

INDUSTRY AND TECHNOLOGY DEVELOPMENT AMENDMENT BILL 2021

Second Reading

Resumed from an earlier stage of the sitting.

HON DR STEVE THOMAS (South West — Leader of the Opposition) [5.08 pm]: Before we were interrupted for the taking of questions, we had just started a conversation around the Industry and Technology Development Amendment Bill 2021. As I began saying, this bill had its genesis in a very large amount of money that is available for loans, originally aimed at the private sector, to develop industry in the northern part of Australia. This has been a long held, if perhaps romantic, notion that many governments of all sides of politics have bought into. As I said, the opposition will support the bill for the simple reason that it will make some of that money available, effectively for government operations, which sounds like an unusual outcome, but as I go through the process, I can explain a little of how this has occurred.

The Northern Australia Infrastructure Facility was made available some years ago. There has been much discussion for many years on that particular federal fund. Industry has struggled to take up all the available funds and I think there are a number of reasons for that. There are regulations around the funds that involve co-investment and industry has to meet business structure and business plan requirements. It is not easy to develop in the north west, as members who come from and visit the north west would fully understand. It is a complicated process. Anybody who has read, for example, the Langouant report regarding investment up there would understand that it is no simple matter. It is a complicated issue with a wide range of resources but a small population, a great distance between most things and issues around the base level of infrastructure and the capacity to develop major industry. It is not a simple thing. Everything from the Ord development onwards has been a demonstration of some of these difficulties. Those members who are fans of the ABC and some of its potentially somewhat non-fiction dramas that come out might be aware of the television program *Utopia*. A couple of times it has mentioned development in the north west of Western Australia, in particular the Ord River. I will not go through and try to quote those episodes from memory, but they raised the issue that it is not easy. In a humorous way, it highlighted the fact that although it is a popular and somewhat romantic notion, it is not simple to deliver.

We have discovered, through the workings of the Northern Australia Infrastructure Facility, that money that is available has not been taken up to anywhere near the level that I think the commonwealth expected. It is absolutely the case that there is money available. What will happen with the bill before the house? The government has decided that there is an opportunity to use some of that money that is not being used in the private sector to effectively invest in state government infrastructure that will support private sector investment. I think that is a reasonable concept, given that the money is available. It always makes me a little bit nervous when the state government starts to, if you will, pick winners and losers for where it invests. It is always a very dangerous process.

Hon Alannah MacTiernan: I don't think your leader in the other house agrees with you. I think we should be picking more winners. I think we should be throwing more money at people!

Hon Dr STEVE THOMAS: There is a bit of a history on both sides here, minister. I am happy to go all the way back to the petrochemical plant, if the minister likes, to talk about government investment in some interesting private developments.

Hon Alannah MacTiernan interjected.

Hon Dr STEVE THOMAS: We could go right way back through to WA Inc. We could go to the wave energy project.

Hon Alannah MacTiernan: Saving our mates by buying Stirling Towers when they went broke; that was a good one of Sir Charles.

Hon Dr STEVE THOMAS: There are a few interesting prospects all around the place. We need to have a little bit of care around the projects that are selected. It is always a little dangerous for governments to pick winners and losers. To some degree, that is what the Northern Australia Infrastructure Facility does. From a state perspective, the way this has been put together in the legislation will transfer all the risk that might be involved in what the state does to the commonwealth. As a passionate supporter of the state of Western Australia, I am pretty happy that the commonwealth will wear the risk in this process rather than the state. This bill will allow government trading enterprises to effectively obtain money from the Northern Australia Infrastructure Facility as long-term loans, as part of a structure to underpin a private development. They will do so through the state government. It is a little bit complex, members. The funding will come from the federal government through the NAIF, through the state government and then end up, effectively, as a fund for a government trading enterprise to build infrastructure. The bill is a pretty small bill, but the significant clause is clause 5. Effectively, this government will allow those bodies established under the Electricity Corporations Act, the Port Authorities Act, the Water Corporations Act and the Western Australian Land Authority Act to access funding from the commonwealth government through this fund. Presumably, in most of the regions in the north the electricity provider will be Horizon Power, although, given the changes made to regulations not long ago, it is possible for Western Power or perhaps Synergy to be competitive

in that marketplace. Obviously, the bill will affect the port authorities, particularly the northern port authorities, the Water Corporation and the Western Australian Land Authority—those bodies that develop land like the old LandCorp did. They will have all have access to the funding through the government under this process. I think that is a reasonable outcome.

