

# Australian timber company Gunns collapses

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Forestry and timber milling company Gunns went into voluntary administration on September 27, eliminating 664 jobs across four states—Tasmania, Victoria, South Australia and Western Australia.

The company reportedly had debts exceeding \$500 million, while commanding equity of just \$24 million. Financial commentators blamed a combination of underlying factors, including falling global woodchip prices and the continuing high value of the Australian dollar, which undercut Gunns' export prospects.

The final nail in the coffin for the 137-year-old company, which once dominated the Australian timber industry, was delivered by its syndicate of major lenders, led by the ANZ Bank, which refused to extend the funds it needed for operational requirements.

As late as August 31, when the company filed its annual return, Gunns's directors were insisting it was solvent, saying it was "appropriate" to consider the company a going concern, despite flagging the need for "ongoing lender support" to "stabilise the company's operations."

In recent years Gunns had sold off a raft of assets. In a bid to diversify and keep afloat, it implemented more than \$900 million in asset write-downs over the last 12 months alone, including \$749.2 million in forestry assets. Also written off was more than \$250 million that had been invested in the company's decade-long attempt to establish a \$2.3 billion pulp mill at Bell Bay, near Launceston in northern Tasmania.

The pulp mill had been opposed by the Greens and environmental organisations, primarily reflecting the interests of other sections of business—such as wine-making, agricultural and tourism operators—whose profits would have been affected by the giant industrial plant. Gunns eventually obtained the necessary environmental licences from the pro-business federal and state Labor governments, but failed to secure the finance it needed. In March, Singapore-based

billionaire Richard Chandler withdrew an offer to inject \$150 million of equity into the project, forcing Gunns to suspend its shares on the stock market.

Having previously raked in multi-million dollar profits during its long history, the company's shutdown is now leaving behind a trail of devastation.

Gunns workers are being laid off under conditions of accelerating unemployment, and they have been given no assurances that they will receive the thousands of dollars owed to them in accrued entitlements. Administrator Korda Mentha announced that Gunns's lender syndicate had agreed to release enough funds to cover just 50 workers at the company's Launceston hardwood processing plant.

Displaced Gunns workers will find it extremely difficult, if not impossible, to find comparable jobs. In Tasmania, where Gunns was a major employer, the official unemployment rate has risen by almost 2 percentage points since last August and now stands at 6.8 percent. In Tasmania and across the country, the official unemployment rate conceals the real level of joblessness that has been generated by waves of pro-business restructuring measures, investment cutbacks and corporate failures throughout basic industry.

The Gunns collapse has far wider implications than the immediate job losses, as disastrous as they will be for the workers and families affected. The end of the timber company is likely to devastate many local communities.

Tasmania will be especially affected, as Gunns provided business for suppliers and contractor companies. The state is already mired in recession. Tasmanian Council of Social Services chief executive Tony Reidy told Associated Press that charity and support organisations were preparing for "an even bleaker situation in the months to come." He explained that in the past five years there had been a 300 percent increase in the numbers of families and individuals

requesting emergency assistance for the first time in their lives.

The loss of 150 jobs at the Gunns saw mill at Bell Bay in northern Tasmania represents another significant blow for that area. Workers there face a highly precarious future, with major companies affected by falling commodity prices unveiling job cuts. Management at the Rio Tinto Alcan smelter in Bell Bay has warned its 550-strong workforce of possible production suspensions and even closure. In March this year, the nearby BHP-Anglo American Temco manganese smelter shed jobs and dispensed with the services of scores of contracting companies.

Hundreds of small farmers across Tasmania who leased land to Gunns to plant trees for pulping face ruin. Gunns payments ranged from \$50,000 to \$500,000 annually, and formed a crucial part of many farmers' income.

Gunns was also a major employer in the small rural town of Tarpeena in South Australia, with its mill providing jobs for 200 people. Local businesses, and in the nearby regional centre of Mount Gambier, will be affected. As is always the case with plant closures in country towns, workers in Tarpeena will be forced to move elsewhere in search of employment. The resulting drop in population will likely see governments further cut back basic services and facilities. Tarpeena's primary school closed down last year due to diminished enrolments.

Ripples from the Gunns collapse will be felt across South Australia. The company was a major client of the Morgan Sawmill in Jamestown, in the state's mid-north. Layoffs and production cutbacks at the mill in the last two years were attributed to Gunns making late payments to the company. The mill owner has confirmed that further job losses could follow the Gunns collapse.

The Construction Forestry Mining and Energy Union (CFMEU), which covers the timber industry, is complicit in the job destruction at Gunns and the underlying corporate restructuring drive. The CFMEU is working closely with the administrators, the Tasmanian and South Australian state governments and the federal Labor government to put a lid on any resistance by Gunns workers to the job destruction.

The CFMEU and other unions played a similar role in 2010 when paper maker PaperlinX closed its Burnie

and Wesley Vale mills, ending its manufacturing operations in Tasmania, destroying about 450 mill jobs, and many more in contracting and servicing companies. (See: "Australia: Unions help close Tasmanian paper mills")

The unions and the state and federal governments are now promoting the possibility of finding corporate buyers to take over all or part of Gunns's operations.

Federal Employment Minister Bill Shorten told the media that he was "reasonable confident" that Gunns workers would receive their entitlements and that he hoped parts of the business could be sold as "going concerns." Similarly, CFMEU national secretary Michael O'Connor declared that the Tarpeena and Bell Bay mills were "viable and sustainable." He said the union was "aware of a potential bidder to take over," and insisted that "work can carry on as per usual."

Even if buyers do materialise, long and bitter experience shows that corporate takeovers are followed by sweeping restructuring measures, involving layoffs, wage cuts and demands for productivity concessions, aimed at delivering higher profit rates. Wholesale asset-stripping operations are also common. Whatever the fate of Gunns's productive facilities, its workers will be made to pay the cost of a crisis that was not of their making.



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