

Millmerran Timbers Pty Ltd Mill Closure

14th December 2011 – 10am

The milling of cypress by Millmerran Timbers Pty Ltd will cease on Wednesday the 14th of December 2011 at 10am. The reasons for closing the mill are many. So many in fact that the decision to close the mill probably should, if purely economic, been made some time ago. The reason it wasn't, was people, the employees and their families that rely on their income from Millmerran Timbers Pty Ltd. The mill manager, Ron Lacey, has been working there for 39 years. I cannot thank him and the other employees enough for their work at the mill. I have always said that the thing that makes me most proud of the company is that it employs people. Equally I think keeping an unprofitable company going, until there are no funds available to pay workers their entitlements, totally unacceptable. Obviously just because the mill has been making losses doesn't mean it can't be turned around in future to make a profit. I do not believe this is possible, unfortunately, and I will enunciate this in explaining my reasons for closing the mill.

The catalyst for closing the mill was the decision of our long term cutter, snigger and hauler into the mill, Ken Murray, deciding that he would no longer work for us. In looking around for an alternative cutter, snigger and hauler I was made aware that not only were they extremely hard to find but also that if I could find one they would cost the mill at least \$50,000 more per annum than we were presently paying. I think given the type of work they are undertaking this is not unreasonable but impossible to recover in increased prices of the cypress we sell as we are at market prices so it would increase our losses by that amount. The other major issue is the workplace, health and safety and the new WH&S Act. Even though the cutters, sniggers and haulers are independent contractors DERM (The Department of Environment and Resource Management) were making sure that any incident in the bush would be our responsibility and the fines both personally for officers of the company and the company itself are very onerous under the new Act. Given the long term history of safety of our present cutter, snigger, and hauler I had been comfortable as long as the existing contractor was performing those duties. This would not be the case with a new contractor. Also there are increasing environmental requirements from DERM which will further increase the costs of the cutters, sniggers and haulers and obviously the mill. What must be understood in all of this is that Cypress logging is done on a selective basis not an entire forest as is the case with plantation logging. Whilst this gives the very best environmental result it does increase of the risk and the cost of logging.

The mill depends on getting a certain allocation of cypress logs from the sustainably managed DERM managed forests each year; this ends in 2014. The industry has been negotiating with the government and ARCS (Australian Rainforest Conservation Society) for a sustainable allocation after this date. Even though the ARCS has no areas that they want locked up in our areas of logging their long term aim is the phasing out of all logging from native forests on State owned land. So there is a great deal of uncertainty that we will have long term allocations of sufficient logs to make the mill efficient. This has lead to no investment in the Millmerran mill for a number of years. The major consequence of this is when the

bandsaw became unusable it was not viable to have it replaced. The whole mill needs a complete rebuild probably on another site as we are presently very close to town which is another important issue. The council does support us but we do get complaints about noise and dust. I have had discussions with the local council about relocating the mill but that is not economically viable for the reasons of no long term allocation and the other reasons I have mentioned and others that I haven't as yet.

The new WH&S Act was mentioned before. It has put the officers (directors) in a new onerous position in regard to any accidents that occur on site. Millmerran Timbers has done everything that can be done to make the mill safe but there are many areas in the mill where serious injury can occur. This is from the unloading of the logs, cross cutting the logs for presentation to the breaking down saw, the breaking down saw, the number One bench, the chipper, and docking the timber, all have potential serious hazards. All risk assessments have been done and employees trained but I know myself and my fellow Director have been out on numerous occasions and seen that the employees do not follow procedure. I have been told by the manager, Ron Lacey, that he has instructed them as well. The new act simply makes it impossible for the mill to keep operating. I cannot show due diligence.

Because it is only a small mill it has a very high cost of production per cubic metre as compared to the large plantation orientated mills. Millmerran Timbers cuts about 3300 cubic metres of log with 7 people, plantation pine mills cut 800,000 cubic meters of log with about 15 people in the actual production line. They are simply not comparable but many of our products compete in the same end use as pine. Some of their products need to be treated to come up with the same durability but the builders prefer the plantation product because it is much lighter. I remember a major Toowoomba project builder telling me they were definitely staying with cypress and within 6 months they had changed to pine as their subbies had insisted on it as it was lighter. We have tried to add value to the product at Roma in conjunction with a number of other mills but unfortunately this proved uneconomical as well. On top of the high unit costs of labour I believe with the mining boom only just starting there will be increasing pressure on individual wage costs. It will be difficult to maintain staff in this rural area.

All of the above plus other factors such as variable log quality have contributed to the fact that Millmerran Timbers is unprofitable and high risk business both now and into the future. My family have been involved with Millmerran for many years and would like to thank the employees and the people of Millmerran and wish them all a prosperous time in the future.

Ross Simon

Director

Millmerran Timbers Pty Ltd