We asked questions during the briefing. I appreciate the government providing a briefing for upper house members today, because I was interested to learn about the security of those loans. It is important to note from the advice that we were given what would happen if a private sector development that was being used to build a business case to underpin this investment went bust. That is not an unknown outcome, particularly when it comes to government investment, like those investments that we mentioned previously. I am advised—I might get the minister to confirm this—that if a private business that was underpinning one of these developments were to close, the repayments being made by the GTE, based on the fee for service it would have been getting from the private sector development, would no longer be required to be paid back to the commonwealth government. If the private sector went bust and could no longer pay the GTE, the GTE at that point would no longer be obliged to make repayments and repay the loan. That is critically important. I would be concerned if we were building infrastructure that we were not necessarily 100 per cent certain of and we were relying on the private sector, which does not always survive in the long term, to make the repayments and it was unable to pay. However, it would appear under these circumstances that the commonwealth will carry all the risk. If, for example, Western Australia wanted to provide water and power to a major proponent in an area covered by the Northern Australia Infrastructure Facility, the state government could probably borrow hundreds of millions of dollars from the commonwealth for that major investment. It might be a \$500 million investment for a major project with major underpinning infrastructure. If the project went belly up, the infrastructure would remain the property of the state and it would simply no longer be required to repay the loan. Therefore, the commonwealth will carry all the risk.

If that is precisely where we are at in this debate, I am almost obliged to congratulate the government for getting to that position. Effectively, it is a risk-free investment underpinned by the commonwealth. I would think that a future commonwealth Auditor-General may one day take a very hard look at this proposal and say, “Wowsers, that was a very brave proposal that the minister signed off on undertaking all the risk and allowing the state government all the benefit.” If someone puts in \$250 million worth of power for a particular proponent at a major water treatment plant—it is a big project—and it closes down six months after operation, the state would have a stranded asset worth \$500 million in a regional area and would have to work out what to do with that asset. In effect, the state is getting this asset for nothing because the commonwealth is taking the risk. I was informed that some co-investment will be required, and I ask the minister to confirm this in her response to the second reading debate. The briefing staff advised that this co-investment might be in the area of 10 or 15 per cent, and maybe up to 20 per cent, which is not inconsiderable in itself. A half-a-billion-dollar project would require a co-investment of \$50 million to \$100 million. I would have thought that the state’s exposure to that level of loss was still pretty insignificant compared with the full investment of \$500 million. If it becomes a stranded asset, potentially, the government will not have an easy way to turn that asset back into funds. That might be the case, but, at this stage, given that more than 80 per cent of the risk will be carried by the commonwealth, I would think the state is in a far better position to handle that risk.

I will come to some of the driving forces behind this bill in a minute, but first I have a couple of other comments on what this bill does. The first part of this bill will allow government trading enterprises to access this money. Another part of the bill will effectively replace the Technology and Industry Advisory Council—although it has already been replaced—with a number of other industry engagement committees. I presume that the government would be comfortable with—this is probably a reasonable prospect—a range of advisory groups that can look at this level of infrastructure, and that it might include Infrastructure Western Australia, for example, in an overview of this investment. Could the minister also advise whether Infrastructure WA will play a role in how this process will proceed?

Hon Alannah MacTiernan interjected.

