

CEMENT WORKS (COCKBURN CEMENT LIMITED) AGREEMENT AMENDMENT BILL 2015

Introduction and First Reading

Bill introduced, on motion by **Mr C.J. Barnett (Minister for State Development)**, and read a first time.

Explanatory memorandum presented by the minister.

Second Reading

MR C.J. BARNETT (Cottesloe — Minister for State Development) [12.14 pm]: I move —

That the bill be now read a second time.

The purpose of this bill is to ratify an agreement made on 20 April 2015 between the state, the Minister for Transport, Fremantle Port Authority and Cockburn Cement Limited, which I will refer to as the “variation agreement”. This bill is necessary in order to give effect to amendments to the Cement Works (Cockburn Cement Limited) Agreement 1971, which I will refer to as the “state agreement”. The main purpose of the variation agreement is to remove Cockburn Cement’s current obligation under the state agreement to manufacture clinker at its Munster works site. To put this variation agreement into context, I will provide some background on Cockburn Cement’s operations in Western Australia and the requirement to vary the state agreement.

Cockburn Cement current operations: Cockburn Cement, a wholly owned subsidiary of Adelaide Brighton Limited, has operated in Western Australia since 1955, and under the state agreement since 1971. It is the major producer of cement and lime in Western Australia, and is the largest lime producer in Australia. The company’s operations under the state agreement comprise: cement/clinker and lime kilns and associated facilities at its Munster works site; limestone quarries at Munster; dredging of shell sand in Owen Anchorage, adjacent to Cockburn Sound; and a washing plant at Woodman Point. Cockburn Cement also operates a cement milling, blending and packaging facility on 7.8 hectares of freehold land owned by the company at Kwinana; however, this facility is not subject to the state agreement. In addition to its Kwinana facilities, the company also has operations at other locations around Western Australia that are not subject to the state agreement.

The key material in cement production is clinker, which is small lumps or nodules formed by sintering limestone and other raw materials in a kiln. The clinker is then ground into powder to form cement. Currently, up to 400 000 tonnes per annum of clinker can be produced at Munster. To meet cement demand, in 2013 Cockburn Cement imported around 250 000 tonnes of clinker from Asia, via Kwinana Bulk Terminal, to augment its production at Munster.

Cockburn Cement business strategy: Cockburn Cement is currently implementing a new business strategy that will be carried out in two phases. Phase 1 involves the reduction of clinker manufacture at the Munster works site in preparation for phase 2; phase 2 will result in the cessation of local clinker manufacture and the transition to the full importation of clinker required for cement production. Cockburn Cement has indicated that the change in its business strategy is being driven by increasing energy costs associated with the local production of clinker, and is aimed at maintaining the company’s overall competitiveness in a cement market influenced by the economies of scale in Asian clinker-manufacturing plants. The company expects that this will result in a financial benefit of around \$5 million per annum, and is a key element in ensuring the long-term sustainability of the Munster operations. The strategy to import clinker rather than to manufacture locally reflects an Australia-wide trend. In 2013, Boral Limited implemented a similar strategy when it suspended clinker manufacturing at its cement works in Victoria and continued to produce cement using imported clinker. In July 2014, the company gave notice under the state agreement, and subsequently commenced phase 1 of its business strategy. This involved a reduction in clinker manufacture at Munster from around 360 000 tonnes in 2013 to around 150 000 to 170 000 tonnes in 2014.

Requirement to vary state agreement: Cockburn Cement has indicated that it may be ready to implement phase 2 of its strategy during 2015. However, the company is currently required, under clause 3(1) of the state agreement, to carry out cement, which includes lime, and clinker manufacturing operations at the Munster works site during the currency of the state agreement, which expires in 2031. Therefore, to enable Cockburn Cement to cease clinker manufacture and transition to the full importation of clinker, a variation to the state agreement is required to remove the company’s obligation to manufacture clinker. Cockburn Cement intends to maintain its clinker kilns at its Munster works site on care and maintenance as a contingency measure, and to continue to manufacture cement at Munster as well as its facility at Kwinana. The Munster plant will continue to produce lime using shell sand dredged from Owen Anchorage. The cessation of clinker manufacture will enable the company to close the limestone quarries at the Munster site and, under existing provisions in the state agreement, permit the company to seek the minister’s consent to dispose of the quarry land that is surplus to its requirements to third parties. As part of its new business strategy, Cockburn Cement is proposing to expand its existing

