

3 August, 2014

Mr. Charles Casimaty,
Secretary
The House of Assembly
Standing Committee On community Development

Re: Inquiry into the Triabunna Woodchip Mill and Future Development Opportunities for the Triabunna Region

Dear Committee Members,

I have decided to respond to the invitation from the Committee to make comment on a number of issues.

I do this in a voluntary capacity because I no longer work for Triabunna Investments. I finalized my role as the General Manager of Triabunna Investments in October, 2013.

First of all let me say that the political witch-hunt being conducted by the Liberal Party of Tasmania at the State and Federal level is an unconscionable waste of public money, will inevitably discourage new investors to the State and is designed to distract Tasmanians from the real task of Government to foster a prosperous and healthy future for all Tasmanians.

This latest attack by the Liberal Government on Triabunna Investments, its owners and staff has been a consistent pattern ever since Triabunna Investments acquired the closed and mothballed Triabunna Woodchip mill.

Not only did Triabunna Investments make a concerted and extremely expensive attempt to find a viable future for the mill it did so in the face of constant political attacks and attempts to frustrate both the operation of the mill or a new future for the site.

Some inconvenient Truths

From 2010 Gunns and its core business of woodchipping native forests began to collapse along with its share price. This resulted in, amongst other things the CEO John Gay and Former Liberal Premier Robyn Gray leaving the Board and a new CEO, Greg Le Strange, being appointed to help the company change direction. John Gay was later to be charged and convicted of Insider Trading. Many will recall that this old style leadership is reflected in Gunns chequered past with a former Gunns Chairman Edmond Rouse convicted in 1990 of attempting to bribe a politician resulting in a considerable period in Goal.

Prior to appointing the new CEO, Gunns overall performance had resulted in the company losing the confidence of investors, banks, markets and the community. Not only was the company's core woodchip business bleeding money, the leadership of the company was seen as out of touch with community standards and the expectations of its most significant market at the time, Japan.

The new CEO recognised the depth and breadth of the challenges facing the company resulting in many changes, including the decision by Gunns to cease native forest logging and support a forest peace process.

With Gunns finances collapsing, the company embarked on a divestment programme to sell all of its native forest processing facilities. Gunns put all of its woodchip facilities, including the Triabunna woodchip facility, on the global market. A year later there were no bids! This was in part because the highly contentious woodchips from Gunns native forest operations were no longer acceptable to the Japanese markets.

It is important to remember that the Triabunna Mill ceased operation in May, 2011 at which time Gunns placed the mill in care and maintenance mode pending sale. The property was purchased by Triabunna Investments Pty. Ltd. in August that year.

By the time Triabunna Investments acquired the Triabunna woodchip mill site, the mill had not operated for 3 months. There were no permanent employees.

Gunns had kept on a team of 6 security staff to keep 24/7 security in place to stop the site being pillaged and 1 Site Manager.

Prior to purchase by Triabunna Investments, Gunns staff had been paid all of their entitlements and had signed legal release forms, which stated clearly that they were not owed any money by Gunns. This was part of the strategy to sell the mill in an "unencumbered" condition.

The 7 Staff I inherited as the General Manager were all on casual, short-term contracts. They were paid casual award rates. One month's notice was required to terminate the contracts.

Triabunna Investments kept all 7 staff on as full time casual employees and added me as General Manager in the expectation that the mill would be re-opened as part of the forest peace agreement process.

NOTE: unlike the Liberal Party, Triabunna Investments was generally supportive of the talks, even though we were not a party to, or bound by any agreements reached in the talks.

The Purchase by Triabunna Investments Ltd

It is on the public record that Triabunna Investments bought the Mill for \$10 million. **To my knowledge, the Gunns Board approved the sale because Triabunna Investments made the best commercial offer – there was no doubt that Triabunna Investments could actually pay the amount of money offered in a timely fashion!** There is nothing mysterious about the sale! Greg L'Estrange has been abused for selling the mill to Triabunna Investments even though he simply followed his fiduciary duty. Moreover, his judgement was endorsed by the board of Gunns.

There are two relevant considerations in the contract between Gunns Limited and Triabunna Investments.