Hon Dr STEVE THOMAS: Basically, if investment will be funded through the Northern Australia Infrastructure Facility, which will be funding private development, I presume Infrastructure Western Australia will play either an overview or an assessment role. It may not do this, but I ask the minister to confirm whether that is the case. The removal of the advisory council is probably not the greatest issue, because I understand that it was removed two or three years ago, and the state has continued to function. I do not have an assessment as to whether the various industry engagement committees are doing an equivalent or better job than the original council, but my position is that whether one committee or the other does this will not significantly impact the outcome.

That largely sums up this bill. It is not a complicated bill; it has only 12 clauses. I want the minister, when she responds to the second reading debate, to spend a little time on the driving force for the bill. It was said in the briefing today that the need for this legislation was highlighted by the Perdaman proposal in the Burrup Peninsula. I tried to take accurate notes of what was said in the briefing. We were told that the reason for this bill was that banks would not lend Perdaman funds for state infrastructure and equity parties, which were trying to sell off a part of the proposal

and the risk to a private investor, also said no. The need for this bill was highlighted when Perdaman's proposal could not find funding from the private sector in any form.

Hon Alannah MacTiernan: I know the point you're making, and I can address that.

Hon Dr STEVE THOMAS: Yes. I am going to be a bit careful here because I generally do not like talking about an individual project.

Information given to us in the briefing, and this is what I said before, was that the state would take the loan, but the Northern Australia Infrastructure Facility would not require repayments if the business went under. In a nutshell, if the project goes belly up, the commonwealth will effectively have no choice but to write off the loan. Can we confirm that?

I want to finish with a few minutes on this point: there is often a reason that the private sector does not invest in these projects. The current Perdaman proposal is not one that I am an expert on, but I have to say that there was a previous Perdaman proposal in Collie to produce fertiliser from coal. I spent many, many hours of research on that project, and my files on that proposal are a couple of inches thick. I have a solid knowledge of some of the issues that went on there, and it was enough for me to raise a concern around government investment underpinning a project like that. In Collie, it was an immensely optimistic, perhaps, dare I say, undeliverable, project that may well have got to the planning stages and been sold before it was a producing project. One day I will show the minister the files that I have because they have a heap of information. If members ever get bored, look up Global Fertilisers Industries BV and I will tell them a very long story about capital investment. However, this remains my greatest concern: we must be incredibly cautious that the business that we back in this circumstance is being backed because it is a good project, with a good business case and sound financials, as much as it is simply a great idea that might deliver some sort of development. This is absolutely critical, and I cannot emphasise it strongly enough.

Under that original proposal, I went to war with the then Department of State Development. I have to say that in the work that I did on the original proposal, the Foreign Investment Review Board might as well not have been there. It was borderline incompetent. Nobody was keeping an eye out to make sure that local industry was not being used as a part of that process. Right now, I raise this concern—I am sure the minister gets what I am saying and will probably address it. The issue becomes that we cannot allow these sorts of investment vehicles to be used inappropriately to prop up projects that would not be invested in by the private sector for good reason. It is absolutely critical that we make sure that what we invest in is a good investment.

Like I say, I congratulate the state because the commonwealth will underwrite this investment. I get it. The state would be silly to look a gift horse in the mouth. If the commonwealth wants to throw hundreds of millions of dollars at government trading enterprises, we would be stupid to give that away, particularly when the commonwealth will carry all the risk. The state will potentially end up with, yes, a stranded asset, but it will still be an asset, whereas the commonwealth will write off the half-a-billion-dollar debt from its investment. The way the state has done this is good. It has minimised the risk to itself. I would just urge the government, because we are investing government dollars as well—some state, but mostly federal—to make sure that the business cases are examined to the nth degree, and that we do the kind of background work that we need to do with these things. I can tell members that I am living proof that state and commonwealth governments have not infrequently failed at that. Their departments have not infrequently failed at that. I can point to examples of that. This will be a good outcome if it is wise investment. This is always the case. I am not going to stand here forever and lecture the government on what I think wise investment is. But the outcome ultimately will be good. The state will be protected. The commonwealth will carry the risk. Private enterprise may—it is not guaranteed—be able to make more use of some of the resources up north if that level of service supply of power, water and land et cetera is made available.