operations at Kwinana to accommodate the installation of additional clinker storage and handling equipment that is required to ensure long-term viability and security of clinker importation. The company requires additional land in Kwinana adjacent to its current facility to provide sufficient space to enable this expansion.

The cessation of clinker manufacturing at Munster will provide benefits to the local community by making the quarry land available for alternative development opportunities and improving the environmental amenity by reducing the level of stack and ground-level dust emissions, and odour emissions through a reduction in coal stockpiles. There has already been a significant reduction in dust emissions from the Munster operations as a result of the company recently installing bag filters on the two lime kilns at the site at a cost of \$46 million.

I now turn to the provisions of the bill and the variation agreement outlined in the explanatory memorandum, which I have just tabled. The main provisions of the bill are as follows. Clause 4 provides that section 2 of the principal act is amended by inserting the new definition of the fourth variation agreement—this current variation—which means the agreement, a copy of which is set out in schedule 6 of the principal act. The principal act is the Cement Works (Cockburn Cement Limited) Agreement Act 1971, as amended from time to time.

Clause 5 inserts a new section 7 into the principal act that ratifies the fourth variation agreement and authorises its implementation. It also provides for the fourth variation agreement to operate despite any other act or law, without limiting or affecting the application of the Government Agreements Act 1979. Clause 6 inserts as the sixth schedule into the principal act, the fourth variation agreement.

The key provisions of the variation agreement are as follows. Clause 2(b) amends clause 3(1) of the state agreement by removing the company's obligation to manufacture clinker at the Munster works site and also provides that the company may manufacture clinker at Munster at its discretion. Clause 2(d) amends paragraph (b) of clause 6E of the state agreement that relates to royalties by deleting "as a neutralising agent", with such deletion to take effect from and including the date those words were inserted in the state agreement—that date being 29 October 2010. This is a clarifying amendment; it does not affect the royalty rate paid by the company or the way the royalty is collected by the state. Cockburn Cement currently pays royalties on shell sand at the rates prescribed under the Mining Act 1978 as payable in respect of limestone used for metallurgical purposes.

Clause 2(h) inserts a new clause 10(2) in the state agreement which requires the company, when requested by the minister, to submit reports to the minister concerning the implementation of its local content obligations. Cockburn Cement currently submits local content reports to the minister on a voluntary basis and the amendment will formalise this arrangement. Clause 2(j) inserts new subclauses (8) to (11) into clause 10B of the state agreement, after subclause (7), to provide a mechanism to effectively manage, within the terms of the state agreement, decisions by the company to suspend, cease, and restart clinker manufacturing operations. These provisions also provide processes relating to the decommissioning of clinker manufacturing facilities and proposals to rebuild and recommence clinker manufacturing at the works site, should the company decide to do so. The provisions ensure that the company, at subclause (8), notifies the minister of its intentions to cease or suspend clinker manufacture; at subclause (9), consults as necessary with the minister regarding such cessation or decommissioning; at subclause (10), notifies the minister about recommencing clinker manufacture beyond the current capacity of 400 000 tonnes per annum if decommissioning has not occurred. The minister may require the company to submit detailed proposals in relation to the notice; and at subclause (11), notify the minister in regard to recommencement of clinker manufacture post decommissioning of existing facilities. The minister may require the company to submit detailed proposals in relation to the notice.

The ratification of this bill by Parliament facilitates the long-term sustainability of Cockburn Cement's Munster operation—an important and long-standing operation in this state, which, through these amendments, will continue to provide essential materials for the alumina, gold and construction industries.

I commend the bill to the house.

Debate adjourned, on motion by **Mr D.A. Templeman**.