The first consideration was that until such time as Gunns Limited was satisfied with progress in the Forest Peace Talks, the mill could not re-open. I presume this condition was to ensure Gunns broader commercial interests were not damaged by ongoing conflict over native forests.

The second consideration related to obligations of both Gunns and Triabunna Investments to carry out repairs and maintenance to ensure the mill was able to operate. I helped oversee this operation. Gunns carried out repairs worth approx. \$250,000 including replacements to the mill and cleaning up some left over woodchips on the site. The repairs included significant upgrades to the High Voltage Substation and replacement of conveyor belts. We conducted a thorough clean up around the site and generally got everything ready for operations.

The peace talks were very messy and took much longer to reach agreements than anyone expected but eventually Gunns made it clear we were free to try to reopen the mill.

The Tender Process and the Commercial Realities of the Market for Australian Woodchips

Triabunna Investments began the process of designing a tender document. However, the tender process was stalled for many months when Tasports refused to transfer the Port Lease to Triabunna Investments. Without the lease, exporting from the site would be impossible. So without a Port Lease it was impossible to call for tenders. This aggressive and obstructive behaviour went on for months. This issue was only resolved after I went public on the 7.30 Report about the obstructive role being played by TasPorts.

By the time we were in a position to start the Tender Process more than 6 months had passed with Triabunna Investments paying eight full time staff. A situation that eventually became untenable.

To inform the tender process, I decided to attend the world's biggest woodchip conference in Singapore to gauge what the market prospects were for the Australian woodchips. It was immediately clear that Gunns had made a soundly based commercial decision to exit the woodchip market.

The conference confirmed that the Japanese market had effectively closed to Tasmanian native forest woodchips and that meant the only market open to Tasmania was predominantly spot sales to China. China was being primarily supplied by Vietnam and Thailand who are able to supply 8 mtpa of eucalypt plantation woodchips at less than half the price Australian producers could supply. Shipping costs were clearly a big issue, with South African suppliers also hit hard as a result of being 23 days shipping distance from China.

Two other considerations informed the tender process. The future of the region clearly depended upon being able to operate in the long term without public subsidy and in a way that would support the Tasmanian Forest Agreement.

Wood Supply

I spent a huge amount of time trying to find "acceptable" sources of wood for the mill. This included talking to all the major firms involved in the failed MIS schemes to see if there were significant volumes of plantation wood available within 120 km radius of the mill. There were small volumes of plantation wood but nothing on the scale required for the Triabunna mill to operate at an economic level.

I also spent considerable time thinking through and discussing what would be a reasonable standard to accept native forest wood from private land. This is a very complex area because a significant proportion of endangered species in Tasmania are found on private land. It was critical from Triabunna Investments point of view that we did nothing to further damage or destroy endangered species habitat.

This resulted in the development of a 'Triabunna Standard' (see attachment 1) which formed part of the tender documents sent out to the handful of companies who expressed interest in receiving them.

Supply would also need to come from areas of public native forest that would support the Tasmanian Forest Agreement.

No acceptable sources of wood at sufficient volume were found.

Subsidies

Triabunna Investments had a sound commercial philosophy that to ensure a stable, long term future for the mill it must be able to operate in a stable political climate with the support of the community and without cost to Tasmanian taxpayers.

Discussions with potential operators of the mill made it clear that they expected to be able to operate the Mill because the public purse would pick up any shortfall. That is the price paid for wood would simply drop to the point where they could make a profit and suppliers like Forestry Tasmania would wear the losses.

There was little or no understanding of the rapid and permanent change in global supply of cheap plantation chips. Nor was there any understanding of the shift in Japanese purchasing policy that required FSC certification and 'conflict free' sources of wood.

The Tender process was very frustrating because there was effectively no interest in operating the Triabunna mill as a commercial woodchip operation.

This of course fitted with Gunns experience of having the mill on the global market for a year with no interest in purchase.

The Tender process was kept open for a year, without receiving a single serious business proposal for the lease of the mill.

One of the main reasons for lack of interest was the mill could not operate in the current market without massive Government subsidies, My estimation was that Triabunna would require \$5 million dollars per ship full of chips in order to compete with the Vietnam prices.