It is interesting that the advisers said that this particular project would not go ahead if it was not underpinned by government. That is a red flag. That is an absolute danger sign. I have always said that. No matter what project it is, if it will not go ahead unless the government subsidises the construction or the operation of it, then we absolutely need to have a good hard look at it. That is a conversation perhaps for the minister and I on a different day outside this chamber. I think the outcome, therefore, will be good. I urge the government to be cautious about how it uses it. It could have good outcomes or bad outcomes. The government has done a good job in restricting the threat to the state. I agree that it would be silly not to proceed with the process and not to take advantage of this funding, given that I suspect that if the state of Western Australia does not do it, the other states will struggle and the money will just go begging. The money might as well be in the pockets of this state, not anybody else's.

I commend the work the government has done. I think the outcome will be good. If we can just get those few things confirmed, I hope that we will not go into too many stages and we can move on to a future bill.

HON ALANNAH MacTIERNAN (South West — Minister for Regional Development) [5.31 pm] — in reply: I thank the Leader of the Opposition for his support and his commentary on the Industry and Technology Development

Amendment Bill 2021. They are all incredibly interesting issues, and I will take a bit of time to respond to them, because they are principles that we will need to get on top of if we want to diversify the economy of this state.

I will start at the back and work backwards. I have to say that for the first four years, up until the election, I had carriage of the Perdaman Industries project, so I know it extremely well. I have worked very closely with Vikas Rambal on it, and with the team from the Department of Jobs, Tourism, Science and Innovation. I want to particularly acknowledge Steven Dawson—not this gentleman here; the other one —

Hon Stephen Dawson: Steve Dawson.

Hon ALANNAH MacTIERNAN: Yes. Steve Dawson has done a fantastic job working with Vikas and his team from Perdaman, who have been absolutely relentless on this.

Can I just say to the member that he needs to understand that if we want not to be a state that does just resources but actually want to have manufacturing, we need to behave differently. We sort of knew that in the 1950s. In the 1950s, both Labor and Liberal governments decided that they needed to do something. Massive investment went into Kwinana to get something happening—to get some industrialisation. Then in the 1960s, the mining projects came along and we had entities like Utah, Goldsworthy and Mount Newman Mining, and they would come in and do the whole thing. We in this state really have become locked into the idea that the company has to do it all; that is what happens in resource projects. Manufacturing projects are very, very different. One of the critical differences in manufacturing projects, and we are seeing that our friends in the eastern states increasingly understand this, is that there is common-user infrastructure. It is not because the banks will not fund Perdaman Industries to do it; they cannot fund it because it is common-user infrastructure. They are not going to be able to put a mortgage over it because it is infrastructure that will ultimately be owned by the state. No financing package is going to be available for that. The government has to provide that common-user infrastructure. There are two items: one is the port infrastructure in the publicly owned Dampier campus of the Pilbara Ports Authority and the other is the water infrastructure that is also used by other entities in that area. It is not practical or feasible to get that funded for a manufacturing process. That is something that has to be done by either a third-party provider or government. In this case, theoretically, a third-party provider could have provided the port infrastructure, but we judged that that process was going to be too complex. Because other people are using the water infrastructure and are customers of the Water Corporation, this has to be funded by government.

Hon Dr Steve Thomas: Where they are already using it, that infrastructure currently exists. What proportion of what, for example, the Water Corporation or whoever might invest in this new project, would be common-user infrastructure for other people?

Hon ALANNAH MacTIERNAN: It is using existing corridors and pipe infrastructure and expanding it so that it can accommodate additional custom. This is about expanding the facilities to enable this particular project to get underway.

Hon Dr Steve Thomas: That means that if it is common user and other industries come in, they would take up more of this.

