, it has the evaluating role to which I have already referred.

I shall refer in more detail to some of the issues I touched on. The original agreement, which allowed WESFI to set up in the south west of this State, was negotiated by the Tonkin Government and signed into law by the previous Court Government. It was implemented by a ratification Act in 1975 similar to the legislation we are now debating. As a result of that agreement, a particle board industry was set up at Dardanup, not far from Bunbury. The original commitment from the company was for a 17 cubic metres an hour production unit. WESFI met that commitment a long time ago and now produces at a rate of between 35 cubic metres and 37 cubic metres an hour, having commenced the original production in 1976.

As I mentioned, the company moved into medium-density fibreboard after an amendment to the Act in 1989. That facility is at Welshpool and it commenced production in 1990. It is important, when we consider this legislation, for members to appreciate that WESFI is taking thinnings - by and large a waste product - and paying the Government \$30m per annum for it. WESFI turns that waste product into a high value, value-added product that is used in this State. In fact, about 20 per cent is used in this State, 70 per cent is exported to the eastern States and 10 per cent is exported overseas to about 20 countries. I am talking about thinnings, not case logs or sawmill logs. There are, therefore, three categories of logs: Thinnings logs, which go into a pulp end use; case-milled logs, which are not affected by this agreement; and sawmill logs. Therefore, three products come out of the softwood plantations of Western Australia. This Bill deals with only thinnings - that is, the pulp.

New South Wales and New Zealand are big producers of softwood. Most of their thinnings are either not cut in the first place or go to waste. In this State the great bulk of thinnings are used in the facilities we are talking about today. Plantations, when originally planted, have a density of about 1 500 trees a hectare which reduces to about 50 per cent after the thinning process. The thinnings are turned into chips or flakes, glue is added and a particle board is produced.

In its three establishments, WESFI currently employs about 770 people. It supplies between 20 per cent to 26 per cent of the MDF and particle board market in Australia. WESFI's competitors include New Zealand company Carter Holt Harvey Ltd, which is 50 per cent owned by International Paper Co Pty Ltd, which bought out CSR Ltd's operation some time ago. Members would appreciate that New Zealand has huge softwood plantations. Another major competitor in Australia is Amatek Ltd, which operates primarily out of Brisbane.

I will give members an idea of the scope of operations in Western Australia. Western Australia exports about 70 per cent of this product to the eastern States. WESFI accounts for about 20 per cent of the general freight on rail between Western Australia and the eastern States. It is, therefore, a big player in the transport industry of this State and will be an even bigger player in the future.

The agreement before us today is similar in many respects to the agreement written in 1975. A number of reviews have taken place since then, including a national competition policy review. I believe ACIL Economics and Policy Pty Ltd was the consultant engaged in that process. ACIL has given the former and current

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Mr Julian Grill; Dr Judy Edwards; Mr Clive Brown; Mr Colin Barnett

agreements a clean bill of health, except for the removal of the provision dealing with preference given to local tradesmen and people of that nature. That may sound strange to members, but it is one of the requirements of the national competition policy and it has been removed from the regulation.

When WESFI got off the ground, the agreement included a provision whereby the predecessor of the Department of Conservation and Land Management could claim back the whole of the product; that is, the sawdust and other minor products created in the sawmilling and other processing activities. That provision has been removed from the current legislation.

I mentioned a while ago that there are three categories of logs and I shall provide more detail on the categories and sizes of timber involved. The pulp-milled logs - or thinnings logs - have a diameter between 75 millimetres and 200 millimetres. Case-milled logs, which are not subject to the agreement we are discussing today, have a diameter between 200 millimetres and 250 millimetres and are used mainly for packing cases. Saw logs have a diameter 250 millimetres or more.

I mentioned earlier that this State grows a large quantity of softwood; in fact, it has 70 000 hectares of softwood forest which has been added to in the past year or two. There are about 15 000 to 18 000 hectares of private plantings in this State, and Bunnings has the largest plantation.

WESFI pays between \$10 to \$12 a cubic metre for the product it takes. As I mentioned, in other States it is treated as a waste product. Governments and private forest owners in those States get very little, if anything, for thinnings. To make the sort of investment in this high-tech industry that WESFI has been prepared to make in the past, and is prepared to make in the future, it needs long-term tenure for the supply of the product. The agreement we are discussing today, which is the subject of this Bill, continues that long-term tenure. It is a take-or-pay agreement for up to 330 000 cubic metres per annum. Beyond that it is up to the company to take the additional product that it needs from CALM at the going rate as it sees fit. However, the take-or-pay arrangements apply up to 330 000 cubic metres per annum.

The fact that WESFI takes that pulp product - or thinnings - has a big bearing on the pine log industry in this State generally and makes the State much more competitive in that industry. This State has an integrated industry of which we can be very proud and WESFI is a company of which we can be very proud indeed.

