5 March 2016

Statement to Queensland Parliamentary Committee for the Environment and Agriculture

My name is Warwick Powell, founder and director of Sister City Partners Limited, a not for profit regional economic developer and investment banking enterprise. I thank the committee for the invitation to present and to field questions in relation to our submission.

But first, I think it is important for the Committee to understand the context of our work and the submission, which specifically comes out of this work and our specific recent experiences.

Last October, SCP was approached by workers at the Townsville Yabulu refinery seeking our involvement given the news at the time that Mr Clive Palmer was requesting government assistance of one sort or another. We were approached on the basis of our earlier work in pulling together a community-anchored structure and consortium to acquire the Port of Townsville should it have been leased.

In October, we advised workers that had approached us that there was no substantive trigger event that would warrant our involvement, although we did in early November write to the Treasurer outlining our views about a possible change in company ownership as a precondition for Queensland Nickel moving forward with public funding support.

As events transpired, come mid-January, with the appointment of Administrators, we were again asked to take an interest. Given our work in the North Queensland region, and our commitment to the resilience of the region's economy, we decided to at the very least engage with the Administrators, review available information and come to a view on whether the refinery business was salvageable within a broad "communitisation" framework.

We progressively concluded that while severely troubled by declining global nickel prices and an operational model that was no longer viable, there was underneath it all an enterprise that had a viable future subject to significant reorganisation. There was and remains simply too much at stake for the North Queensland region to sit idly by and not leave every stone unturned.

Regional economic leadership institutions chose to play a dead hand, clearly believing the region's economic priorities lay elsewhere. They have spurned invitations to get actively involved and support our work and that of the workers that have put their hands up.

That they have chosen other priorities is a matter for them.

Yet, independent economic analysis undertaken by AEC Group concluded that:

> **"The loss of such an industry presence is likely to generate significant and long-lasting negative impacts on both the regional economy and Queensland-wide"**.

The North Queensland economy is on the edge of a **Great Regional Depression**.

True unemployment is well over 10%. Youth unemployment double that.

Over 10,000 people are officially looking for work, in a labour force that has actually shrunk by 7,000 persons in the last five years.

This has been an unfolding crisis brought about by a perfect storm of cyclical downturns and structural change, combined with elite complacency and misplaced priorities. The human evidence of this decline has been clear for a number of years but most, it would seem, chose to ignore it, or were blind to it.

The city-region's economic elite has been distracted by the baubles of urban vanity, when the foundations of the regional economy have been crumbling before their very eyes.

The recent closure of the Yabulu refinery crystallises the economic crisis. The human cost is there for all to see. *Lifeline* has added three more dedicated people to field calls from workers in despair. And yet, much leadership commentary has remained distracted by vainglorious urban monuments.

Since mid January, we have painstakingly reviewed what information was provided to us about Queensland Nickel Pty Ltd and the operations of the refinery.

Ably assisted by a team of volunteer former workers, we have developed a new business model that can provide the refinery with a new future. This model hinges on a future structure that is anchored by creditors-as-shareholders. Additional investment partners, in the form of participating customers and our own investors, would round off the structure.

We had held lengthy discussions with creditors and customers from around the world. Customers in the USA, China and Japan have all been part of our discussions. Investors from Hong Kong have also been introduced to the proposed model, and have all shown strong interest.

However, the provisions of the *Environmental Protection (Chain of Responsibility) Amendment Bill 2016* are of considerable concern to investing parties - whether they be equity participants or debt providers - insofar as they create new risks about future uncontrollable exposures and liabilities. These risks are, to put it simply, a deterrent to investor interest.

Our investors are concerned that the provisions in effect (a) enable increased financial obligations on the new owners on the event of the transfer of environmental licenses, and (b) that **non-executive** parties and other persons including directors, are exposed to or can be held liable for future costs of environmental remediation incurred by the new ownership company.

As a new company proposing to take effective ownership and operational control of the refinery, the provisions of the *Bill* would expose the company's shareholders and possibly its lenders to liabilities associated with the legacy of the refinery as it stands today and for future liabilities that may arise notwithstanding all efforts to ensure the company does not become one of "risk". The mere act of transferring licenses also creates a moment of considerable risk.

The realities of base metals refineries like nickel refineries is that their operations are high fixed cost businesses operating in a volatile global commodities market environment. This means that there are risks of business performance that are related to events that are outside of a business' control. Despite best endeavours and the good will of management and creditors, these events may give rise to insurmountable difficulties.

In these circumstances, for investors, equity holders and creditors - all "related parties" - to be further exposed to additional unknown and unspecified risks of extra liabilities is potentially a deal killer in this instance.

Our consortium of creditors, including workers, plus customers and independent private and institutional investors has no corporate history with the present owners of the Yabulu refinery; yet, the unintended consequence of the *Bill's* provisions are a significant impediment to us moving forward with a constructive and viable solution to a major industry in the North Queensland economy.

I am sure this is not the intention of the proposed amendments but the livelihoods of nearly 2,000 workers in North Queensland - and the general state of that region's economy - are at serious risk should investors shy away as a result of the emergence of new and unknown risks.