Hon ALANNAH MacTIERNAN: For example—I am going off the top of my head—it might use the port infrastructure for about 80 days a year, but it has take-or-pay contracts that have built into them a very significant rate of return on capital. It is not as though the company is being subsidised. It is not being subsidised by this; it is paying full commercial rates. But it is not going to get a financier that will be prepared to take on those projects when the infrastructure is in fact going to be owned by government. The total cost of that infrastructure is around \$270 million. My understanding is that this is about a \$4 billion project. The amount of personal equity and debt financing that is going into this is about \$4 billion. Of course there will need to be financing. Neither the Northern Australia Infrastructure Facility nor the government will be signing off on any of this until all the financing is locked in. We have gone through all the scenarios. The finance is going to be booked in, the project is going to be built and it is going to be a \$4 billion project. If something happened and the company went broke, the financiers who would probably have put in around \$3 billion of the \$4 billion into this project will not just have that sit around. The recourse for the commonwealth is to Perdaman, not to the state. Of course, it would be in there under administration, if it should happen, to ensure that someone else could use the facility, because the banks have so much at stake. I think in terms of the assessment of our risk we will still have our asset. There will be \$4 billion of private investment to utilise this infrastructure of around \$300 million. In reality, we can see this is really not a risky venture for state governments, but we have to do it. We have to do that development of common-use infrastructure and land if we are going to diversify out of pure resource projects. I think this one has been extremely well thought through. We have done a great job negotiating in getting the Northern Australia Infrastructure Facility into the picture.

I will talk a little bit about NAIF, because I was the Deputy Chair of the Joint Standing Committee on Northern Australia when I was in federal Parliament with Warren Entsch, a good friend of mine. There were certainly many discussions about the nature of the development of the north. I agree that a certain amount of romanticism and boosterism goes on, but people were saying that in the 1950s and the 1960s. In the 1950s, I think right up until 1960, we did not have a sealed road in this state north of Geraldton. We then had this incredible fluorescence of the iron ore

sector, 20 years later we had gas and then we had things like the Ord project. Some of these things take quite some time to reach their full potential. They have been enormously significant and have added to the gross domestic product, the job opportunities and prosperity of so many Western Australians. But they are big things, and that is why the NAIF scheme is there. Originally, the rules of NAIF were very, very tight, because people were concerned about the fact that white elephants could be funded. There was a lot of rigour around the scheme and, I think, when it was not producing results, we saw increasing flexibility. To be fair, having dealt with NAIF over time, it is quite clear that there is a high level of economic literacy in the organisation, and I think we can be confident. That is possibly the reason that not as many projects as was hoped have been funded, but the scheme has been quite well administered, albeit because of that it has not funded quite as many things as it wanted to. Some members of the federal government are a little bit more bolshie—ones that wear hats all the time—and have occasionally pushed into perhaps less well founded directions, but I think there have been some good projects.

Hon Dr Steve Thomas: I think the fact that it has not all been expended is actually a good thing.

Hon ALANNAH MacTIERNAN: I think that is what I was saying. It got to a point at which there was virtually very little being funded. One of the things that the scheme funded here very early on, which has worked well, is the Onslow Marine Support Base. That was a relatively modest loan of \$16.8 million, but it got that project up and I think it has been successful. A whole raft of projects are in various stages in Western Australia. I think that the Onslow Marine Support Base has possibly been the most successful to date, but this is a great increment. The state government has been the lead working with Vikas Rambal. We need the energy and determination of a gentleman like him. I worked with him in earlier times when we got the only other project up on the Burrup—Burrup Fertilisers, which is now Yara Pilbara. I like to think I have had a role in the only two projects that have got up on the Burrup to date.

Hon Dr Steve Thomas: You've only got one up yet; let's see!