I had discussions with representatives of WESFI yesterday. The company pointed out to me that it has been a pioneer in a number of areas. It pioneered the plywood industry in this State and, as I mentioned, from 1976 it pioneered the particle board industry. Since that date it has pioneered the medium-density fibreboard industry in this State.

WESFI pioneered many innovations of an industrial nature. It was probably the first company to offer full superannuation and long-service leave to not only staff but also all of its employees from its inception 40 years ago. It pioneered the manufacture of wood adhesives in Western Australia, and it supplies a very large part of the market. Of course, it uses a lot of that product in its operations. It also pioneered the supply of flocculants to the alumina industry. It plays a big part in the chemical industry. It has a very fine industrial relations record. It has set up an industry in Western Australia of which we can be very proud. It outstrips industries in other States because of its vertically-integrated nature and it provides big benefits to the State.

Some proposals that are not the subject of the Bill before us today would see WESFI move into another arena; that is, the laminated veneer lumber arena. The project will require new investment of about \$80m and the planting of a great deal of *Pinus pinaster* in the more saline or dry parts of the State. We should give our strongest support to the process. The new industry will employ about 160 people directly and about 340 people indirectly.

The Bill refers to the bulk product that results from thinnings and not case wood or sawn logs. I touch on this lightly at the end of my speech merely to indicate that next year we might be looking at some further legislation for another agreement relating to those matters, but that it is not the subject of this legislation. There has been some confusion, especially in Caucus a couple of days ago, about just how far this agreement went. It does not touch on the proposed arrangements with Sumitomo and WESFI to enter into the LVL industry, nor does it touch on the planting of *Pinus pinaster* in those areas. That is all to come. Today we are talking about the thinnings or waste products in most other areas, which are used in this high-value, vertically-integrated industry. The Opposition supports the initiative and wishes the company well.

DR EDWARDS (Maylands) [10.05 am]: I support the Bill, which seeks to ratify an agreement signed on 8 August. As the member for Eyre has pointed out, the Bill deals with softwood thinnings and their utilisation. He has spoken of the history of WESFI, the medium-density fibreboard plant and WESFI's particle board utilisation. He also made reference to future developments that we may see, including the laminated veneer lumber plant. However, today we are talking about only one small step at the beginning of the process.

I will comment on two aspects of the Bill. The first part of the Bill deals with the fact that for the next 25 years the State will continue to supply softwood timber to WESFI, and it will allow WESFI to undertake some proposed expansions. I will not repeat what the member for Eyre has said, but WESFI has moved into the area of value adding. It has been a pioneer in the areas it has broken into. In the past it has probably taken some risks which have paid off, so it is to be congratulated. As the member for Eyre has said, it is an example of a vertically-integrated wood-processing industry.

The second aspect that has probably not received much attention is that, as part of the agreement Bill, WESFI will contribute a minimum of \$1m per annum to a scheme for the production of softwood plantation timber by the State. In a moment I will ask the minister to clarify some aspects of that.

The first part of the Bill refers to *Pinus radiata*, as does the minister's second reading speech. It then refers to *Pinus pinaster* in close proximity to Welshpool and the transport costs that would be incurred if the plantation were further away. The second part of the Bill refers to the company committing a minimum of \$1m a year to enable the State to continue establishing softwood plantations. That is a very fine part of the Bill. I am pleased that WESFI has agreed to the negotiations.

I ask the minister for an explanation of some aspects of the Bill. Recital H refers to *Pinus radiata*, but later on the Bill refers to *Pinus pinaster*. Perhaps the minister might explain the reason for those two references.

Clause 5(7) refers to the resource priority and requires the executive director, that is, the Department of Conservation and Land Management, to ensure that the quantity of resource agreed to is available to the company in priority to other prospective uses. We are talking about thinnings and the utilisation of a resource that in other parts of the country is not utilised, but does this provide any disadvantage to any other company that might want to use these thinnings?

Clause 7 deals with the maintenance of public roads. Subclause (1) refers to the State's undertaking to maintain public roads used by the company for the purposes of the agreement to a standard comparable to normal public roads. Does this mean that the State will maintain public roads to the standard of normal public roads so the company can transport the timber? Does this refer to normal bituminised roads, or standard logging roads if they are relevant, depending where the roads are?

Clause 9 refers to zoning. I have some concerns based on previous experience about the reference in the Bill to the buffer program. I refer the minister to what he defined as a reasonable ongoing improvement program, but in the Bill noise contours are drawn. I guess most members deal with people who complain about noise. I am aware that the State's noise regulations were tightened a few years ago and that further reviews of noise regulations are going on. I acknowledge the noise buffer map shows that the buffer has been reduced and noise has been taken into account. However, how does the minister define a reasonable ongoing improvement program? Having defined that, how does he see noise contours being drawn in the future? For people living in the area, is there any risk of urban encroachment or loss of amenity due to noise?

