

Mr. Mike Smith  
Chief Executive Officer  
ANZ Bank Limited  
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Melbourne  
Victoria 3000

Tasmanians Against the Pulp Mill (TAP)  
PO Box 1207  
Gravelly Beach, TAS 7276

Dear Mr. Smith,

Congratulations on your appointment as CEO of ANZ Bank.

We are writing to express our concern that ANZ, as the banker to Gunns Ltd, may consider raising finance for the proposed pulp mill in the Tamar Valley in northern Tasmania. It is our contention that the proposed pulp mill, as it now stands, fails to meet the admirable standards and principles set by the ANZ.

Here are the reasons why we consider the proposed plant to be too high risk for ANZ. The potential costs of the mill will exceed any possible future financial benefits-

**1. Potential Breach of the Equator Principles:** In your capacity at HSBC you commented “No company can succeed in a failed world-it’s in the interests of all companies to ensure that wealth creation is sustainable”; and “We (HSBC) have also developed guidelines for investing and lending to certain business sectors to ensure we operate to international social and environmental standards and follow our commitment to the Equator Principles.”

Your historical commitment to the Principles and the fact that ANZ became a signatory in April 2007, means that the potential funding of the proposed pulp mill would place ANZ in breach of its commitment to best practice lending standards.

**2. Reputational Risks:** ANZ’s reputation is severely at risk. Perceived lack of adherence to the Principles and the abandonment of Tasmania’s statutory planning and assessment process, in favour of a political fast tracking approval process has triggered widespread community disapproval. This has consistently been reflected in the opinion polls.

The general lack of transparency, infamy and ever increasing catalogue of controversies surrounding this project have been widespread. It is likely to become a project of community ill-will, legal challenges and arguments about breaches of permit conditions for decades to come. Many Tasmanian citizens and otherwise moderate public figures are calling for a Royal Commission.

Does ANZ really want to be involved in such a controversial and maligned investment? Implication by association can affect investor perceptions and share price performance.

**3. Financial Risks:** The Tasmanian Roundtable for Sustainable Industries Project (Major contributor- Associate Professor Graeme Wells from UTAS) is the first cost benefit analysis conducted on the proposed mill (the report conducted by the Tasmanian Government, resulting in state project approval was a “Benefits” only study). The Roundtable concluded that “if you add up the risks to health and other industries plus the costs and subsidies the total cost could be \$3.3 billion to the Tasmanian economy”. The opportunity costs of hundreds of millions of dollars in tax payer subsidies underpinning this project, such as secret deals on access to tax payer owned native forest, has yet to be considered in any detailed analysis. Poor public perception and national attention is set to change these subsidies, posing a clear risk to the future profitability to the proposed mill.

In the context of recent pulp mill closures in Canada (where some mills are only 15 years old), the report also analyses the vulnerability of the mill to exchange rate, costs and commodity prices and competition from Asia and South America, particularly in the absence of favourable subsidies and low stumpage feedstock prices.

Surely ANZ, as the proposed major lender would be extremely concerned by the financial risks of a project of this size and the risks it poses to its loan book, bad debts and profits. The \$2 billion investment is about the same as Gunn's current market capitalisation.

**4. Carbon Risks:** Conservative estimates show the proposed mill will generate 10 million tonnes of CO2 per annum. The application of a cost of carbon places this mill at great risk of decreasing profits as the costs of carbon are internalised. At a conservative \$20 cost on carbon, the mill's EBITDA could be wiped out by the \$200m cost of carbon.

Contrary to Gunns' claims, we believe the use of wet native forest for pulp production is a net CO2 emitter. The forests alone are estimated to hold 400 million tonnes of carbon and there is strong argument to support that native forests will be more valuable as carbon offsets than pulp feedstock.

**5. Litigation Risks:** The proposed mill's effluent and emissions, such as foul odours and chlorophenols in the Tamar valley have been strongly questioned. The mill is at risk of litigation due to the pollution impacts and from major odour emissions during plant shutdowns.

**In summary,** the proposed pulp mill is an extremely high risk project on all counts. The mill's economic model is not sustainable once the risks and costs are factored into potential outcomes, and hence does not offer any clear net financial benefits to the economy or residents of Tasmania. In fact it greatly risks (even through perception) the existence of other flourishing, 'cleaner and greener' industries such as wine and tourism.

Deforestation generates around 20% of global CO2 emissions each year. How can ANZ as a signatory to The Equator Principles justify lending to such an unsustainable project?

Mr. Smith, as concerned Australian citizens, Tasmanian residents and ANZ customers we strongly urge you not to assist in financing this mill. Many ANZ customers could have good reason to reconsider their banking arrangements, if ANZ finances the proposed mill.

We look forward to hearing from you.

Yours Sincerely,

**Rick and Anna Pilkington**- Local Residents Tamar Valley

**Robert McMahon**- TAP Spokesperson

**Peter Whish-Wilson**- Resident and small business owner Tamar valley

**Danielle Ecuyer**- Sydney Resident and ANZ Customer