Hon ALANNAH MacTIERNAN: Yes, true, but this is certainly progressing quite well. Obviously, for constitutional reasons, the Northern Australia Infrastructure Facility has an inability to lend directly, because it would seem to be discriminatory against other states. It has entered into arrangements with the Northern Territory, Queensland and Western Australia so that we in fact become the lenders, but we are non-recourse lenders, and that has been an integral part of that project. The way in which we in Western Australia sought to facilitate that was through the Industry and Technology Development Act that was set up in the late 1990s to facilitate government grants and loans to industry to encourage and stimulate investment. However, of course, at that time, it was not contemplated that government trading enterprises be included. There was some legal view that it is possible—it was not absolutely clear-cut—that because we had used the Industry and Technology Development Act as the vehicle for the NAIF funding, the lack of reference to government trading enterprises meant that they were precluded. To put the situation beyond doubt, we are amending the legislation.

The Leader of the Opposition spoke about the industry. We thought was that while we are amending this legislation, we will clean up another element here. Under the original 1998 legislation, an industry and technology group was established. That was the industry advisory council. I think it was the Minister for State Development, Jobs and Trade, Hon Mark McGowan, at the time who decided to discontinue that committee. The logic of that—I think it was generally accepted—was that 20 years on, by 2018, it really was not fulfilling much of a role, and what we needed to really help guide government were much more targeted advisory groups. Therefore, we had things like Defence West, the advisory group of defence operations; we set up the Renewable Hydrogen Council; we have the future batteries and critical minerals advisory group; the LNG Jobs Taskforce; in the space area, we have the Australian Remote Operations for Space and Earth; and there is also an ICT group. We now have groups that are far more focused and have more skill and expertise than a generalist group. We believe that that is working more effectively to help us shape industry policy. When an organisation has had its day, it is important to wind it up and put in place something that is more responsive to contemporary needs.

I want to refer to the role of the Perdaman project that is in transition. Fundamentally, it will create urea from ammonia that will ultimately be made from the Scarborough gas project on the North West Shelf, or maybe Pluto in the first instance. It is estimated that around 50 per cent of the urea fertiliser produced will be for Australia, fundamentally replacing imports from China. I am sure that everyone in the farming sector is well aware of the difficulties of importing nitrogenous fertilisers at the moment, and the cost involved. This project will have the benefit of creating a very significant local supply. It is anticipated that the other 50 per cent will go into markets in South-East Asia. To a very significant extent, it will replace the fertilisers that are currently produced in old coal-fired power stations and shipped across the world. The environmental, social and governance assessment identified that this fertiliser will have the lowest carbon footprint of any nitrogenous fertiliser that is being used in Australia. I understand that Mr Rambal and the Perdaman group will ultimately move into renewable hydrogen. This is an important transition because it will fundamentally provide a much lower carbon alternative to the current urea manufacturing processes. We all strongly support this project. It has been a great effort. It started when I was working with the Premier, and

now Minister Roger Cook. I really want to compliment the team from the Department of Jobs, Tourism, Science and Innovation, which has done a superb job to deliver this project. I thank the opposition —

Hon Dr Steve Thomas: Before you sit down, can I just confirm—I think you said it earlier—that this funding from a government perspective won't happen until the full financial confirmation?

Hon ALANNAH MacTIERNAN: Certainly, until a final investment decision has been made and the finances have been established and committed.

Hon Dr Steve Thomas: I think that's important, having been through the Collie version of it.

Hon ALANNAH MacTIERNAN: Certainly, but we will not need to do that until the finances are locked away. We have some very strong skills, in both JTSI and NAIF, that will ensure that the public interest is protected. I ask members to please understand that we have to provide some common-user infrastructure if we want to do anything other than dig and ship.

I commend everyone who has been involved in this project. It has involved lots of hard work, including by Cole Thurley, who has worked very hard on this project over many years. I thank everyone involved and I thank the opposition for its support.

Question put and passed.

Bill read a second time.

[Leave granted to proceed forthwith to third reading.]

Third Reading

Bill read a third time, on motion by **Hon Alannah MacTiernan (Minister for Regional Development)**, and passed.