As I said, I intended to make only a few brief comments. The Opposition supports the Bill. As the member for Eyre said, we look forward to future confirmation from the company of the establishment of its LVL plant, because it could play a part in replacing structural karri and that would be very important to the State.

MR BROWN (Bassendean) [10.10 am]: I do not wish to reiterate any of the points made by my colleagues, the members for Eyre and Maylands, but I will touch on some comments in the minister's second reading speech. The minister said -

Clause 5 of the agreement requires the executive director of CALM to enter into arrangements with the company to provide not less than 330 000 cubic metres per year of resource from the softwood plantations . . .

I understand from the comments made by the member for Eyre that we are not talking about sawlogs - we are talking about a different type of resource. We are also talking about an agreement that provides the company with security of resource, which is an important issue.

I raise that in the context of a company in my electorate, Pinetec Pty Ltd. It is a fine company that provides a timber resource in the form of pallets and other products used particularly by the resources sector. The call for that company to provide additional product has been increasing as the resources sector has been expanding. The difficulty facing the company is that it has been unable to arrange any security of resource. Some time ago, at the Government's suggestion, the company moved into my electorate. Questions have arisen about where it might need to move in the future to ensure supply and security of resource. I have taken up this matter with the Minister for Forest Products, but I have not been given a satisfactory response. It has been suggested that the company might wish to compete for resource contracts as they arise.

It is important for this state agreement legislation to provide security of resource for WESFI Ltd so that it can plan with certainty for the years ahead, undertake marketing and do forward projections. That certainty is equally important for Pinetec. It is in a different market, but it is a very important market. I am sure the minister handling this Bill is well aware of that. I raise this issue in the hope that the views of his department and of the Department of Commerce and Trade might prevail over the views of other departments. As I understand it, the minister's department and the Department of Commerce and Trade believe that Pinetec should have some security of resource so that it can continue to plan and to make modifications and long-term investments.

While this issue does not directly affect the company in question or cut across the purpose of this Bill, it does deal with the general question of security of resource. I raise it in the hope that the minister will make some encouraging comments to indicate to the company that the issue will be addressed. Like other groups that are prepared to invest in the future of this State, Pinetec's future investment requirements will be considered in light of security of resource.

MR BARNETT (Cottesloe - Minister for Resources Development) [10.14 am]: I thank members of the Opposition for their support for this legislation. This Bill ratifies a new agreement covering WESFI Ltd's operations. As the member for Eyre said, it is an excellent company that is involved in genuine value adding as an integrated wood processor. It takes and pays a significant amount for thinnings and small logs from softwood plantations - product for which there is no other use or market - and produces a value-added commodity. The company is a success story. It employs about 600 people and, with its expansion plans into laminated veneer lumber operations, it could employ more than 700 people. This State should continue to encourage companies such as this.

It is essential for investment plans and continuing expansion at Dardanup that the company have long-term security of supply of resource material, and this legislation will achieve that. That is particularly important to international interests - both investors and customers. The company must have long-term security of supply and it must be able to give a clear indication to those contemplating investing in it and potential customers that it has government, parliamentary and bipartisan support. The pre-election period is always a nervous time for companies when they are trying to negotiate and complete commercial arrangements. WESFI greatly appreciates having a clear indication of bipartisan support, as do I. A feature of government in this State is general and continuing support for economic development and agreement Acts. This State has a good record in that it has never reneged on an agreement Act and it has always been able to deliver. It has also been able to adjust to changing circumstances and standards in environmental and noise regulations and so on. I particularly thank the member for Eyre for his support.

The member for Bassendean raised the issue of Pinetec Pty Ltd. I agree that the company has been a success story. It is a significant employer and has found a place for itself in the market. It has grown and will continue to grow. As members have acknowledged in this debate, the timber resource covered by this agreement is thinnings and small diameter logs, which are unsuitable for companies requiring either higher grade or larger diameter logs. Only a very small proportion of the product going to WESFI could be used by a company such as Pinetec, and the separation of the larger diameter logs would be uneconomic. As the member for Bassendean acknowledged, this legislation does not affect Pinetec directly. However, what does Pinetec do about its resource security? With no disrespect to that company, WESFI operates on a much larger scale. WESFI's is a large, sophisticated, high value-adding, major capital investment and integrated organisation. That is why this sort of investment has the status of an agreement Act. In saying that, I do not diminish the importance of what Pinetec is doing. This legislation covers a large, long-term capital investment that requires long-term resource security. Pinetec's interests have in no way been ignored. A number of meetings have been held with company representatives. As the member said, my agency and other agencies have promoted its interests and its need to contract for supply in a reliable and medium-term arrangement.