The big problem was that the normal supplier of unlimited subsidies to the logging industry, Forestry Tasmania was itself in financial dire straits. So much so that the Government had announced a major review of its operations, with a view to stopping the massive financial losses.

My assumption is that no tenders were received because without Forestry Tasmania absorbing the losses and guaranteeing profits for the operators no one was interested.

The letter from Bob Gordon suggesting Forestry Tasmania could run the mill made no attempt to satisfy the tender requirements and was clearly part of a push by FT for more public money to prop up its operations. It made no attempt to make a business case for how it would operate the mill profitably.

Exploring a change of Direction.

Eventually it became clear that it would be important to start looking at alternative economic futures for the site, as there was no quick path to re-opening the mill.

To reduce costs a decision was made to reduce the number of security staff at the site, make the existing staff redundant and replace them with a live in caretaker.

The security staff had done an excellent job, but we had to cut costs.

Meantime the forest negotiations had agreed to another round of redundancy payouts for previous Gunns staff and unfortunately because the security staff at Triabunna had not technically lost their jobs they were not entitled to the extra payouts. I did a great deal of work with Scott Mclean from the CFMEU and the Metal workers union to get this mistake fixed so that our employees at Triabunna were eligible.

By the time our staff were made redundant Scott Mclean came to the mill with the good news that they were all eligible for further payouts. The payouts varied from employee to employee depending on their length of service but were generous.

So I believe our staff were treated extremely well and far better than most people have ever been treated in the logging industry.

As General Manager I spent considerable time keeping the local Mayor Bertrand Cadart and the local Spring Bay Council informed of developments affecting the mill. I had many Meetings with Bertrand to talk through various options for the mill site if it could not operate as a woodchip mill.

I addressed the Spring Bay Council twice. After being briefed about the changes evident in the woodchip market, the council passed a resolution that basically said 'if the Triabunna Mill cannot reopen as a woodchip mill, The Spring Bay Council will support any other initiative for the site'.

I then began the process of exploring other options for the site. Anyone who expressed a serious interest in the site was shown around and given the Royal Tour, this included discussions with the University of Tasmania, preliminary discussion with the French embassy about re-location of its Antarctic Fleet, a number of companies interested in using the site for heavy machinery training, people interested in establishing a mining boot camp to accredit people for the mining industry and a number of smaller company ideas, which I was asked to keep confidential.

Unfortunately, none of these ideas turned into serious business proposals, despite quite a lot of effort on my part.

The Decision to Re-Develop the Site.

By August 2013 Triabunna Investments was obliged by the EPA to submit a de-commissioning and rehabilitation plan for the site. See attachment 2

By then it was clear that the site had no economic future as a woodchip mill.

In September 2013, during an inspection of the Site with an electrician looking for the source of an unusual power outage we discovered a serious electrical problem that necessitated Aurora turning off the power to the High Voltage switch-yard.

This was the only serious safety incident in my 2 years as the General Manager. Once the problem was discovered it was dealt with immediately and with fully qualified people, within an hour. We were lucky that the Aurora electrician was in Triabunna when we made the phone call.

This brought to a head the need to decide on the future of the site and increased the focus of the owners on developing creative plans to transform both the site and the region.

The work conducted on the site in late September was designed to secure the safety of the site and ensure that a new future for Triabunna and the region was possible.

Shortly thereafter the plans for a new future for the site were announced and warmly welcomed by the local council.

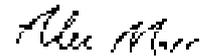
Triabunna Investments legal requirement under the Environmental Protection Notice issued by the Environment Protection Authority was to begin decommissioning and rehabilitation of the site if wood chipping had ceased for two years. July 2013 was the trigger for that event. A Decommissioning and Rehabilitation Plan was submitted to the EPA and accepted on 18 October 2013.

Throughout the period of ownership of the site by Triabunna Investments there were periodic inspections by the EPA who were at all times satisfied with our compliance with EPN obligations.

I finished my role as General Manager for Triabunna Investments in early October 2013. I then undertook to write the Decommissioning and Rehabilitation Plan for the mill, which was approved by the EPA on the 4th February 2014. See attachment 3 + attachment 4

Unfortunately I will be overseas for almost all of August and most of September. I am therefore unable to appear before the Inquiry.

Yours Sincerely



Alec Marr.