The Forest Products Commission has undertaken to meet all supply contracts entered into with Pinetec, so that position is secure. The Government believes the company will be appropriately supplied. I recognise the issue of availability of wood and also accessibility to operations and, therefore, the transport cost component. The Forest Products Commission is confident that, despite this legislation and the proposed LVL plant, it will be able to meet all its commitments to Pinetec. I hope that will reassure the company. My agency and the Department of Commerce and Trade will continue to work with the company and the Forest Products Commission to ensure that its economic security is not compromised in any way.

Mr Brown: I thank the minister for that response. The company is not afraid about contracts being reneged on by the Government; it did not raise that issue. However, it did raise concerns about its long-term outlook. Because the mineral sector is growing, and because it supplies that sector, the company will have the opportunity to grow. Of course, as the minister knows, when minerals companies enter into contracts, they want long-term arrangements from secure companies. Unless Pinetec can go to its potential customers and say that it knows it can honour a contract, the larger players in the minerals industry will not be interested.

Mr BARNETT: Part of its interest has been the Gngangara resource, and that will be used largely for the laminated veneer lumber plant. It is reasonable to assume that, given a component of the extra and renewed plantings, the availability of the softwood resources will grow. The Government, having looked at the resources and the new plantings taking place, is confident it can maintain Pinetec and facilitate its growth. I recognise that Pinetec does not have the long-term security of an agreement Act; it is in a short to medium-term contractual arrangement. Pinetec has made representations to the Department of Resources Development, and I am sure that it also appreciates the representation of the member for Bassendean. Pinetec has made its case very clearly, and it is on the radar screen; everyone is very conscious of its interest. I can give a commitment that Pinetec will be looked after. Subject to all the usual commercial caveats, the resource will be available.

Some speakers in the debate on this Bill have raised issues such as competition policy, though the member for Bassendean did not refer to it directly. A pure view of competition policy might imply that long-term commitments such as agreement Acts are anti-competitive, but competition policy in Australia is essentially about the domestic market, and operations like WESFI compete in an international market. There is only so much resource to establish world-scale operations. Some of the things that are done in the resource sector, in the narrow sense of Australian domestic competition policy, can be considered anti-competitive. That is a misunderstanding of the nature of the industry and of the market. We will not have several world-scale WESFI operations. We have one now, and maybe in the future we may have two. Maybe a company like Pinetec will expand into others areas; I hope it does. We must remember that WESFI operates in an international market. I give a personal assurance that the Department of Resources Development will continue to work with Pinetec and make sure that its interests are catered for. I am confident that, in the light of the available resources, it can be done. The department may have to assist in assuring some of Pinetec's potential clients of that as well. I thank the member for Bassendean for raising that issue.

I now address some of the other issues raised in the course of the debate. The \$1m contribution that WESFI will make towards ongoing tree planting and plantation management, will come under the Department of Conservation and Land Management's maritime pine, or *Pinus pinaster* program. This is proposed to be funded largely by sales of logs from the Gngangara plantation, so the WESFI contribution will augment that. I do not think the agreement will disadvantage other companies, though the fact that it has been negotiated has brought to light issues such as the interests of companies like Pinetec. I reiterate that WESFI is using low grade, low value and small diameter logs and waste material that has no other uses. As the member for Maylands pointed out, this material is not used in forestry operations like this in other parts of Australia. All forest roads are gravel, and are public roads. WESFI will be responsible for repairing any excessive damage that results from its transport operations. The zoning issue can be quite complex, and as the community makes demands, and the Government responds with ever-tightening environmental conditions, greater potential for conflict with industry develops. This is particularly so in areas where residential and urban development begins to encroach into areas close to industry, or even into buffer areas. Subdivision of agricultural land into small rural lots can also exacerbate that problem. That has been a significant issue for Dardanup, and members may recall that it was an issue for the Worsley alumina refinery, and its conveyor operation. This Parliament passed special legislation to allow that to continue. In some cases, despite large investment in noise abatement, it can be virtually impossible for an industry to operate economically and still meet noise requirements that might be expected to apply in a residential area. Hence, the need exists not only to establish but also to preserve buffer zones.

The Department of Resources Development has been working over the past few years to establish larger industrial sites, to protect them and the community from conflict by establishing large buffer areas, and to plant trees. Examples of this include the expansion of the Kemerton industrial area, which I know has been controversial, and the Oakajee proposals. While they may be less sensitive, this policy applies equally to industrial sites in the north of the State, the goldfields and elsewhere. I thank members for their support of this legislation, and I know all members look forward to seeing the WESFI operations continue to grow, and hopefully we will now see the development of the laminated veneer lumber plant, which will be a very significant and sophisticated step forward for value adding and the development of a timber industry based on plantation products. I am sure that companies and potential investors in future expansion would appreciate the support of this Parliament for this legislation.

Question put and passed.

Bill read a second time, proceeded through remaining stages without debate, and transmitted to the Council.